



**STATE OF ALASKA
PUBLIC EMPLOYEES' AND TEACHERS'
RETIREE MAJOR MEDICAL INSURANCE and
HEALTH REIMBURSEMENT ARRANGEMENT
EMPLOYEE BENEFIT TRUST FUNDS**

Financial Statements

June 30, 2007

(With Independent Auditors' Report Thereon)

**STATE OF ALASKA
PUBLIC EMPLOYEES' AND TEACHERS'
RETIREE MAJOR MEDICAL INSURANCE and
HEALTH REIMBURSEMENT ARRANGEMENT
EMPLOYEE BENEFIT TRUST FUNDS**

June 30, 2007

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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 Public Employees' and Teachers' Retiree Major Medical Insurance and Health Reimbursement
Arrangement Employee Benefit Trust Funds

We have audited the accompanying statements of fiduciary net assets of the State of Alaska Public Employees' and Teachers' Retiree Major Medical Insurance and Health Reimbursement Arrangement Employee Benefit Trust Funds (Funds), as of June 30, 2007, and the related statements of changes in fiduciary net assets for the year then ended. These financial statements are the responsibility of the Funds' 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 Fund 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in note 1, the financial statements present only the State of Alaska Public Employees' and Teachers' Retiree Major Medical Insurance and Health Reimbursement Arrangement Employee Benefit Trust Funds and do not purport to, and do not present fairly the fiduciary net assets of the Public Employee or Teachers' Retirement Systems as of June 30, 2007 or the changes therein, in conformity with US Generally Accepted Accounting Principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net assets of the State of Alaska Public Employees' and Teachers' Retiree Major Medical Insurance and Health Reimbursement Arrangement Employee Benefit Trust Funds, as of June 30, 2007, and the changes in fiduciary net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying required supplementary information of management's discussion and analysis on pages 2 to 7 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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.

KPMG LLP

November 20, 2007

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Management's Discussion and Analysis

June 30, 2007

This section presents management's discussion and analysis (MD&A) of the State of Alaska Public Employees' and Teacher's Retiree Major Medical Insurance (RMP) and Health Reimbursement Arrangement (HRA) Employee Benefit Trust Funds' (Funds) financial position and performance for the year ended June 30, 2007. This section is presented as a narrative overview and analysis. Please read the MD&A in conjunction with the financial statements to better understand the financial condition and performance of the Funds during the fiscal year ended June 30, 2007.

The Funds

The Retiree Major Medical Insurance Fund was created by State of Alaska Statutes effective July 1, 2006, to allow eligible members who retire directly from the Fund to obtain medical benefits. The RMP provides major medical benefits to teachers, employees of the state, political subdivisions of the state and public organizations of the state who first become members of the PERS or TRS defined contribution Funds on or after July 1, 2006.

The Health Reimbursement Arrangement Fund was created by State of Alaska Statutes effective July 1, 2006, to allow medical care expenses to be reimbursed from individual savings accounts established for eligible persons. The HRA is established for teachers, employees of the state, political subdivisions of the state, and public organizations of the state who first become members of the PERS or TRS defined contribution Fund on or after July 1, 2006.

The Commissioner of the Department of Administration or the commissioner's designee is responsible for the Funds' administration. The Alaska Retirement Management Board (ARMB) is fiduciary of the funds and is responsible for the specific investment of moneys in the Funds.

Financial Highlights

RMP

Total assets exceeded its total liabilities by \$1,644,770 at the close of fiscal year 2007.

Contributions received totaled \$1,603,166 during fiscal year 2007.

Net investment income totaled \$41,604 during fiscal year 2007.

No benefit expenses were paid during fiscal year 2007.

HRA

Total assets exceeded its total liabilities by \$3,509,594 at the close of fiscal year 2007.

Contributions received totaled \$3,412,444 during fiscal year 2007.

Net investment income totaled \$97,150 during fiscal year 2007.

No benefit expenses were paid during fiscal year 2007.

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Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Funds' basic financial statements. The Funds basic financial statements are comprised of three components: (1) statement of fiduciary net assets, (2) statement of changes in fiduciary net assets, and (3) notes to financial statements.

Statements of Fiduciary Net Assets – These statements present information regarding the Funds' assets, liabilities, and net assets. Net assets represent the total amount of assets less the total amount of liabilities.

Statements of Changes in Fiduciary Net Assets – These statements present how the Funds' net assets changed during the fiscal year as a result of contributions, investment income, benefit payments, administrative deductions, and transfers.

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

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

Condensed Financial Information

Description	Net Assets	
	2007	
	RMP	HRA
Assets:		
Cash and receivables	\$ 287,038	527,330
Investments, at fair value	1,357,732	2,982,264
Total assets	1,644,770	3,509,594
Liabilities:		
Total liabilities	—	—
Total net assets	\$ 1,644,770	3,509,594

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Condensed Financial Information (Cont.)

Description	Changes in Net Assets	
	2007	
	RMP	HRA
Net assets, beginning of year	\$ —	—
Additions:		
Contributions	1,603,166	3,412,444
Net investment income	41,604	97,150
Total additions	1,644,770	3,509,594
Deductions:		
Benefits	—	—
Administrative	—	—
Total deductions	—	—
Increase in net assets	1,644,770	3,509,594
Net assets, end of year	\$ 1,644,770	3,509,594

Financial Analysis of the Funds

The Statements of Fiduciary Net Assets as of June 30, 2007 showed total assets exceeding total liabilities by \$1,644,770 and \$3,509,594 for the RMP and HRA Funds respectively. These amounts represent the total Fund assets held in trust for benefits for each Fund. The entire amount is available to cover the Funds' obligations to pay benefits for its members and their beneficiaries.

The investment of Funds' assets 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 Funds' constraints and objectives. During fiscal year 2007, the ARMB adopted the following asset allocation for both Funds: 35% in the domestic large capitalization equity pool, 9% in the domestic small capitalization equity pool, 18% in the international equity pool, 4% in the emerging markets equity pool, 13% in the domestic fixed income pool, 2% in the international fixed income pool, 10% in the treasury inflation protected pool, and 9% in the real estate pool.

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Contribution Rates

Contribution rates are will be determined by the ARMB. Both Funds are funded by the employers. No employee contributions to the fund are permitted. Contributions to the HRA Fund are an amount equal to three percent of the employer's average annual employee compensation, which is determined by the Division.

For fiscal year 2007, the rate for the Retiree Major Medical Insurance Fund was 1.75 percent per Resolution 2006-28, and the rate for the Health Reimbursement Arrangement Fund was set at 3 percent of the employer's average annual compensation per AS 39.30.370.

Benefits and Deductions

For fiscal year 2007, no deductions or benefits were paid from either fund.

Funding

The funds are employer contribution funds. The values of the funds reflect employer contributions, expenses, and investment gains and losses. Employee contributions to the fund are not permitted.

Fiduciary Responsibilities

The ARMB and the Commissioner of Administration are co-fiduciaries of the Fund. The assets of the fund can only be used for the exclusive benefit of the Funds' participants, beneficiaries, and alternate payees.

Request for Information

This financial report is designed to provide a general overview of the Funds' finances for all those with interest in the Funds' 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.

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Statements of Fiduciary Net Assets

June 30, 2007

	2007	
	RMP	HRA
Assets:		
Cash and cash equivalents (notes 3 and 5):		
Short-term fixed income pool	\$ 137,832	223,545
Total cash and cash equivalents	137,832	223,545
Investments - ERISA commingled and mutual funds (note 4 and 5):		
SSGA Domestic fixed income pool	179,595	395,054
SSGA International fixed income pool	27,732	61,003
Domestic equity pool	588,614	1,290,441
SSGA International equity pool	249,010	547,784
Lazard Emerging market equity pool	55,497	122,086
SSGA Real estate equity pool	118,916	261,530
SSGA Treasury inflation protected pool	138,368	304,366
Total investments	1,357,732	2,982,264
Receivables		
Contributions receivable	97,274	199,926
Due from State of Alaska General Fund	51,932	103,859
Total other	149,206	303,785
Total assets	1,644,770	3,509,594
Liabilities:		
Total liabilities	—	—
Total net assets held in trust for RMP and HRA	\$ 1,644,770	3,509,594

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Statements of Changes in Fiduciary Net Assets

June 30, 2007

	2007	
	RMP	HRA
Additions:		
Contributions:		
Employers	\$ 1,603,166	3,412,444
Total contributions	1,603,166	3,412,444
Other		
Investment income:		
Net appreciation in fair value	37,291	86,864
Interest	3,338	8,146
Dividends	975	2,140
Total investment income	41,604	97,150
Total additions	1,644,770	3,509,594
Deductions:		
Benefits	—	—
Administrative	—	—
Total deductions	—	—
Net change in fiduciary net assets	1,644,770	3,509,594
Net assets, beginning of year	—	—
Net assets, end of year	\$ 1,644,770	3,509,594

See accompanying notes to basic financial statements.

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(1) Description

The following brief description of the State of Alaska Public Employees' and Teachers' Retiree Major Medical Insurance (RMP) and Health Reimbursement Arrangement (HRA) Employee Benefit Trust Funds (Funds) is provided for general information purposes only. Participants should refer to the Fund document for more complete information.

General

The RMP was created by State of Alaska Statutes effective July 1, 2006, to allow eligible members who retire directly from the Fund to obtain medical benefits. The RMP provides major medical benefits to teachers, employees of the state, political subdivisions of the state and public organizations of the state who first become members of the Public Employees Retirement System (PERS) or Teachers Retirement System (TRS) defined contribution Funds on or after July 1, 2006.

The HRA was created by State of Alaska Statutes effective July 1, 2006, to allow medical care expenses to be reimbursed from individual savings accounts established for eligible persons. The HRA is established for teachers, employees of the state, political subdivisions of the state, and public organizations of the state who first become members of the PERS or TRS defined contribution Fund on or after July 1, 2006.

The Commissioner of the Department of Administration or the commissioner's designee is responsible for the Funds' administration. The Alaska Retirement Management Board (ARMB) is fiduciary of the funds and is responsible for the specific investment of moneys in the Funds.

Benefits

The RMP offers major medical benefits to eligible benefit recipients of PERS and TRS and their dependents.

The HRA allows medical care expenses to be reimbursed from individual savings accounts established for eligible persons.

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(1) Description (Cont.)

Medical

The Funds provide medical benefits and allow medical care expenses to be reimbursed to qualified benefit recipients as defined below. A member's access to the RMP means that an eligible person may not be denied insurance coverage, except for failure to pay the required premium. Monthly premiums for health insurance can be deducted from the HRA.

- Benefit recipients of PERS first hired on or after July 1, 2006, who are under age 60, are not receiving a disability benefit, and had less than 25 years of peace officer/firefighter service or less than 30 years of other service.
- Benefit recipients of TRS first hired on or after July 1, 2006, who are under age 60, are not receiving a disability benefit, and had less than 25 years of service.
- Alternate payees under a Qualified Domestic Relations Order (QDRO).

Contributions

For each member of the RMP, an employer shall contribute to the teachers' and public employees' retiree health reimbursement arrangement Fund trust fund an amount equal to a percentage, as certified by the board, of each member's compensation from July 1 to the following June 30 to pay for retiree major medical insurance. This contribution shall be paid into the group health and life benefits fund established by the commissioner of administration under AS 39.30.095 and shall be accounted for in accordance with regulations established by the commissioner. The employer contribution rate for the fiscal year 2007 was 1.75 percent of each member's compensation.

For each member of the HRA, an employer shall contribute to the teachers' and public employees' retiree health reimbursement arrangement Fund trust fund an amount equal to three percent of the employer's average annual employee compensation. The administrator shall maintain a record for each member to account for employer contributions on behalf of that member. The board shall establish by regulation the rate of interest to be applied annually to the amount in a member's individual account.

Payment of Benefits

The administrator may deduct the cost of monthly premiums from the individual account for retiree major medical insurance on behalf of an eligible person who elected retiree major medical insurance.

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(1) Description (Cont.)

Funding

The values of the Funds reflect employer contributions, expenses, and investment gains and losses. Employee contributions are not permitted.

Effect of Termination

The state has the right to amend the provisions at any time and from time to time, in whole or in part, including the right to make retroactive amendments referred to in 26 U.S.C. 401(b).

The administrator may not modify or amend the provisions retroactively in such a manner as to reduce the benefits of any member accrued to date by reason of contributions made before the modification or amendment except to the extent that the reduction is permitted by the Internal Revenue Code.

The state may, in its discretion, terminate the fund in whole or part at any time without liability for the termination. In the event of termination, all investments remain in force until all individual accounts have been completely distributed under the fund, and, after all fund liabilities are satisfied, excess assets revert to the employer.

Income Taxes

Contributions and other amounts held in the Funds on behalf of a member or other person who is or may become eligible for benefits under the Funds may be used only to reimburse eligible medical expenses, are exempt from Alaska state and municipal taxes and federal taxes to the extent allowed under the Internal Revenue Code, and are not subject to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, or charge of any kind, either voluntary or involuntary, before they are received by the person entitled to the amount. Any attempt to anticipate, alienate, sell, transfer, assign, pledge, encumber, charge, or otherwise dispose of any right to amounts accrued in the Funds is void.

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(2) Summary of Significant Accounting Policies

Basis of Accounting

The financial statements are prepared using the accrual basis of accounting for investment income. Assets are reported at fair value in accordance with Governmental Accounting Standards Board (GASB) Statement No. 31. Investment purchases and sales are recorded on a trade-date basis. Net withdrawals represent contributions from employers and employees, net of benefits paid to RMP and HRA participants as well as administrative and investment management expenses. Contributions, benefits paid and all expenses are recorded on a cash basis.

Use of Estimates

The preparation of financial statements in conformity with U.S. 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.

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 stale price or based on a valuation provided by investment managers.

ERISA Commingled and Mutual Funds are valued daily. Equity investments for which market quotations are readily available are valued at the last reported sale price on their principal exchange on valuation date, or official close for certain markets. If no sales are reported for that day, investments are valued at the more recent of the last published sale price or the mean between the last reported bid and asked prices, or at fair value as determined in good faith by the Trustee.

Income Allocation

Income in the fixed income pool is allocated to pool participants daily on a pro rata basis.

Income for the ERISA Commingled and Mutual Funds is credited to the fund's net asset value on a daily basis and allocated to pool participants on a pro rata basis.

(3) Investments

The State has created a pooled environment by which it manages investments. Actual investing is performed by investment officers in the State's Department of Revenue, Treasury Division, or by contracted external investment managers. A complete description of the investment policy for each pool is included in the *Department of Revenue, Treasury Division, Policies and Procedures Manual*.

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(3) Investments (Cont.)

Short-term Fixed Income Pool

The Funds' participate 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 RMP and HRA Invested Assets included a 0.004% and .006% direct ownership in the Short-term Fixed Income Pool which included interest receivable of \$137,831.92 and \$223,544.87 respectively.

(4) ERISA Commingled and Mutual Funds

The Board contracts with external investment managers who maintain ERISA Commingled and Mutual Funds. Managers selected are subject to the provision of the ERISA Commingled and Mutual Funds the Board has selected.

Domestic equity pool:

SSGA Domestic Large Cap - The purpose of this fund is to replicate the returns and characteristics of the Russell 1000® Index through buying, holding securities, and trading only when there is a change to the composition of the Index or when cash flow activity occurs in the Strategy.

SSGA Domestic Small Cap - The purpose of this fund is to replicate the returns and characteristics of the Russell 2000® Index through buying, holding securities, and trading only when there is a change to the composition of the Index or when cash flow activity occurs in the Strategy.

SSGA International Equity - The purpose of this fund is to replicate the returns and characteristics of the MSCI EAFE Index through investing in 21 individual MSCI country funds which, in turn, own the Index securities in market-weighted proportion.

SSGA Domestic Fixed Income - The purpose of this fund is to create a well diversified portfolio that is representative of the domestic investment grade bond market. The Passive Bond Market Index Strategy seeks to replicate the returns and characteristics of the Lehman Brothers Aggregate Bond Index through individual security selection based upon criteria generated by SSGA's credit and research group, security availability, and the analysis of its impact on the portfolio's weightings.

SSGA International Fixed Income - The purpose of this fund is to create a well diversified portfolio that is representative of the international government bond market. The Passive World Government Bond Ex-US Index Strategy seeks to replicate the returns and characteristics of the Citigroup World Government Bond Ex-US Index by matching duration, quality and the sector of the Index.

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(4) ERISA Commingled and Mutual Funds (Cont.)

SSGA TIPS - The U.S. Treasury Inflation Protected Securities Index Strategy seeks to replicate the returns and characteristics of the Lehman Brothers Inflation Notes Index.

SSGA Real Estate - The REIT Index Strategy seeks to replicate the returns and characteristics of the Dow Jones Wilshire REIT Index. To accomplish this, SSgA strategy is to buy and hold securities, trading only when there is a change to the composition of the Index or when cash flow activity occurs in the Strategy.

Lazard Emerging Markets Equity Fund - The purpose of this fund is to meet or exceed the MSCI Emerging Markets Index by 3% per annum over a rolling five-year period. Underlying investments are comprised of domestic and global equities as well as alternative assets.

(5) Deposit and Investment Risk

	Short-term Fixed Income Pool		Institutional Investments	
	RMP	HRA	RMP	HRA
Overnight Sweep Account	\$ 845	\$ 1,369	\$ -	\$ -
Short-term Investment Fund	5,498	8,911	-	-
Commercial Paper	12,177	19,738	-	-
Mortgage-backed	9,408	15,249	-	-
Other Asset-backed	67,601	109,570	-	-
Corporate Bonds	35,051	56,812	-	-
Convertible Bonds	-	-	-	-
Yankees:				
Corporate	7,393	11,984	-	-
ERISA Commingled Funds	-	-	1,108,722	2,434,479
Mutual Fund	-	-	249,010	547,784
Net Other Assets (Liabilities)	(141)	(88)		
Total Invested Assets	\$ 137,832	\$ 223,545	\$ 1,357,732	\$ 2,982,263

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(5) Deposit and Investment Risk (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.

ERISA Commingled and Mutual Funds

The Board does not have a policy to limit interest rate risk for these investments. The weighted average maturity of the ERISA Commingled investment funds that consists solely of debt securities, Domestic Fixed Income, International Fixed Income, and SSGA TIPS were, 4.70, 6.16, and 7.80 years at June 30, 2007, respectively.

Credit Risk

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

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

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

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(5) Deposit and Investment Risk (Cont.)

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 Fish is A3 or equivalent. Asset-backed and non-agency mortgage securities may be purchased if only rated by one of the rating agencies mentioned above if they are rated AAA. Unexpected daily cash surpluses that arise in this pool are invested overnight in the custodian's repurchase agreement sweep account. Treasury does not have a policy to limit credit risk associated with the sweep account.

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(5) Deposit and Investment Risk (Cont.)

At June 30, 2007, RMP and HRA Invested Assets in the short term fixed income pool consisted of securities with credit quality ratings issued by nationally recognized statistical rating organizations as follows (using Standard & Poor's Corporation rating scale):

Internally Managed Fixed Income Pool		
	Rating¹	Short-term
Overnight Sweep Account	Not Rated	0.61 %
Short-term Investment		
Account	Not Rated	3.96
Commercial Paper	AA	1.88
Commercial Paper	A	3.09
Commercial Paper	Not Rated	3.86
Mortgage-backed	AAA	6.50
Mortgage-backed	A	0.32
Other Asset-backed	AAA	40.98
Other Asset-backed	AA	0.91
Other Asset-backed	A	6.34
Other Asset-backed	Not Rated	0.78
Corporate Bonds	AAA	1.97
Corporate Bonds	AA	15.13
Corporate Bonds	A	8.31
Yankees:		
Corporate	AA	3.09
Corporate	A	1.75
Corporate	Not Rated	0.52
		100.00 %

¹Rating modifiers are not disclosed.

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(5) 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, 2007, RMP and HRA Invested Assets had no uncollateralized and uninsured deposits.

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 policy in regards to foreign currency risk for ERISA Commingled Mutual Funds.

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.

At June 30, 2007, RMP and HRA had no exposure to any single issuer in excess of 5% of total invested assets.