STATE OF ALASKA
NATIONAL GUARD AND
NAVAL MILITIA RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Financial Statements
and Supplemental Schedules

June 30, 2007 and 2006

(With Independent Auditors' Report Thereon)

STATE OF ALASKA
NATIONAL GUARD AND
NAVAL MILITIA RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

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KPMG LLP
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Independent Auditors' Report

Division of Retirement and Benefits
State of Alaska National Guard and
Naval Militia Retirement System:

We have audited the accompanying statements of plan net assets of the State of Alaska National Guard and Naval Militia Retirement System (Plan), a Component Unit of the State of Alaska, as of June 30, 2007 and 2006, 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 on the internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the State of Alaska National Guard and Naval Militia Retirement System, a Component Unit of State of Alaska, as of June 30, 2007 and 2006, and the changes in plan net assets for the years then ended in conformity with U.S. generally accepted accounting principles.

The accompanying required supplementary information of management's discussion and analysis on pages 3 to 8 and schedules of funding progress and employer contributions on pages 26 through 29 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 30 and 31 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.

KPMG LLP

November 20, 2007

This section presents management's discussion and analysis (MD&A) of the National Guard and Naval Militia Retirement System's (Plan) financial position and performance for the years ended June 30, 2007 and 2006. This section is presented as a narrative overview and analysis. Please read the MD&A in conjunction with the financial statements, notes to the financial statements, required supplementary, and additional information to better understand the financial condition and performance of the Plan during the fiscal years ended June 30, 2007 and 2006. Information for fiscal year 2005 is presented for comparative purposes.

Financial Highlights

The Plan's total assets exceeded its total liabilities by $17,614,319 and $15,587,569 at the close of fiscal years 2007 and 2006, respectively.

The Plan's net assets as of June 30, 2007 and 2006 increased by $2,026,750 and $1,081,317 or 13.0% and 7.5% over fiscal years 2006 and 2005, respectively.

Employer contributions received totaled $1,737,406 and $2,053,800 during fiscal years 2007 and 2006, respectively; a decrease of $316,394 or 15.4% and an increase of $57,000 and 2.9% from fiscal years 2006 and 2005, respectively.

Net investment income increased from $878,091 in 2006 to $2,194,596 in 2007 and decreased from $949,094 in 2005 to $878,091 in 2006; reflecting an increase of 149.9% and decrease of 7.5% from fiscal years 2006 and 2005, respectively.

Benefit payments totaled $1,754,860 and $1,740,146 during fiscal years 2007 and 2006, respectively; reflecting an increase of $14,714 or 0.8% and a decrease of $4,918 or 0.3% from fiscal years 2006 and 2005, respectively.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the 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, and operating deductions.

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.

(Continued)

Overview of the Financial Statements (Cont.)

Required Supplementary Information – The required supplementary information consists of two 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 schedules include detailed information on administrative and investment deductions incurred by the Plan and payments to consultants for professional services.

Condensed Financial Information

Net Assets

Description		2007	2006	Increase/(decrease) Amount	Increase/(decrease) Percentage	2005
Assets:						
Cash and cash equivalents	$	12,818	24,997	(12,179)	(48.7)%	24,556
Securities lending collateral		1,804,387	1,740,198	64,189	3.7	1,572,835
Investments, at fair value		17,689,982	15,648,266	2,041,716	13.0	14,576,153
Total assets		19,507,187	17,413,461	2,093,726	12.0	16,173,544
Liabilities:						
Accrued expenses		75,183	77,749	(2,566)	(3.3)	62,115
Due to State of Alaska General Fund		13,298	7,945	5,353	67.4	32,342
Securities lending collateral payable		1,804,387	1,740,198	64,189	3.7	1,572,835
Total liabilities		1,892,868	1,825,892	66,976	3.7	1,667,292
Net assets	$	17,614,319	15,587,569	2,026,750	13.0%	14,506,252

Changes in Net Assets

Description		2007	2006	Increase/(decrease) Amount	Increase/(decrease) Percentage	2005
Net assets, beginning of year	$	15,587,569	14,506,252	1,081,317	7.5%	13,391,055
Additions:						
Contributions		1,737,406	2,053,800	(316,394)	(15.4)	1,996,800
Net investment income		2,194,596	878,091	1,316,505	149.9	949,094
Total additions		3,932,002	2,931,891	1,000,111	34.1	2,945,894
Deductions:						
Pension benefits		1,754,860	1,740,146	14,714	0.8	1,745,064
Administrative		150,392	110,428	39,964	36.2	85,633
Total deductions		1,905,252	1,850,574	54,678	3.0	1,830,697
Increase in net assets		2,026,750	1,081,317	945,433	87.4	1,115,197
Net assets, end of year	$	17,614,319	15,587,569	2,026,750	13.0%	14,506,252

Financial Analysis of the Plan

The Statement of Plan Net Assets as of June 30, 2007 and 2006 showed total assets exceeding total liabilities by $17,614,319 and $15,587,569, respectively. These amounts represent the total plan assets held in trust for pension benefits on each of these dates. The entire amount is available to cover the Plan's obligations to pay benefits to its members and their beneficiaries.

These amounts also represent an increase in "Net assets held in trust for pension benefits" of $2,026,750 and $1,081,317 or 13.0% and 7.5% from fiscal years 2006 and 2005, respectively. Over the long term, employer contributions and investment income are expected to cover the pension 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 2007, the ARMB adopted an asset allocation that included 30% in domestic equities, 10% in international equities, and 60% in domestic fixed income (including cash). This asset allocation is expected to provide a five–year median return of 6.64%.

For fiscal years 2007 and 2006, the Plan's investments generated a 13.30% and a 6.25% rate of return, respectively. The Plan's annualized rate of return was 8.81% over the last three years and 8.38% 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 and funded by contributions from the State of Alaska, Department of Military and Veterans' Affairs (DMVA). Annually, DMVA includes an appropriation to fund the Plan for the cost determined. The Plan uses the Entry Age Normal method of funding. Employer contribution levels are recommended by the Actuary and adopted by the ARMB biennially. The ratio of assets to liabilities decreased from 67.8% to 61.2% during the two–year period ending June 30, 2006. This decrease was due to a combination of the effects of the changes in assumptions and methods used in the valuation, as well as a demographic loss based on the experience of the system since the last valuation. The result was a total actuarial loss to the system of approximately $1.9 million for the two-year period. Progress continues toward achieving and maintaining the funding objectives of the Plan.

(Continued)

Actuarial Valuations and Funding Progress (Cont.)

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.

		Valuation year	
		2006	**2004**
Valuation assets	$	15,587,569	13,391,055
Accrued liabilities		25,457,589	19,749,305
Funding ratio		61.2%	67.8%

Contributions and Investment Income

The additions required to fund retirement benefits are accumulated through a combination of employer contributions and net investment income.

		Additions				
				Increase/(decrease)		
		2007	**2006**	**Amount**	**Percentage**	**2005**
Employer contributions	$	1,737,406	2,053,800	(316,394)	(15.4)%	1,996,800
Net investment income		2,194,596	878,091	1,316,505	149.9	949,094
Total	$	3,932,002	2,931,891	1,000,111	34.1%	2,945,894

Employer contributions decreased from $2,053,800 during fiscal year 2006 to $1,737,406 during fiscal year 2007, a decrease of $316,394 or 15.4% due to lack of appropriated funds in fiscal year 2005 causing additional funds to be appropriated in 2006 to make up for the 2005 lack of appropriation. There was no change in required employer contributions from fiscal year 2005 to 2006 as employer contribution amounts for the Plan are determined biennially. The employer contributions increased from $1,996,800 during fiscal year 2005 to $2,053,800 during fiscal year 2006, an increase of $57,000 or 2.9% due to lack of appropriated funds in fiscal year 2005. The unfunded actuarial accrued liability increased due to an increase in Pension benefits in the valuation dated June 30, 2004 (the valuation used to set fiscal year 2007 employer contribution rates).

Net investment income in 2007 increased by $1,316,505 or 149.9% over amounts recorded in fiscal year 2006. Net investment income in 2006 decreased by $71,003 or 7.5% over amounts recorded in fiscal year 2005. The Plan's total returns were 13.30%, 6.25% and 7.00% for the years ending 2007, 2006 and 2005 respectively. More than fifty–seven percent of invested assets were in the Domestic Fixed Income Pool. The Domestic Fixed Income Pool realized a return of 6.2% in 2007 compared to 0.1% in 2006.

Benefits and Other Deductions

The primary deduction of the Plan is the payment of pension benefits. These benefit payments and the cost of administering the Plan comprise the costs of operation.

	Deductions				
			Increase/(decrease)		
	2007	2006	Amount	Percent	2005
Pension benefits	$ 1,754,860	1,740,146	14,714	0.8%	1,745,064
Administrative	150,392	110,428	39,964	36.2	85,633
Total	$ 1,905,252	1,850,574	54,678	3.0%	1,830,697

Funding

Retirement benefits are financed by accumulations from DMVA annual appropriations (contributions) and income earned on Plan investments.

- The employer contributions are determined by the Plan's consulting actuary and approved by the ARMB. Contributions are determined on a biannual basis.
- The ARMB works with an external consultant to determine the proper asset allocation strategy.

Legislation

There was no legislation during the fiscal year 2007 legislative session that affects the Plan.

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

Net investment income reflected a 149.9% increase between 2006 and 2007. The ARMB continues to diversify the portfolio of the Plan to maintain an optimal risk/return ratio.

Actual investment returns lower than assumed investment returns continues to impact both the DMVA contribution and the Plan's funding status. However, the Plan experienced an offsetting gain due to demographic experience. The nonvested participant turnover for the period was significantly higher than expected which contributed to a gain. Due to these changes, the June 30, 2006 actuarial valuation report for the Plan reported a funding ratio of 61.2%, up from fiscal year 2004's funding ratio of 67.8%. As a result, the fiscal year 2009 and 2010 contribution amount will be $2,473,282 or a 42.4% increase over the fiscal year 2006 and 2007 contributions.

The actuarial valuation dated June 30, 2006, reports a funding ratio of 61.2% and an unfunded liability of $9.9 million.

(Continued)

Requests for Information

This financial report is designed to provide a general overview of the Plan's financial condition for 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 State of Alaska, Division of Retirement & Benefits, Accounting Section, P.O. Box 110203, Juneau, Alaska 99811–0203.

STATE OF ALASKA
NATIONAL GUARD AND
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Statements of Plan Net Assets

June 30, 2007 and 2006

		2007	2006
Assets:			
Cash and cash equivalents (notes 3 and 6):			
Short-term fixed income pool	$	12,818	24,997
Securities lending collateral		1,804,387	1,740,198
Total cash and cash equivalents		1,817,205	1,765,195
Investments (notes 3, 4, 5, and 6):			
Domestic fixed income pool		10,166,983	8,642,845
Domestic equity pool		5,303,340	4,971,107
International equity pool		2,219,659	2,034,314
Total investments		17,689,982	15,648,266
Total assets		19,507,187	17,413,461
Liabilities:			
Accrued expenses		75,183	77,749
Due to State of Alaska General Fund		13,298	7,945
Securities lending collateral payable (note 6)		1,804,387	1,740,198
Total liabilities		1,892,868	1,825,892
Commitments (note 5)			
Net assets held in trust for pension benefits	$	17,614,319	15,587,569

(A schedule of funding progress is presented on page 26.)

See accompanying notes to financial statements.

STATE OF ALASKA
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Statements of Changes in Plan Net Assets

Years ended June 30, 2007 and 2006

		2007	2006
Additions:			
Contributions – State of Alaska	$	1,737,406	2,053,800
Investment income:			
Net appreciation in fair value (note 3)		1,509,918	357,956
Interest		527,669	421,786
Dividends		177,804	131,228
Total investment income		2,215,391	910,970
Less investment expense		24,378	35,989
Net investment income before securities lending activities		2,191,013	874,981
Securities lending income (note 6)		102,095	52,367
Less securities lending expenses (note 6)		98,512	49,257
Net income from securities lending activities		3,583	3,110
Net investment income		2,194,596	878,091
Total additions		3,932,002	2,931,891
Deductions:			
Pension benefits		1,754,860	1,740,146
Administrative		150,392	110,428
Total deductions		1,905,252	1,850,574
Net increase		2,026,750	1,081,317
Net Assets Held in Trust for Pension Benefits:			
Balance, beginning of year		15,587,569	14,506,252
Balance, end of year	$	17,614,319	15,587,569

See accompanying notes to financial statements.

(1) Description

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

General

The Plan is a defined benefit, single–employer retirement system established and administered by the State of Alaska (State) to provide pension benefits for eligible members of the Alaska National Guard and Alaska Naval Militia. 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, Plan membership consisted of:

	2007	**2006**
Retirees and beneficiaries currently receiving benefits	532	506
Terminated Plan members entitled to future benefits	936	936
	1,468	1,442
Active Plan members:		
Alaska Air National Guard	1,909	1,909
Alaska Army National Guard	1,871	1,871
Alaska Naval Militia	66	66
	3,846	3,846
	5,314	5,288

Pension Benefits

Members who voluntarily retire from the Alaska National Guard or Alaska Naval Militia (Alaska Guard) after at least five years of Alaska Guard service and a total of at least twenty years of U.S. military service or members who involuntarily leave the Alaska Guard service due to federal standards imposed on the Alaska Guard, regardless of length of service, are eligible for a retirement pension. The retirement pension is $100 per month for each month of Alaska Guard service and may be paid to the member monthly or in a lump sum.

Medical benefits are not provided to retired Plan members.

(1) Description (Cont.)

Death Benefits

Upon the death of an eligible member, as previously described, the member's designated beneficiary is entitled to a lump sum benefit equal to the original pension amount less any payments already paid to the member.

Contributions

The Plan's funding policy provides for periodic employer contributions by the State of Alaska, Department of Military and Veterans Affairs at actuarially determined amounts that are sufficient to accumuxlate assets to pay benefits when due. Some officials of the Department of Military and Veterans Affairs may be members of the Plan. Plan members make no contributions to the Plan.

Administrative Costs

Administrative costs are financed through investment earnings.

Due to State of Alaska General Fund

Amounts due 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 resource focus and the accrual basis of accounting. Contributions are recognized in the period they are due. Benefits 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.

(Continued)

(2) Summary of Significant Accounting Policies (Cont.)

Investments

Investments are reported at fair value in accordance with Governmental Accounting Standards Board (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 accrued on the ex–dividend date. Net appreciation (depreciation) is determined by calculating the change in the fair value of investments between the end of the year and the beginning of the year, less purchases of investments at cost, plus sales of investments at fair value. Investment deductions consist of those administrative deductions directly related to the Plan's investment operations.

In fiscal year 2006, Governmental Accounting Standards Board (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

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 valuation provided by investment managers.

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

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

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

Income in the fixed income and domestic and international equity pools is allocated to each pool participant on a pro rata basis.

Federal Income Tax Status

The Plan is exempt from federal income taxes under Section 501(a).

(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 Treasury 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 participant owns shares in the pool, the number of which fluctuates daily with contributions and withdrawals. Participant shares also change at the beginning of each month when income is paid. At June 30, 2007 and 2006, The Plan had a 0.0003% direct ownership in the short–term fixed income pool which included interest receivable of $68 and $71, respectively. The Plan had a 0.044% and 0.04% indirect ownership in the short–term fixed income pool at June 30, 2007 and 2006, respectively.

Enhanced Cash Fixed Income Pool

The Plan participates in the State's internally managed Enhanced Cash Fixed Income Pool which was established in June 2007 with a startup and maintained share price of $1,000. Treasury staff determines the allocation between permissible securities. Each participant owns shares in the pool, the number of which fluctuates daily with contributions and withdrawals. Participant shares also change at the beginning of each month when income is paid. At year end only one pool, the Retirement Fixed Income Pool, was invested in the Enhanced Cash Fixed Income Pool. At June 30, 2007 the Plan included a 0.40% direct ownership in the Enhanced Cash Fixed Income Pool.

Domestic Fixed Income Pool

The Plan participates in the ARMB's internally managed domestic fixed income pool which was established March 1, 1996, with a start up share price of $1,000. The share price at June 30, 2007, was $1,958. Treasury staff determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. 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

(3) Investments (Cont.)

net asset value per share on the day of the transaction. At June 30, 2007 and 2006, the Plan had a 0.40% and 0.30% ownership in the domestic fixed income 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, 2007, was $1,368. Each manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2007 and 2006, the Plan had a 0.09% ownership in the large cap domestic equity pool.

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, 2007, was $1,375. Each manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2007 and 2006, the Plan had a 0.08% ownership in the small cap domestic equity pool.

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, 2007, was $4,302. Each manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2007 and 2006, the Plan had a 0.08% and 0.10% ownership in the international equity pool, respectively.

(3) Investments (Cont.)

At June 30, 2007, the Plan's investments included the following:

	Fair value				
	Fixed income pools				
	Short Term	Enhanced Cash	Domestic	Other	Total
Deposits	$ —	—	—	58,277	58,277
Overnight Sweep Account	10,120	—	—	—	10,120
Money Market Fund	—	—	—	1,804,388	1,804,388
Short-term Investment Fund	65,856	—	—	—	65,856
Commercial Paper	145,876	—	11,697	—	157,573
U.S. Treasury Bills	—	—	—	4,817	4,817
U.S. Treasury Notes	—	—	1,106,306	—	1,106,306
U.S. Treasury Strips	—	—	892	—	892
U.S. Treasury Bonds	—	—	495,783	—	495,783
U.S. Government Agency Discount Notes	—	—	693,193	—	693,193
U.S. Government Agency	—	—	4,417	—	4,417
Municipal Bonds	—	—	6,631	—	6,631
Mortgage-backed	112,702	—	5,712,283	—	5,824,985
Other asset-backed	809,807	6,535	651,294	—	1,467,636
Corporate Bonds	419,885	9,142	1,833,846	—	2,262,873
Yankees:					
Government	—	—	57,093	—	57,093
Corporate	88,568	—	203,936	—	292,504
Domestic Equity Pool:					
Limited Partnership	—	—	—	444,453	444,453
Equity	—	—	—	4,776,127	4,776,127
International Equity Pool:					
Equity	—	—	—	2,156,760	2,156,760
Net other assets (liabilities)	(7,437)	(2,770)	(2,182,485)	9,195	(2,183,497)
Other Pool Ownership	(1,632,559)	(12,907)	1,572,097	73,369	—
Total Invested Assets	$ 12,818	—	10,166,983	9,327,386	19,507,187

(3) Investments (Cont.)

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

		Fair value			
		Fixed income pools			
		Short-term	Domestic	Other	Total
Deposits	$	—	—	4,883	4,883
Overnight Sweep Account		1,765	2,721	—	4,486
Money Market Fund		—	—	1,740,198	1,740,198
Short-term Investment Fund		43,560	—	30,798	74,358
Commercial paper		87,166	25,189	—	112,355
U.S. Treasury Notes		—	460,370	—	460,370
U.S. Treasury Bonds		—	504,226	—	504,226
U.S. Treasury Strips		—	42,555	—	42,555
U.S. Government Agency Discount Notes		—	358,347	—	358,347
U.S. Government Agency		—	775,082	—	775,082
Municipal Bonds		—	5,243	—	5,243
Mortgage-backed		75,035	4,126,435	—	4,201,470
Other asset-backed		521,769	471,682	—	993,451
Corporate Bonds		269,956	1,818,760	—	2,088,716
Yankees:					
Government		—	64,892	—	64,892
Corporate		11,079	5,039	—	16,118
Domestic Equity Pool:					
Limited Partnership		—	—	286,698	286,698
Equity		—	—	4,630,644	4,630,644
International Equity Pool:					
Equity		—	—	2,002,815	2,002,815
Net other assets (liabilities)		(686)	(958,866)	6,106	(953,446)
Other Pool Ownership		(984,647)	941,170	43,477	—
Total Invested Assets	$	24,997	8,642,845	8,745,619	17,413,461

(3) Investments (Cont.)

Interest Rate Risk

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

Short–Term Fixed Income Pool

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

Domestic Fixed Income Pool

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

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 of 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.

(3) Investments (Cont.)

At June 30, 2007, the effective duration of the enhanced cash and domestic fixed income pool, by investment type, was as follows:

	Effective duration (In years)	
	Enhanced Cash	**Domestic**
U.S. Treasury Notes	—	4.07
U.S. Government Agency	—	4.52
Municipal Bonds	—	12.33
Mortgage-backed	—	4.26
Other Asset-backed	1.84	4.82
Corporate Bonds	0.22	5.36
Yankees:		
Government	—	6.46
Corporate	—	11.03
Portfolio Effective Duration	0.08	3.99

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 nonagency mortgage securities may be purchased if only rated by one of the rating agencies mentioned above if they are rated AAA. Unexpected daily cash surpluses that arise in this pool are invested overnight in the custodian's repurchase agreement sweep account. Treasury does not have a policy to limit credit risk associated with the sweep account.

The 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.

(3) Investments (Cont.)

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

Domestic fixed income:

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

Corporate debt securities must be investment grade;

Corporate, asset–backed and nonagency mortgage securities must be investment grade. I nvestment grade is defined as the median rating of Standard & Poor's Corporation, Moody's and Fitch. Asset–backed and non-agency 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.

Domestic and international equity:

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

(3) Investments (Cont.)

At June 30, 2007, 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):

		Defined Benefit			
		Internally Managed Fixed income pool			
	Rating[1]	Short Term	Enhanced Cash	Domestic	International
Overnight Sweep Account	Not Rated	0.61%	—	—	—
Short-term Investment Account	Not Rated	3.96	—	—	0.36
Commercial Paper	AA	1.88	—	—	—
Commercial Paper	A	3.09	—	—	—
Commercial Paper	Not Rated	3.86	—	0.14	—
U. S. Government Agency Discount Notes	Not Rated	—	—	8.07	—
U. S. Government Agency	Not Rated	—	—	0.05	—
Mortgage-backed	AAA	6.50	—	51.10	—
Mortgage-backed	A	0.32	—	—	—
Mortgage-backed (Agency)	Not Rated	—	—	15.36	—
Other Asset-backed	AAA	40.98	2.65	5.14	—
Other Asset-backed	AA	0.91	—	0.27	—
Other Asset-backed	A	6.34	—	0.09	—
Other Asset-backed	BBB	—	1.00	0.74	—
Other Asset-backed	Not Rated	0.78	—	1.34	—
Municipal Bonds	AA	—	—	0.08	—
Corporate Bonds	AAA	1.97	—	1.89	25.92
Corporate Bonds	AA	15.13	0.60	4.28	11.43
Corporate Bonds	A	8.31	3.46	6.98	—
Corporate Bonds	BBB	—	1.04	7.15	—
Corporate Bonds	Not Rated	—	—	1.03	0.28
Yankees:					
Government	AAA-BBB	—	—	0.66	56.57
Government	Not Rated	—	—	—	3.83
Corporate	AA	3.09	—	—	—
Corporate	A	1.75	—	1.47	—
Corporate	BBB	—	—	0.61	—
Corporate	Not Rated	0.52	—	0.30	—
No Credit Exposure		—	91.25	(6.75)	1.61
		100.00%	100.00%	100.00%	100.00%

[1]Rating modifiers are not disclosed.

(3) Investments (Cont.)

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

Custodial Credit Risk – Deposits

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

		Amount
International Equity Pool	$	4,365

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 equity pool is to permit the Plan to hold up to fifteen percent of total investments in international equity.

At June 30, 2007, the Plan's investment in the international equity pool had exposure to foreign currency risk with the following deposits:

Currency		Amount
Australian Dollar	$	424,119
Canadian Dollar		2,683
Euro Currency		(1,161,135)
Hong Kong Dollar		541,671
Japanese Yen		2,888,691
New Taiwan Dollar		36
New Zealand Dollar		8,639
Norwegian Krone		139,688
Pound Sterling		1,488,777
Singapore Dollar		932
South Korean Won		107
Swedish Krona		80,545
Swiss Franc		1,650
	$	4,416,403

(3) Investments (Cont.)

At June 30, 2007, the Plan's investment in the international equity pool had exposure to foreign currency risk with the following investments:

Currency		International Equity Pool
Australian Dollar	$	48,280
Canadian Dollar		43,296
Danish Krone		2,463
Euro Currency		807,347
Hong Kong Dollar		30,924
Japanese Yen		436,410
New Taiwan Dollar		7,785
New Zealand Dollar		8,777
Norwegian Krone		16,776
Pound Sterling		401,192
Singapore Dollar		21,574
South African Rand		1,661
South Korean Won		32,499
Swedish Krona		37,634
Swiss Franc		135,423
	$	2,032,041

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

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 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.

At June 30, 2007, the Plan's invested assets were not invested in any one issuer more than 5%.

(3) Investments (Cont.)

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

		2007	2006
Domestic fixed income pool	$	90,762	(431,454)
Domestic equity pool		911,226	342,545
International equity pool		507,930	446,865
	$	1,509,918	357,956

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

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

		2007	2006
Net realized gain (loss) on foreign currency	$	55,766	(29,519)
Net unrealized gain on foreign currency		40	141
Net realized gain on foreign exchange contracts		320	334

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

		2007	2006
Contract sales	$	1,748	3,912
Less fair value		1,737	3,923
Net unrealized gains (losses) on contracts	$	11	(11)

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) Commitments

The ARMB entered into an agreement through an external investment manager to provide capital funding for a domestic equity limited partnership. At June 30, 2007, the Plan's invested asset's share of the unfunded commitment total $12,159. This commitment can be withdrawn annually in December with ninety days notice.

(6) 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, 2007 and 2006, the fair value of securities on loan allocable to the Plan totaled $1,845,930 and $1,714,761, 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 $1,804,387 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 $93,256 may be pledged or sold upon borrower default. Since the ARMB does not have the ability to pledge or sell securities collateral unless the borrower defaults, they are not recorded on the financial statements. Securities on loan, cash collateral and cash collateral payable are recorded on the financial statements at fair value. The Bank, the 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.

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

For the year ended June 30, 2007 and 2006, there were no losses incurred as a result of securities lending transactions and there were no significant violations of legal or contractual provisions or failures by any borrowers to return loaned securities.

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Required Supplementary Information

Schedule of Funding Progress

June 30, 2007

Actuarial valuation date as of June 30		Actuarial value of plan assets	Actuarial accrued liabilities (AAL)	Unfunded actuarial accrued liabilities (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
2002	$	12,114,025	20,545,214	(8,431,189)	59.0%	N/A	N/A
2004		13,391,055	19,749,305	(6,358,250)	67.8	N/A	N/A
2006		15,587,569	25,457,589	(9,870,020)	61.2	N/A	N/A

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

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Required Supplementary Information

Schedule of Employer Contributions

June 30, 2007

Year ended June 30	Actuarial valuation date as of June 30 [1]	Annual required contribution	Annual actual contribution	Percentage contributed
2002	1998	$ 879,784	879,800	100.0%
2003	2000	1,322,502	1,322,500	100.0
2004	2000	1,322,502	1,322,500	100.0
2005	2002	2,025,257	1,996,800	99.0
2006	2002	2,025,257	2,053,800	101.0
2007	2004	1,737,406	1,737,406	100.0

(1) Actuarial valuation related to annual required contribution for fiscal year.

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

(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.

(2) Actuarial Assumptions and Methods

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

a. Actuarial cost method – Entry Age Normal Actuarial Cost, unfunded actuarial accrued liability amortized over twenty years reduced by the average total military service of active members.

b. Interest – 7.25% per year, compounded annually, net of expenses.

c. Mortality basis – 1994 Group Annuity Mortality Basic Table for males and females, 1994 base year.

d. Turnover – assumed at 25% in the first year and at 8% in the second; both rates are independent of age. Turnover after the second year is assumed to follow the T–3 Table published in the Pension Actuary's Handbook.

Age	Rate
30	0.04930
40	0.04041
50	0.02172

e. Disability rate – assumed to follow disability rates under the Group Long Term Disability policies, as given in the 1978 Society of Actuaries Study.

f. Retirement age – active members are assumed to retire after 20 years of service except if they complete 20 years of total military service before age 55, it is assumed that they will work one–half of the remaining years to age 55. Vested terminated members are assumed to retire at current age or age 50, whichever is later.

g. Asset valuation – effective June 30, 2006, the asset valuation method recognizes 20% of the investment gain or loss in each of the current and preceding four years. This method is initialized as of June 30, 2006 at market value and will be phased in over the next five years. Valuation assets are constrained to a range of 80% to 120% of the market value of assets.

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.

(Continued)

(2) Actuarial Assumptions and Methods (Cont.)

Effective June 30, 2006, there was a change in the actuarial cost methods. The cost method was changed from Projected Unit Credit to Entry Age Normal. The changes in assumptions were adopted by the Board during the October 2006 Board meeting.

Changes in Assumptions from the Last Actuarial Valuation – June 30, 2004 to June 30, 2006

(a) Actuarial cost method – changed from the Projected Unit Credit Method to the Entry Age Normal Method.

(b) Interest Rate – changed from 8.25% to 7.25% per annum.

(c) Retirement rates – extended from an expected retirement age of 60 regardless of service to age 60 and 20 years of service.

(d) Asset Valuation Method – changed from using the market value of assets without smoothing of gains and losses to a five–year smoothing assets valuation method to be phased-in over the next five years with the first phase–in recognized during FY07.

Schedule 1

STATE OF ALASKA
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Schedule of Administrative and Investment Deductions

Year ended June 30, 2007
with Summarized Financial Information for 2006

			Totals	
	Administrative	**Investment**	**2007**	**2006**
Personal services:				
Wages	$ 45,285	1,830	47,115	50,020
Benefits	26,755	853	27,608	25,827
Total personal services	72,040	2,683	74,723	75,847
Contractual services:				
Accounting and Auditing	5,461	1,499	6,960	6,690
Management and Consulting	23,309	20,178	43,487	40,696
Other Professional Services	21,615	—	21,615	987
Communications	1,010	—	1,010	1,260
Other Services	22,677	18	22,695	17,771
Advertising and Printing	31	—	31	—
Transportation	62	—	62	48
Securities Lending	—	98,512	98,512	49,257
Total contractual services	74,165	120,207	194,372	116,709
Other:				
Travel	59	—	59	973
Supplies	2,338	—	2,338	2,145
Data Processing	1,100	—	1,100	—
Equipment	690	—	690	—
Total other	4,187	—	4,187	3,118
Total administrative and investment deductions	$ 150,392	122,890	273,282	195,674

See accompanying independent auditors' report.

Schedule 2

STATE OF ALASKA
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Schedule of Payments to Consultants
Other than Investment Advisors

Years ended June 30, 2007 and 2006

Firm	Services		2007	2006
State Street Corporation	Custodian Banking Services	$	1,499	2,918
KPMG LLP	Auditing Services		5,196	5,200
ACS Human Resource Solutions	Actuarial Services		7,252	—
Mercer Human Resource Consulting, Inc.	Actuarial Services		2,088	31,733
		$	16,035	39,851

See accompanying independent auditors’ report.