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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, 2010 and 2009

(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 and
Members of the Alaska Retirement Management Board
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, 2010 and 2009, 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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 as of June 30, 2010 and 2009, and the changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis and Schedules of Funding Progress and Employer Contributions are not a required part of the financial statements, but are supplementary information required by the Governmental Accounting Standards Board (GASB). 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 this information and express no opinion on it.

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Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules presented on pages 31 – 32 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such supplemental schedules are the responsibility of the management of the Plan. This information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in a material respects when considered in relation to the basic financial statements taken as a whole.

KPMG LLP

October 29, 2010

This section presents management's discussion and analysis (MD&A) of the State of Alaska National Guard and Naval Militia Retirement System's (Plan) financial position and performance for the years ended June 30, 2010 and 2009. This section is presented as a narrative overview and analysis. Please read the MD&A in conjunction with the financial statements, notes to financial statements, required supplementary information, notes to required supplementary information, and supplemental schedules to better understand the financial condition and performance of the Plan during the fiscal years ended June 30, 2010 and 2009. Information for fiscal year 2008 is presented for comparative purposes.

Financial Highlights

The Plan's net assets held in trust for pension benefits as of June 30, 2010 and 2009 are $29,431,722 and $25,429,842, respectively.

The Plan's net assets held in trust for pension benefits as of June 30, 2010, increased by $4,001,880 or 15.7% from fiscal year 2009. The Plan's net assets held in trust for pension benefits as of June 30, 2009, decreased by $1,759,086 or 6.5% from fiscal year 2008.

Employer contributions totaled $2,603,300 and $2,473,300 during fiscal years 2010 and 2009, respectively; an increase of $130,000 or 5.3%. Employer contributions totaled $2,473,300 and $1,737,406 during fiscal years 2009 and 2008, respectively; an increase of $735,894 or 42.4%.

Net investment income increased from a loss of $2,546,193 in fiscal year 2009 to income of $3,163,676 in fiscal year 2010, reflecting an increase in investment income of $5,709,869 or 224.3%. Net investment loss increased from $395,751 in 2008 to $2,546,193 in 2009, reflecting an increase on investment loss of 543.4%.

Benefit payments totaled $1,647,349 and $1,535,247 during fiscal years 2010 and 2009, respectively; reflecting an increase of $112,102 or 7.3%. Benefit payments were $1,535,247 and $1,642,441 during fiscal year 2009 and 2008, respectively, reflecting a decrease of $107,194 or 6.5% from fiscal years 2009 and 2008, respectively.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Plan's financial statements. The Plan's 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 and other supplemental schedules.

Statement of Plan Net Assets – This statement presents information regarding the Plan's assets, liabilities, and resulting net assets held in trust for pension benefits. This statement reflects the Plan's investments at fair market value, along with cash and short-term investments, receivables, and other assets less liabilities at June 30, 2010 and 2009.

Statement of Changes in Plan Net Assets – This statement presents how the Plan's net assets held in trust for pension benefits changed during the fiscal years ended June 30, 2010 and 2009. This statement presents contributions earned and investment income (loss) during the period. Deductions for pension benefits and operating deductions are also presented.

The above statements represent resources available for investment and payment of benefits as of June 30, 2010 and 2009, and the sources and uses of those funds during fiscal years 2010 and 2009.

Notes to Financial Statements – The notes to financial statements are an integral part of the financial statements and provide additional detailed information and schedules that is essential to a full understanding of the Plan's financial statements.

Required Supplementary Information and Related Notes – The required supplementary information consists of two schedules and related notes concerning the funded status of the Plan, as well as actuarial assumptions and methods used in the actuarial valuation.

Supplemental Schedules – Supplemental schedules include detailed information on administrative and investment deductions incurred by the Plan and payments to consultants (other than investment advisors) for professional services.

Condensed Financial Information

Plan Net Assets

Description	2010	2009	Increase/(decrease) Amount	Increase/(decrease) Percentage	2008
Assets:					
Cash and cash equivalents	$ 14,856	2,152	12,704	590.3%	$ 24,898
Investments, at fair value	29,481,908	25,504,970	3,976,938	15.6	27,236,684
Total assets	29,496,764	25,507,122	3,989,642	15.6	27,261,582
Liabilities:					
Accrued expenses	52,525	65,354	(12,829)	(19.6)	55,447
Due to State of Alaska General Fund	12,517	11,926	591	5.0	17,207
Total liabilities	65,042	77,280	(12,238)	(15.8)	72,654
Net assets	$ 29,431,722	25,429,842	4,001,880	15.7%	$ 27,188,928

Changes in Plan Net Assets

Description	2010	2009	Increase (decrease) Amount	Increase (decrease) Percentage	2008
Net assets, beginning of year	$ 25,429,842	27,188,928	(1,759,086)	(6.5)%	$ 17,614,319
Additions (reductions):					
Contributions – DMVA	2,603,300	2,473,300	130,000	5.3	1,737,406
Appropriation – State of Alaska	—	—	—	—	10,000,000
Net investment income (loss)	3,163,676	(2,546,193)	5,709,869	(224.3)	(395,751)
Total additions (reductions)	5,766,976	(72,893)	5,839,869	(8,011.6)	11,341,655
Deductions:					
Pension benefits	1,647,349	1,535,247	112,102	7.3	1,642,441
Administrative	117,747	150,946	(33,199)	(22.0)	124,605
Total deductions	1,765,096	1,686,193	78,903	4.7	1,767,046
Increase (decrease) in net assets	4,001,880	(1,759,086)	5,760,966	(327.5)	9,574,609
Net assets, end of year	$ 29,431,722	25,429,842	4,001,880	15.7%	$ 27,188,928

Financial Analysis of the Plan

The Statement of Plan Net Assets as of June 30, 2010 and 2009 showed net assets held in trust for pension benefits of $29,431,722 and $25,429,842, respectively. 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 $4,001,880 or 15.7% and a decrease $1,759,086 or 6.5% from fiscal years 2009 and 2008, 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 (Board) 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 2010 and 2009, the Board adopted the following asset allocations:

	2010	
	Allocation	**Range**
Broad domestic equity	27.0%	± 5%
International equity	15.0	± 5
Domestic fixed income (includes cash)	58.0	± 10
Total	100.0%	
Expected five-year median return	7.42%	
Standard deviation	8.05	

	2009	
	Allocation	**Range**
Broad domestic equity	30.0%	± 5%
International equity	10.0	± 5
Domestic fixed income (includes cash)	60.0	± 10
Total	100.0%	
Expected five-year median return	6.80%	
Standard deviation	8.01	

For fiscal years 2010 and 2009, the Plan's investments generated a 11.50% and a (8.31%) rate of return, respectively. The Plan's annualized rate of return was 0.34% over the last three years and 3.99% over the last five years. The actuarial earnings rate assumption was 7.25% in the June 30, 2008 and 2006 actuarial valuation reports and 8.25% in the June 30, 2004 actuarial valuation report.

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. Actuarially determined contribution amounts are recommended by the Actuary and adopted by the Board prior to each fiscal year that the contribution amount applies. The ratio of assets to liabilities increased from 98.2% to 99.7% during the two–year period ending June 30, 2009. Progress continues toward achieving and maintaining 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.

		Valuation or roll-forward year	
		2009	2008
Valuation assets	$	30,123,348	28,370,756
Accrued liabilities		30,208,411	28,904,645
Unfunded liability		85,063	533,889
Funding ratio		99.7%	98.2%

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)			
		2010	2009	Amount	Percentage		2008
Contributions – DMVA	$	2,603,300	2,473,300	130,000	5.3%	$	1,737,406
Appropriation – State of Alaska		—	—	—	—		10,000,000
Net investment income (loss)		3,163,676	(2,546,193)	5,709,869	224.3		(395,751)
Total	$	5,766,976	(72,893)	5,839,869	(8,011.6)%	$	11,341,655

Employer contributions increased from $2,473,300 during fiscal year 2009 to $2,603,300 during fiscal year 2010, an increase of $130,000 or 5.3%. There was a decrease between the actuarially determined contribution amounts from fiscal year 2009 of $2,473,282 and the actuarial roll-forward determined contribution amount for fiscal year 2010 of $2,415,077. A full actuarial valuation is completed for the Plan biennially with the actuarial roll-forward being completed in the interim years. The employer contributions increase was due to an increase in the legislative appropriation funding provide in House Bill 81 to DMVA to cover retirement benefits.

(Continued)

The Plan's net investment income in fiscal year 2010 increased by $5,709,869 or 224.3% from amounts recorded in fiscal year 2009 and net investment loss in fiscal year 2009 increased by $2,150,442 or 543.4% from amounts recorded in fiscal year 2008. In fiscal year 2010 investments have started recovering from the economic downturn in fiscal year 2009 where investment results were heavily negative. Over the long term, investment income has been a major component of additions to Plan assets. During fiscal year 2010, the Plan experienced some recovery from the prior year's significant reduction in rates of return on investments. The assumed rate of return used in the actuarial valuation report to determine liabilities of the Plan was 7.25%.

The Plan's investment rate of returns at June 30, are as follows:

	Year ended		
	2010	**2009**	**2008**
System returns	11.50%	(8.31)%	(1.18)%
Domestic equities	15.52	(27.05)	(13.53)
International equities	8.48	(29.02)	(9.36)
Fixed income	10.79	3.62	6.43

Benefits and Other Deductions

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

	Deductions				
			Increase/(decrease)		
	2010	**2009**	**Amount**	**Percentage**	**2008**
Pension	$ 1,647,349	1,535,247	112,102	7.3%	$ 1,642,441
Administrative	117,747	150,946	(33,199)	(22.0)	124,605
Total	$ 1,765,096	1,686,193	78,903	4.7%	$ 1,767,046

The decrease in administrative deductions is related to the decrease in actuarial cost as the actuarial valuation for the plan is completed every even number of years.

Funding

Retirement benefits are financed by accumulations from DMVA annual contributions, periodic State of Alaska appropriations, and investment income earned on Plan investments.

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

(Continued)

Legislation

During fiscal year 2010, the Twenty-Seventh Alaska State Legislature enacted one law that affects the Plan:

- House Bill 300 appropriates $84,175 from the general fund to the Department of Military and Veterans' Affairs for deposit in the defined benefit pension fund and retiree healthcare trust for the purpose of funding the Alaska National Guard and Alaska Naval Militia retirement system for fiscal year ending June 30, 2011.

During fiscal year 2009, the Twenty Sixth Alaska State Legislature enacted one law that affects the Plan:

- House Bill 81 appropriates $107,953,000 from the general fund to the Department of Military and Veterns' Affairs for deposit in the defined benefit pension fund and retiree healthcare trust for the purpose of funding the Alaska National Guard and Alaska Naval Militia retirement system for fiscal year ending June 30, 2010.

In fiscal year 2008, during the State of Alaska's 25th legislative session, the Alaska legislature appropriated in Senate Bill 221 $10,000,000 to the Plan to reduce the actuarial unfunded liability based on the June 30, 2006 actuarial valuation report. This transfer occurred in June 2008.

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

Net investment income reflected an increase of 224.3% between 2009 and 2010. The Board continues to diversify the portfolio of the Plan to maintain an optimal risk/return ratio. Actual investment returns lower than the assumed investment return continues to impact both the annual actuarially determined contribution amount and the Plan's funded level.

The actuarial roll-forward for June 30, 2009, reports a funding ratio of 99.7% and an unfunded liability of $85,063. Since actuarial valuation reports for the Plan are conducted biannually, the June 30, 2010 report will be completed and presented to the Board in 2011. An actuarial roll-forward analysis for fiscal year 2013 is estimated to be available in Spring 2012.

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:

State of Alaska National Guard and Naval Militia Retirement System
Division of Retirement & Benefits, Accounting Section
P.O. Box 110203
Juneau, Alaska 99811–0203

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

Statements of Plan Net Assets

June 30, 2010 and 2009

		2010	2009
Assets:			
Cash and cash equivalents (notes 3 and 4):			
Short-term fixed income pool	$	14,856	2,152
Investments (notes 3, 4, 5 and 6) at fair value:			
Alaska retirement fixed income pool		13,244,918	13,954,357
US Treasury Pool		4,819,313	—
Domestic equity pool		7,340,828	8,433,391
International equity pool		4,076,849	3,117,222
Total investments		29,481,908	25,504,970
Total assets		29,496,764	25,507,122
Liabilities:			
Accrued expenses		52,525	65,354
Due to State of Alaska General Fund		12,517	11,926
Total liabilities		65,042	77,280
Commitments (note 6)			
Net assets held in trust for pension benefits	$	29,431,722	25,429,842

See accompanying notes to financial statements.

STATE OF ALASKA
NATIONAL GUARD AND
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(A Component Unit of the State of Alaska)

Statements of Changes in Plan Net Assets

Years ended June 30, 2010 and 2009

		2010	**2009**
Additions (reductions):			
Contributions – State of Alaska, Military and Veterans' Affairs	$	2,603,300	2,473,300
Investment income (loss):			
Net appreciation (depreciation) in fair value (note 3)		2,265,537	(3,599,024)
Interest		659,785	801,778
Dividends		277,482	275,995
Total investment income (loss)		3,202,804	(2,521,251)
Less investment expense		39,128	24,942
Net investment income (loss)		3,163,676	(2,546,193)
Total additions (reductions)		5,766,976	(72,893)
Deductions:			
Pension benefits		1,647,349	1,535,247
Administrative		117,747	150,946
Total deductions		1,765,096	1,686,193
Net increase (decrease)		4,001,880	(1,759,086)
Net assets held in trust for pension benefits:			
Balance, beginning of year		25,429,842	27,188,928
Balance, end of year	$	29,431,722	25,429,842

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 (State), is provided for general information purposes only. Participants should refer to the Plan agreement for more complete information than that noted in the notes to the financial statements.

General

The Plan is a defined benefit, single–employer retirement system established and administered by the 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.

Plan membership as of valuation year ended June 30:

	Valuation as of	
	2008	**2006**
Retirees and beneficiaries currently receiving benefits	516	506
Terminated Plan members entitled to future benefits	1,148	936
Total current and future benefits	1,664	1,442
Active plan members:		
Alaska Air National Guard	1,956	1,909
Alaska Army National Guard	1,866	1,871
Alaska Naval Militia	75	66
Total active plan members	3,897	3,846
	5,561	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 one-time lump sum.

Postemployment Healthcare Benefits

Major medical benefits are not provided to retired Plan members.

(Continued)

(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 annual employer contributions by the State of Alaska, Department of Military and Veterans' Affairs (Department) at actuarially determined contribution amounts that are sufficient to accumulate assets to pay benefits when due. Some officials of the Department may be members of the Plan. Plan members make no contributions to 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.

GASB Statement No. 25

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

Investments

Investments are reported under the Department of Revenue, Treasury Division (Treasury). Treasury financial statements are prepared using the accrual basis of accounting for investment income. Assets are reported at fair value. Investment purchases and sales are recorded on a trade-date basis. Net contributions (withdrawals) represent contributions from employers and employees, net of benefits paid to plan

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

participants and administrative and investment management expenses. Contributions, benefits paid and all expenses are recorded on a cash basis.

Pooled Investments

With the exception of the Short-term Fixed Income Pool, ownership in the various pools 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.

The Short-Term Fixed Income Pool maintains a share price of $1. 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. 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 ask prices.

Valuation and Income Allocation

Fixed income investment pools

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. Income in the pools is credited to the net asset value of the pool daily and allocated to pool participants daily on a pro rata basis. Treasury staff or the investment manager determines the allocation between permissible securities.

Broad Domestic Equity and International Equity Pools

Domestic equity 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. Income in the pools is credited to the net asset value of the pool daily and allocated to pool participants daily on a pro rata basis. Treasury staff or the external manager determines the allocation between permissible securities.

Administrative Costs

Administrative costs are paid from 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 (cont.)

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).

(3) Investments

The Alaska Retirement Management Board (Board) is the investment oversight authority of the Plan's investments. As the fiduciary, the Board has the statutory authority to invest the assets under the Prudent Investor Rule. Fiduciary responsibility for the Board's Invested Assets is pursuant to Alaska Statutes 37.10.210-390.

Alaska Statute 37.10.071 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 Board. Treasury has created a pooled environment by which it manages investments of the Board. Actual investing is performed by investment officers in Treasury or by contracted external investment managers. The Board has developed investment guidelines, policies and procedures for Treasury staff and external investment managers to adhere to when managing investments.

Actual investing is performed by investment officers in Treasury or by contracted external investment managers. The Board has developed investment guidelines, policies and procedures for Treasury staff and external investment managers to adhere to when managing investments. Specifically, the Large Cap Domestic Equity Pool, Small Cap Domestic Equity Pool, and International Equity Poolare managed by external management companies. Treasury manages the Alaska Retirement Fixed Income Pool and U.S. Treasury Fixed Income Pool in addition to acting as oversight manager for all externally managed investments.

The Short-term Fixed Income Pool is a State pool managed by Treasury that holds investments on behalf of Board as well as other state funds.

(Continued)

(4) Deposit and Investment Risk

At June 30, 2010, the Plan investments included the following:

	Fair value					
	Fixed income pools					
	Short-term	**Retirement**	**U.S. Treasury**	**Convertible**	**Other**	**Total**
Commercial paper	$ 85,365	—	—	—	—	85,365
Corporate bonds	799,637	2,614,766	73,679	—	—	3,488,082
Deposits	(3,217)	—	—	—	65,155	61,938
Mortgage-backed	13,469	3,825,797	—	—	—	3,839,266
Mortgage-backed TBA	—	1,254,635	—	—	—	1,254,635
Mutual funds	—	—	—	—	196,954	196,954
Other asset-backed	375,255	38,530	—	—	—	413,785
Overnight Sweep Account (Imcs)	—	—	—	5,518	—	5,518
Short-term Investment Fund	—	—	—	—	30,434	30,434
U.S. government agency	113,475	72,155	—	—	—	185,630
Treasury bills	207,740	—	—	—	—	207,740
Treasury bonds	—	734,523	416,522	—	—	1,151,045
Treasury notes	—	2,084,459	3,539,509	—	—	5,623,968
Treasury notes When-Issued	—	2,255,963	644,446	—	—	2,900,409
Treasury bills When-Issued	31,960	—	—	—	—	31,960
Yankees:						
Corporate	22,391	—	—	—	—	22,391
Government	—	14,287	—	—	—	14,287
Broad Domestic equity pool:						
Convertible bonds	—	—	—	408,349	—	408,349
Equity	—	—	—	30,631	6,360,527	6,391,158
Limited partnership	—	—	—	—	459,401	459,401
Treasury bills	—	—	—	—	3,552	3,552
International equity pool:				—		
Convertible bonds	—	—	—	—	3,092	3,092
Corporate bonds	—	—	—	—	1,184	1,184
Equity	—	—	—	—	3,772,990	3,772,990
Rights	—	—	—	—	759	759
Warrants	—	—	—	—	3	3
Net other assets (liabilities)	(3,278)	(1,013,374)	(45,572)	2,361	2,732	(1,057,131)
Other pool ownership	(1,627,941)	1,363,177	190,729	—	74,035	—
Total invested assets	$ 14,856	13,244,918	4,819,313	446,859	10,970,818	29,496,764

(4) Deposit and Investment Risk (cont.)

At June 30, 2009, the Plan's investments included the following:

	Fair value			
	Fixed income pools			
	Short-term	Retirement	Other	Total
Deposits	$ 2,289	(752)	18,732	20,269
Short-term Investment Fund	—	—	40,953	40,953
Commercial paper	45,910	—	—	45,910
U.S. Treasury bills	259,024	—	—	259,024
U.S. Treasury notes	—	2,347,692	—	2,347,692
U.S. Treasury bonds	—	197,761	—	197,761
U.S. government agency	20,087	280,731	—	300,818
Mortgage-backed	28,894	7,092,601	—	7,121,495
Other asset-backed	91,473	99,819	—	191,292
Corporate bonds	247,287	2,782,225	—	3,029,512
Yankees:				
Government	—	162,249	—	162,249
Corporate	53,232	629,372	—	682,604
Domestic equity pool:				
Limited partnership	—	—	507,319	507,319
Treasury bills	—	—	5,955	5,955
Equity	—	—	7,843,008	7,843,008
International equity pool:				
Convertible bonds	—	—	1,957	1,957
Equity	—	—	2,997,729	2,997,729
Mutual funds	—	—	51,614	51,614
Net other assets (liabilities)	(1,697)	(304,114)	5,772	(300,039)
Other pool ownership	(744,347)	666,773	77,574	—
Total invested assets	$ 2,152	13,954,357	11,550,613	25,507,122

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 to maturity or fourteen months expected average life upon purchase. Floating rate securities are limited to three years to maturity or three years expected average life upon purchase. Treasury utilizes the actual maturity date for commercial paper

(4) Deposit and Investment Risk (cont.)

and twelve-month prepay speeds for other securities. At June 30, 2010, the expected average life of individual fixed rate securities ranged from one day to twenty-nine years and the expected average life of floating rate securities ranged from one day to nine and three-quarters years.

Other Fixed Income Pools

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 to calculate effective duration.

Through the Board's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the Retirement Fixed Income portfolio to ± 20% of the Barclays Capital U.S. Aggregate Bond Index. The effective duration for the Barclays Capital U.S. Aggregate Bond Index at June 30, 2010, was 4.30 years.

Through the Board's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the Intermediate U.S. Treasury Fixed Income portfolio to ± 20% of the Barclays Capital U.S. Treasury Intermediate Index. The effective duration for the Barclays Capital U.S. Treasury Intermediate Index at June 30, 2010, was 4.01 years.

At June 30, 2010, the effective duration of the defined benefit fixed income pool, by investment type, was as follows:

	Effectuve duration (in years)	
	Retirement	**U.S. Treasury**
Corporate bonds	6.19	4.13
Mortgage-backed	2.73	—
Mortgage-backed TBA	2.97	—
Other asset-backed	3.57	—
U.S. government and agency	6.73	—
U.S. Treasury bonds	10.77	7.98
U.S. Treasury notes	4.40	3.53
U.S. Treasury notes when-issued	3.52	4.83
Yankees:		
Government	6.95	—
Portfolio effective duration	**4.25**	**4.83**

(4) Deposit and Investment Risk (cont.)

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:

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 P1 or equivalent. Asset-backed and nonagency mortgage securities must be rated A3 or equivalent. The A3 rating is defined as the median rating of the following three rating agencies: Standard & Poor's Corporation, Moody's and Fitch. Asset-backed and nonagency mortgage securities may be purchased if rated by only one of these agencies if they are rated AAA.

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

Retirement Fixed Income

Commercial paper must carry a rating of at least P-1 by Moody's and A-1 by Standard and Poor's.

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, 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.

No more than 40% of the portfolio's assets may be invested in investment grade corporate debt.

No more than 15% of the portfolio's assets may be invested in BBB+ to BBB- rated debt by Standard and Poor's Corporation or the equivalent by Moody's or Fitch.

Intermediate U.S. Treasury Fixed Income

No more than 5% of the portfolio's assets may be invested in securities that are not full faith and credit obligations of the U.S. government at the time of purchase.

No more than 10% of the portfolio's assets may be invested in securities that are not nominal, coupon-paying United States Treasury obligations at the time of purchase.

Corporate, asset-backed and nonagency mortgage securities must be investment grade. Investment grade is defined as the median rating of Standard & Poor's, 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.

(4) Deposit and Investment Risk (cont.)

Domestic Equity and International Equity

Corporate debt obligations must carry a rating of at least A or better by Moody's, Standard & Poor's or Fitch rating services.

Commercial paper must bear the highest rating assigned by Moody's, Standard & Poor's, or Fitch rating services.

(Continued)

(4) Deposit and Investment Risk (cont.)

At June 30, 2010, 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 pools		
	Rating	**Short-term**	**Retirement**	**U.S. Treasury**
Commercial paper	A-1	1.17%	—%	—%
Commercial paper	Not rated	4.03	—	—
Corporate bonds	AAA	41.70	0.10	0.77
Corporate bonds	AA	1.88	2.64	—
Corporate bonds	A	3.74	9.77	—
Corporate bonds	BBB	—	6.85	0.75
Corporate bonds	Not rated	1.35	0.39	—
Mortgage-backed	AAA	0.79	27.48	—
Mortgage-backed	AA	—	0.64	—
Mortgage-backed	A	—	0.18	—
Mortgage-backed	Not rated	0.03	0.58	—
Mortgage-backed TBA	Not rated	—	9.47	—
Other asset-backed	AAA	21.16	0.09	—
Other asset-backed	AA	—	0.09	—
Other asset-backed	BBB	—	0.11	—
Other asset-backed	Not rated	1.68	—	—
U.S. government agency	AAA	1.07	0.54	—
U.S. government agency	Not rated	5.84	—	—
U.S. Treasury bills	AAA	12.65	—	—
U.S. Treasury bills when-issued	AAA	1.95	—	—
U.S. Treasury bonds	AAA	—	5.55	8.64
U.S. Treasury notes	AAA	—	15.74	73.46
U.S. Treasury notes when-issued	AAA	—	17.03	13.37
Yankees:				—
Government	BBB	—	0.11	—
Corporate	AAA	0.58	—	—
Corporate	AA	0.20	—	—
Corporate	Not rated	0.58	—	—
No credit exposure		(0.40)	2.64	3.01
		100.00%	100.00%	100.00%

(4) Deposit and Investment Risk (cont.)

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that deposits may not be returned in the event of a bank failure. The Board does not have a policy in relation to custodial credit risk for deposits. At June 30, 2010, the Board's Invested Assets had the following uncollateralized and uninsured deposits:

		Amount
International equity pool	$	66,617

Foreign Currency Risk

Foreign Currency Risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The Board has no specific policy with regard to foreign currency risk relating to international equity. However, through its asset allocation policy, the Board limits total investments in global equity ex-U.S to 20%.

At June 30, 2010, the Plan had exposure to foreign currency risk with the following deposits:

Currency		Amount International equity pool
Australian Dollar	$	134
Canadian Dollar		263
Danish Krone		29
Euro Currency		58,052
Hong Kong Dollar		372
Israeli Shekel		63
Japanese Yen		7,002
New Taiwan Dollar		4
New Zealand Dollar		6
Norwegian Krone		38
Pound Sterling		291
Singapore Dollar		142
Swedish Krona		82
Swiss Franc		139
	$	66,617

(4) Deposit and Investment Risk (cont.)

At June 30, 2010, the Plan had exposure to foreign currency risk with the following investments:

Currency		Amount International equity pool
Australian Dollar	$	83,212
Brazilian Real		6,302
Canadian Dollar		116,433
Danish Krone		34,175
Euro Currency		1,173,801
Hong Kong Dollar		89,090
Indonesian Rupiah		5,583
Israeli Shekel		1,366
Japanese Yen		896,983
Malaysian Ringgit		5,259
New Taiwan Dollar		14,851
New Zealand Dollar		3,494
Norwegian Krone		19,461
Pound Sterling		674,019
Singapore Dollar		20,714
South African Rand		2,101
South Korean Won		64,202
Swedish Krona		67,614
Swiss Franc		263,576
Turkish Lira		11,788
	$	3,554,024

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. This provision does not apply to securities backed by the full faith and credit of the United States Government.

The Board's policy with regard to concentration of credit risk for the Retirement Fixed Income and Intermediate U.S. Treasury Fixed Income 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, 2010, the Plan Invested Assets did not have exposure to any one issuer greater than 5% of total invested assets.

(5) Foreign Exchange, Derivative, and Counterparty Credit Risk

The Board is exposed to credit risk on investment derivative instruments that are in asset positions. The Board has no policy of requiring collateral or other security to support derivative instruments subject to credit risk. Additionally, the Board has no policy regarding entering into netting arrangements when it enters into derivative instrument transactions with a counterparty, nor does the Board have a policy for contingencies.

On June 30, 2010 the Board had the following derivative instruments outstanding:

	Changes in Fair Value		Fair Value at June 30, 2010		
	Classification	**Amount**	**Classification**	**Amount**	**Notional**
Rights					
Warrants	Investment Revenue	$ 1,216	Common stock	758	23,874
Index Futures Long	Investment Revenue	(2)	Common stock	3	20
FX Forwards	Investment Revenue	7,359	Futures	(2,477)	45
TBA Transactions Long	Investment Revenue	6,340	Long term instruments	1,216	—
	Investment Revenue	133,254	Long term instruments	15,012	1,192,693
Grand totals		$ 148,167		14,512	

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 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.

At June 30, 2010 the Board had the following counterparty credit and counterparty concentration risk associated with its investment derivative positions:

Counterparty name	Amount of net exposure	S&P rating	Fitch rating	Moody's rating
Credit Suisse London Branch (GFX)	$ 335	A+	AA-	Aa1
Mellon Bank	2,196	AA-	AA-	Aa2

(5) Foreign Exchange, Derivative, and Counterparty Credit Risk (cont.)

Maximum amount of loss the Plan would face in case of default of all counterparties i.e. aggregated (positive) fair value of OTC positions as of June 30, 2010	$	2,531
Effect of collateral reducing maximum exposure		—
Liabilities subject to netting arrangements reducing exposure		—
Resulting net exposure	$	2,531

(6) Commitments

The Board entered into an agreement through an external investment manager to provide capital funding for a domestic equity limited partnership. At June 30, 2010, the Plan's share of the unfunded commitment totaled $69,350. This commitment can be withdrawn annually in December with ninety days notice.

(7) Funded Status and Funding Progress

The funded status of the Plan is as follows:

Actuarial valuation or roll-forward date		Actuarial value of assets	Actuarial accrued liability (AAL) – entry age	Unfunded actuarial accrued liability (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
June 30, 2009	$	30,123,348	30,208,411	85,063	99.7%	N/A	N/A

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

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

(7) Funded Status and Funding Progress (cont.)

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

Valuation date	June 30, 2008
Actuarial cost method	Entry age normal
Amortization method	Level dollar, open
Remaining amortization period	20 years less average military service of active members
Asset valuation method	5 year smoothed market
Actuarial assumptions:	
Investment rate of return	7.25% per annum – includes inflation at 3.50% per annum.

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Required Supplementary Information (Unaudited)

Schedule of Funding Progress

June 30, 2010

Actuarial valuation or roll-forward 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
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
2008		28,370,756	28,904,645	533,889	98.2	N/A	N/A
2009		30,123,348	30,208,411	85,063	99.7	N/A	N/A

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

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Required Supplementary Information (Unaudited)

Schedule of Employer Contributions

June 30, 2010

Year ended June 30	Actuarial valuation or roll-forward date as of June 30 [(1)]	Annual required contribution	Annual actual contribution	Percentage contributed	Supplemental contribution
2005	2002	$ 2,025,257	1,996,800	98.6%	$ —
2006	2002	2,025,257	2,053,800	101.4	—
2007	2004	1,737,406	1,737,406	100.0	—
2008	2004	1,737,406	1,737,406	100.0	10,000,000
2009	2006	2,473,282	2,473,300	100.0	—
2010	2007	2,415,077	2,603,300	107.8	—

(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, 2008, are as follows:

a. Actuarial cost method – Entry Age Normal Actuarial Cost, any funding surpluses or 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 investment expenses.

c. Administrative expenses – the expense load is equal to the average of the prior 2 years actual administrative expenses rounding to the nearest $1,000.

d. Mortality basis – 1994 Group Annuity Mortality Basic Table for males and females, 1994 base year without margin.

e. 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.

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

g. Retirement age – active members are assumed to retire after 20 years of total military 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.

h. 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, 2006 to June 30, 2008

An administrative expense load was added to the calculation of the annual contribution equal to the average of the prior two years of actual expenses, rounded to the nearest $1,000.

Schedule 1

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Schedule of Administrative and Investment Deductions (Unaudited)

Year ended June 30, 2010
with Summarized Financial Information for 2009

	Administrative	Investment	Totals 2010	Totals 2009
Personal services:				
Wages	$ 47,740	2,791	50,531	53,539
Benefits	24,502	1,227	25,729	28,450
Total personal services	72,242	4,018	76,260	81,989
Contractual services:				
Accounting and auditing	6,200	1,708	7,908	7,908
Management and consulting	12,541	30,688	43,229	28,843
Other professional services	1,054	—	1,054	1,269
Communications	426	38	464	380
Other services	20,427	2,237	22,664	50,094
Advertising and printing	3	10	13	—
Transportation	22	7	29	76
Total contractual services	40,673	34,688	75,361	88,570
Other:				
Travel	256	330	586	290
Supplies	1,317	92	1,409	2,407
Equipment	3,259	—	3,259	2,632
Total other	4,832	422	5,254	5,329
Total administrative and investment deductions	$ 117,747	39,128	156,875	175,888

See accompanying independent auditors' report.

Schedule 2

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

Years ended June 30, 2010 and 2009

Firm	Services		2010	2009
Buck Consultants, an ACS Company	Actuarial services	$	12,541	9,863
KPMG LLP	Auditing services		6,200	6,696
State Street Corporation	Custodian banking services		1,696	1,208
Wostmann & Associates, Inc.	Data processing consultants		1,243	—
		$	21,680	17,767

See accompanying independent auditors’ report.