STATE OF ALASKA
SUPPLEMENTAL BENEFITS SYSTEM
(A Component Unit of the State of Alaska)

Financial Statements

January 31, 2007 and 2006

(With Independent Auditors' Report Thereon)

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

Independent Auditors' Report

Division of Retirement and Benefits and
Members of the Alaska Retirement Management Board
State of Alaska Supplemental Benefits System:

We have audited the accompanying statements of fiduciary net assets of the State of Alaska Supplemental Benefits System (Plan), a Component Unit of the State of Alaska, as of January 31, 2007 and 2006, and the related statements of changes in fiduciary 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 fiduciary net assets of the State of Alaska Supplemental Benefits System, a Component Unit of the State of Alaska, as of January 31, 2007 and 2006, and the changes in fiduciary 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 2 to 7 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.

KPMG LLP

November 1, 2007

The objective of Management's Discussion and Analysis is to help readers of the Supplemental Benefits System (the Plan) financial statements better understand the Plan's financial position and operating activities for the fiscal years ended January 31, 2007 and 2006. This discussion should be read in conjunction with the financial statements and notes to the financial statements.

The Plan

The Plan was created by State of Alaska Statutes effective January 1, 1980, to provide benefits in lieu of those provided by the federal Social Security System (Social Security). All State of Alaska (State) employees who would have participated in Social Security, if the State had not withdrawn, participate in the Plan. Other employers whose employees participate in the State Public Employees' Retirement System and meet other requirements are eligible to have their employees participate in the Plan as provided by Alaska Statute. There were sixteen other employers besides the State participating in the Plan as of January 31, 2007 and 2006. There were approximately 35,000 and 34,000 participants in the Plan as of January 31, 2007 and 2006, respectively.

The Division of Retirement and Benefits is responsible for Plan administration and record keeping. Through September 30, 2005 the Alaska State Pension Investment Board (ASPIB) was responsible for the specific investment of moneys in the Plan. Effective October 1, 2005 the ASPIB was disbanded and its duties were assumed by the Alaska Retirement Management Board.

There are two types of employee benefit plans within the Plan. These two plans are presented individually in the financial statements. The Supplemental Annuity Plan, a 401(a) Defined Contribution Plan, contains the contributions made in lieu of Social Security. The Supplemental Annuity Plan contains over 99% of the assets, and approximately 96% of the contribution activity described in the following financial statements. The Supplemental Benefits IRC 129 Cafeteria Plans contain voluntary contributions for the purchase of optional insurance benefits or to deposit to Dependent Care Assistance Plan accounts as elected by each employee enrolled in the Supplemental Benefits Plans. The Supplemental Annuity Plan is presented separately from the Supplemental Benefits Plans in the financial statements.

Financial Highlights

- The net assets held in trust for benefits at January 31, 2007 and 2006, are $2.191 billion and $2.038 billion, respectively. The net assets represent employer and employee contributions and investment income less administrative fees.
- The net assets of the Plan at January 31, 2007 increased by $152.8 million, or approximately 7.5%, from the prior fiscal year. The net assets of the Plan at January 31, 2006 increased by $115.8 million or approximately 6% from the prior fiscal year.
- The Plan incurred a net investment gain of $179.7 million in the 2007 fiscal year, compared to a $136.6 million investment gain in the 2006 fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Plan's financial statements, which are comprised of the following:

- Statements of Fiduciary Net Assets
- Statements of Changes in Fiduciary Net Assets
- Notes to Financial Statements

Statements of Fiduciary Net Assets – presents information on the Plan's assets and liabilities and the resulting net assets held in trust for pension and insurance benefits. This statement reflects the Plan's investments at fair market value, along with cash and short–term investments, receivables, and other assets and liabilities at January 31, 2007 and 2006. This statement is presented individually for both the Supplemental Annuity Plan and the Supplemental Benefits Plans.

Statements of Changes in Fiduciary Net Assets – presents information showing how the Plan's net assets held in trust for benefits changed during the years ended January 31, 2007 and 2006. It reflects contributions by employees and employers along with investment income (or losses) during the period from individual participant directed investing activities. Deductions for participant withdrawals, benefit payments, and administrative expenses are also presented. This statement is presented individually for both the Supplemental Annuity Plan and the Supplemental Benefits Plans.

Notes to Financial Statements – provides additional information that is essential to a full understanding of the data provided in the financial statements.

Investments

The Plan is participant directed, which means that the Plan's participants decide in which options to invest. Of total Plan Fiduciary Net Assets of $2.191 billion at January 31, 2007, 99.5% of which, or $2.180 billion, are specifically allocated to individual participant accounts. Of total Plan Fiduciary Net Assets of $2.038 billion at January 31, 2006, 99.5% of which, or $2.028 billion, are specifically allocated to individual participant accounts.

Each participant designates how his or her contribution is to be allocated among the investment options. Each participant's account is credited with the participant's contributions and the appreciation or depreciation in unit value for the investment funds and each account is reduced for administrative fees.

As of January 31, 2007, the following funds were available to participants for investment.

Collective Investment Funds

International Equity Fund – the purpose of this fund is to provide long–term capital appreciation. This fund invests principally in common and preferred stocks of foreign companies and securities that are convertible into such common stocks.

Small Cap Stock Trust – the purpose of this fund is to provide long–term capital growth by investing primarily in stocks of small companies. This fund invests at least 65% of its total assets in the stocks and equity–related securities of small companies.

S&P 500 Stock Index Fund – the purpose of this fund is to provide income and capital appreciation matching the total return of the Standards & Poor's 500 Composite Stock Price Index.

State Street Daily Government/Corporate Bond Fund – the purpose of this fund is to match or exceed the return of the Lehman Brothers Government/Credit Bond Index. As of August 23, 2007 the State Street Daily Government/Corporate Bond Fund had a calendar year 2007 negative investment return of approximately 18% compared to the Lehman Brothers Government/Credit Bond Index positive investment return of approximately 3%. The Alaska Retirement Management Board directed that the Barclay's Government/Credit Bond Fund be added to the plan's fund investment options and that the State Street Daily Government/Corporate Bond Fund be terminated. Assets were transferred from the State Street fund to the Barclay's fund on August 28, 2007. The purpose of the Barclay's Government/Credit Bond Fund is to buy and hold portfolios of the securities included in the Lehman Brothers Government/Credit Bond Index. The fund seeks to closely match the Index's total rate of return.

Stable Value Fund – the purpose of this fund is to preserve principle and to offer a competitive rate of interest consistent with the preservation of capital. The Fund invests in a diversified portfolio of synthetic investment contracts.

Tactical Asset Allocation Fund – this fund, which was eliminated from the Supplemental Annuity Plan on September 17, 2007, invested in a mix of stocks and bonds, sometimes in a combination with a money market fund. The fund relied on a computer-based model to determine the allocation of index funds. The fund was closed to new contributions and investment transfers into the fund on August 15, 2007. Any balances remaining in this fund on September 17, 2007 were transferred to the Alaska Long-Term Balanced Trust.

Global Balanced Fund – this fund invests in stocks and bonds of U.S. and international companies and government bonds issued by the U.S. and other governments.

Citizens Core Growth Fund – this fund invests primarily in U.S. large cap growth stocks, with an emphasis on those that are managed to a high standard of corporate responsibility.

Pooled Investment Funds

In late June 2006, the Alaska Balanced Fund, Alaska Long–Term Balanced Fund and Alaska Target 2025 Fund were converted from separate accounts to common trust funds in order to allow participants of the new Defined Contribution Retirement Plans to invest in these funds. The names of these investment options were updated from "Fund" to "Trust" at this time. The conversion was transparent to participants and did not result in any operational changes.

Alaska Target 2010 Fund – the purpose of this fund is to provide a diversified mix of stocks, bonds, and cash for long–term investors with a low to moderate tolerance for risk. This fund is designed to gradually invest more conservatively, with an emphasis on capital preservation, as the year 2010 approaches.

(Continued)

Alaska Target 2015 Fund – the purpose of this fund is to provide a diversified mix of stocks, bonds and cash for long–term investors with a moderate to high tolerance for risk. This fund is designed to gradually invest more conservatively, with an emphasis on capital preservation, as the year 2015 approaches.

Alaska Target 2020 Fund – the purpose of this fund is to provide a diversified mix of stocks, bonds, and cash for long–term investors with a high tolerance for risk. This fund is designed to gradually invest more conservatively, with an emphasis on capital preservation, as the year 2020 approaches.

Alaska Target 2025 Fund (Trust) – the purpose of this fund is to provide a diversified mix of stocks, bonds, and cash for long–term investors with a high tolerance for risk. This fund is designed to gradually invest more conservatively, with an emphasis on capital preservation, as the year 2025 approaches.

Alaska Long–Term Balanced Fund (Trust) – the purpose of this fund is to provide a balanced and diversified mix of stocks, bonds, federally guaranteed mortgages, and money market instruments for investors with an average risk tolerance.

Alaska Balanced Fund (Trust) – the purpose of this fund is to provide a balanced and diversified mix of stocks, bonds, federally guaranteed mortgages, and money market instruments for investors with a low to average risk tolerance.

Participant Directed Investments at January 31 Year End

		2007	2006
		(In thousands)	
Alaska Balanced Fund (Trust)	$	1,129,624	1,115,337
S&P 500 Stock Index Fund		272,470	258,308
International Equity Fund		145,430	79,819
Stable Value Fund		135,935	127,011
Alaska Long-Term Balanced Fund (Trust)		129,372	90,456
Alaska Target 2015 Fund		85,648	83,863
Global Balanced Fund		68,393	54,809
Small Cap Stock Trust		57,201	56,330
Alaska Target 2010 Fund		40,231	43,987
Daily Govt./Corp. Bond Fund		35,529	39,615
Alaska Target 2020 Fund		28,812	20,064
Tactical Asset Allocation Fund		24,853	27,920
Citizens Core Growth Fund		19,471	28,737
Alaska Target 2025 Fund (Trust)		7,215	2,014

Investment Returns for the 12–Month Periods Ended December 31, 2006 and 2005

	2006 1-year actual	2005 1-year actual
International Equity Fund	26.10%	10.81%
Small Cap Trust	12.74	8.94
Citizens Core Growth Fund	(1.26)	10.41
S&P Stock Index Fund	15.82	4.94
Global Balanced Fund	11.29	7.51
Tactical Asset Allocation Fund	9.92	6.39
Daily Govt./Corp. Bond Fund	4.10	2.37
Stable Value Fund	4.49	3.61
Alaska Target 2010 Fund	6.88	3.35
Alaska Target 2015 Fund	10.52	4.32
Alaska Target 2020 Fund	15.19	6.00
Alaska Target 2025 Fund (Trust)	15.15	N/A
Alaska Balanced Fund (Trust)	8.54	3.85
Alaska Long-Term Balanced Fund (Trust)	11.80	4.59

The Alaska Target 2005 Fund was closed and the Alaska Target 2025 Fund was opened on November 2, 2005.

Contributions and Distributions

The Plan had contributions of $124.4 million in the 2007 fiscal year compared to $115.7 million in the 2006 fiscal year. Factors resulting in increased contributions between the two years include increased maximum contribution limits, employee pay increases and a new Plan provision, effective January 1, 2006 that allowed transfers into the Plan from eligible outside plans. During the 2007 fiscal year $2 million was transferred into the plan from outside plans. No money was transferred into the plan from outside plans during the 2006 year.

The Plan had benefits paid to participants and purchase agreement contracts of $143.7 million in fiscal year 2007 compared to $129.1 million in fiscal year 2006.

Fiduciary Responsibilities

The Alaska Retirement Management Board, the plan administrator and the Commissioner of Administration are co–fiduciaries of the Plan. Effective October 1, 2005 the Alaska Retirement Management Board assumed board duties from the Alaska State Pension Investment Board and the Public Employees' Retirement Board.

The assets of the plan can only be used for the exclusive benefit of the plan's participants, beneficiaries, and alternate payees.

Request for Information

Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Alaska Division of Retirement & Benefits
Supplemental Benefits System
PO Box 110203
Juneau, Alaska 99811–0203

SUPPLEMENTAL BENEFITS SYSTEM
(A Component Unit of the State of Alaska)

Statements of Fiduciary Net Assets – Annuity and Cafeteria Plans

January 31, 2007 and 2006

(In thousands)

	2007			2006		
	Annuity	**Cafeteria**	**Total**	**Annuity**	**Cafeteria**	**Total**
Current assets:						
Cash and cash equivalents	$ 34	1,183	1,217	1,048	805	1,853
Receivables:						
Mandatory contributions	5,716	—	5,716	5,453	—	5,453
Voluntary contributions	—	217	217	—	218	218
Total receivables	5,716	217	5,933	5,453	218	5,671
Investments:						
Collective investment funds, at fair value						
Participant-directed	623,347	—	623,347	545,538	—	545,538
Money market fund – nonparticipant directed	4,816	—	4,816	3,257	—	3,257
	628,163	—	628,163	548,795	—	548,795
Stable Value Fund:						
Synthetic investment contracts, at fair value	129,674	—	129,674	101,495	—	101,495
Cash and cash equivalents, at fair value	6,261	—	6,261	25,516	—	25,516
	135,935	—	135,935	127,011	—	127,011
Ownership of pooled investment funds, participant directed at fair value	1,420,902	—	1,420,902	1,355,722	—	1,355,722
Total investments	2,185,000	—	2,185,000	2,031,528	—	2,031,528
Investment Loss Trust Fund, at fair value	1,767	—	1,767	1,677	—	1,677
Total assets	2,192,517	1,400	2,193,917	2,039,706	1,023	2,040,729
Current liabilities:						
Payable to Plan participants	1,767	—	1,767	1,677	—	1,677
Accrued expenses	298	1,236	1,534	407	829	1,236
Total liabilities	2,065	1,236	3,301	2,084	829	2,913
Commitments and contingencies						
Net assets held in trust for individuals, organizations, and other governments	$ 2,190,452	164	2,190,616	2,037,622	194	2,037,816

See accompanying notes to financial statements.

STATE OF ALASKA
SUPPLEMENTAL BENEFITS SYSTEM
(A Component Unit of the State of Alaska)

Statements of Changes in Fiduciary Net Assets – Annuity and Cafeteria Plans

Years ended January 31, 2007 and 2006

(In thousands)

	2007			2006		
	Annuity	**Cafeteria**	**Total**	**Annuity**	**Cafeteria**	**Total**
Additions:						
Contributions:						
Mandatory	$ 117,636	—	117,636	110,863	—	110,863
Voluntary	—	4,867	4,867	—	4,825	4,825
Transfers in	1,951	—	1,951	—	—	—
Total contributions	119,587	4,867	124,454	110,863	4,825	115,688
Investment income:						
Net appreciation in fair value of investments	173,615	—	173,615	132,539	—	132,539
Interest	6,094	—	6,094	4,026	—	4,026
Net investment income	179,709	—	179,709	136,565	—	136,565
Total additions	299,296	4,867	304,163	247,428	4,825	252,253
Deductions:						
Benefits paid to participants and purchases of annuity contracts	143,734	—	143,734	129,128	—	129,128
Insurance premiums and dependent care assistance plan reimbursements	—	4,897	4,897	—	4,797	4,797
Administrative expenses – annuity	2,487	—	2,487	2,374	—	2,374
Administrative expenses – paid by annuity for cafeteria	245	—	245	180	—	180
Total deductions	146,466	4,897	151,363	131,682	4,797	136,479
Net increase assets held in trust for individuals, organizations, and other governments	152,830	(30)	152,800	115,746	28	115,774
Net assets, beginning of year	2,037,622	194	2,037,816	1,921,876	166	1,922,042
Net assets, end of year	$ 2,190,452	164	2,190,616	2,037,622	194	2,037,816

See accompanying notes to financial statements.

(1) Description

The following brief description of the State of Alaska Supplemental Benefits System (Plan), a Component Unit of the State of Alaska, which is comprised of the Supplemental Annuity Plan and the Supplemental Benefits Cafeteria Plans, is provided for general information purposes only. Participants should refer to the Plan documents for more complete information.

(a) General

The Plan was created by State of Alaska Statutes effective January 1, 1980, to provide benefits in lieu of those provided by the federal Social Security System (Social Security). All State of Alaska (State) employees who would have participated in Social Security, if the State had not withdrawn, participate in the Plan. Other employers whose employees participate in the State Public Employees' Retirement System and meet other requirements are eligible to have their employees participate in the Plan as provided by Alaska Statute. There were sixteen other employers besides the State participating in the Plan as of January 31, 2007 and 2006. There were approximately 35,000 and 34,000 participants in the Plan as of January 31, 2007 and 2006, respectively.

The Division of Retirement and Benefits is responsible for Plan administration and recordkeeping. Through September 30, 2005 the Alaska State Pension Investment Board (ASPIB) was responsible for the specific investment of moneys in the Plan. Effective October 1, 2005 the ASPIB was disbanded and their duties were assumed by the Alaska Retirement Management Board.

(b) Contributions

Mandatory contributions are made to the Supplemental Annuity Plan, a defined contribution plan, and voluntary contributions to the Supplemental Benefits Plans. Participating employees are vested at all times.

Supplemental Annuity Plan contributions are made in lieu of contributions to Social Security. The State and other participating employers are required by statute to contribute 12.26% of an employee's wages up to the taxable wage base in effect under Social Security regulations. Each employee is considered to have agreed to a wage reduction equal to one–half the contribution made on the employee's behalf.

Supplemental Benefits Plans contributions are voluntary based upon the optional benefits elected by each employee enrolled in the Plan. Each employee agrees to a wage reduction based upon the benefit options selected. The benefit amounts are deducted from each employee's wages and remitted by the employer to the Plan on the employee's behalf.

(c) Participant Accounts

Participant accounts under the Supplemental Annuity Plan are self–directed with respect to investment options.

At January 31, 2007, participants had the following investment options:

Collective Investment Funds

International Equity Fund – the purpose of this fund is to provide long–term capital appreciation. This fund invests principally in common and preferred stocks of foreign companies and securities that are convertible into such common stocks.

Small Cap Stock Trust – the purpose of this fund is to provide long–term capital growth by investing primarily in stocks of small companies. This fund invests at least 65% of its total assets in the stocks and equity–related securities of small companies.

S&P 500 Stock Index Fund – the purpose of this fund is to provide income and capital appreciation matching the total return of the Standards & Poor's 500 Composite Stock Price Index.

State Street Daily Government/Corporate Bond Fund – the purpose of this fund is to match or exceed the return of the Lehman Brothers Government/Credit Bond Index. As of August 23, 2007 the State Street Daily Government/Corporate Bond Fund had a calendar year 2007 negative investment return of approximately 18% compared to the Lehman Brothers Government/Credit Bond Index positive investment return of approximately 3%. The Alaska Retirement Management Board directed that the Barclay's Government/Credit Bond Fund be added to the plan's fund investment options and that the State Street Daily Government/Corporate Bond Fund be terminated. Assets were transferred from the State Street fund to the Barclay's fund on August 28, 2007. The purpose of the Barclay's Government/Credit Bond Fund is to buy and hold portfolios of the securities included in the Lehman Brothers Government/Credit Bond Index. The fund seeks to closely match the Index's total rate of return.

Stable Value Fund – the purpose of this fund is to preserve principle and to offer a competitive rate of interest consistent with the preservation of capital. The Fund invests in a diversified portfolio of synthetic investment contracts.

Tactical Asset Allocation Fund – this fund, which was eliminated from the Supplemental Annuity Plan on September 17, 2007, invested in a mix of stocks and bonds, sometimes in a combination with a money market fund. The fund relied on a computer-based model to determine the allocation of index funds. The fund was closed to new contributions and investment transfers into the fund on August 15, 2007. Any balances remaining in this fund on September 17, 2007 were transferred to the Alaska Long-Term Balanced Trust.

Global Balanced Fund – this fund invests in stocks and bonds of U.S. and international companies and government bonds issued by the U.S. and other governments.

Citizens Core Growth Fund – this fund invests primarily in U.S. large cap growth stocks, with an emphasis on those that are managed to a high standard of corporate responsibility.

Money Market Fund – consist of nonparticipant directed funds used to pay administrative costs of the plan.

Pooled Investment Funds

In late June 2006, the Alaska Balanced Fund, Alaska Long–Term Balanced Fund and Alaska Target 2025 Fund were converted from separate accounts to common trust funds in order to allow participants of the new Defined Contribution Retirement Plans to invest in these funds. The names of these investment options were updated from “Fund” to “Trust” at this time. The conversion was transparent to participants and did not result in any operational changes.

Alaska Target 2010 Fund – the purpose of this fund is to provide a diversified mix of stocks, bonds and cash for long–term investors with a low to moderate tolerance for risk. This fund is designed to gradually invest more conservatively, with an emphasis on capital preservation, as the year 2010 approaches.

Alaska Target 2015 Fund – the purpose of this fund is to provide a diversified mix of stocks, bonds and cash for long–term investors with a moderate to high tolerance for risk. This fund is designed to gradually invest more conservatively, with an emphasis on capital preservation, as the year 2015 approaches.

Alaska Target 2020 Fund – the purpose of this fund is to provide a diversified mix of stocks, bonds and cash for long–term investors with a high tolerance for risk. This fund is designed to gradually invest more conservatively, with an emphasis on capital preservation, as the year 2020 approaches.

Alaska Target 2025 Fund (Trust) – the purpose of this fund is to provide a diversified mix of stocks, bonds, and cash for long–term investors with a high tolerance for risk. This fund is designed to gradually invest more conservatively, with an emphasis on capital preservation, as the year 2025 approaches.

Alaska Long–Term Balanced Fund (Trust) – the purpose of this fund is to provide a balanced and diversified mix of stocks, bonds, federally guaranteed mortgages, and money market instruments for investors with an average risk tolerance.

Alaska Balanced Fund (Trust) – the purpose of this fund is to provide a balanced and diversified mix of stocks, bonds, federally guaranteed mortgages, and money market instruments for investors with a low to average risk tolerance.

Each participant designates how his or her contribution is to be allocated among the investment options. Each participant’s account is credited with the participant’s contributions and the appreciation or depreciation in unit value for the investment funds.

Recordkeeping/administrative fees consisting of a fixed amount, applied in a lump–sum each calendar year, and a variable amount, applied monthly, are deducted from each participant’s account,

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applied pro rata to all the funds in which the employee participates. This fee is for all costs incurred by the recordkeeper and by the State. The investment management fees are netted out of the funds' performance.

(d) Payment of Annuity Benefits

Employees are eligible to withdraw from the Supplemental Annuity Plan sixty days after termination. Benefits are payable in the form of a lump sum annuity or one of various continuing annuities purchased from an insurance carrier, which are excluded from Plan assets. The plan administrator issues lump–sum disbursements through its contracted recordkeeper.

(e) Supplemental Cafeteria Benefits

Benefits available under the Supplemental Benefits Plans include death, disability, survivor benefits, and dependent care reimbursement. Selection of these benefits is at the discretion of the employee, with certain restrictions, and may be amended and/or changed on an annual basis or in conjunction with an employee change in status.

All supplemental benefits, except dependent care reimbursement, are provided through insurance policies. The Dependent Care Assistance Program is administered by the State.

(f) Funding of the Plan

Supplemental annuity contributions from employers were deposited with investment managers under contract with the Plan for the years ended January 31, 2007 and 2006. The amounts credited to each participant account include the appreciation or depreciation in the unit values of the investment funds in addition to participant contributions received during the year.

(g) Effect of Plan Termination

Although the State has established the Plan with the bona fide intention and expectation that it will continue the Plan indefinitely, the State may in its sole and absolute discretion terminate the Plan in whole or in part at any time without liability whatsoever for such termination. If the Plan is terminated, the deposit contracts shall remain in force until all individual employee benefit accounts have been completely distributed in accordance with the Plan.

The employers are under no obligation or liability to continue making contributions to, or participate in, the Plan. Employers in their sole and absolute discretion may discontinue participation and contributions with no liability whatsoever for such termination except liability to the State under the terms of the participation agreement.

(h) Income Taxes

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

(Continued)

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The Plan's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. In preparing the financial statements, the plan administrator is required to make estimates that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements, and additions and deductions for the reporting periods. Actual results could differ from those estimates.

(b) Valuation of Collective Investment Funds

The Plan's investments in collective investment funds (note 3), held in trust, are stated at fair value based on the unit value as reported by the Trustees multiplied by the number of units held by the Plan. The unit value is determined by the Trustees based on the fair value of the underlying assets. Purchases and sales of securities are recorded on a trade–date basis.

(c) Valuation of Synthetic Investment Contracts

The Plan's investments in fully benefit responsive synthetic investment contracts (note 4) are stated fair values as they are affected by member factors and current standings.

(d) Valuation of Ownership of Pooled Investment Funds

The Plan's ownership of pooled investment funds (note 6), held in trust, are stated at fair value based on the unit values as reported by the Trustees multiplied by the number of units held by the Plan. The unit value is determined by the Trustees based on the fair value of the underlying assets. Purchases and sales of securities are recorded on a trade–date basis.

(e) Cash and Cash Equivalents

Cash and cash equivalents at January 31, 2007 and 2006 are comprised of interest–bearing deposits.

(f) Contributions Receivable

Contributions applicable to wages earned through January 31 are accrued. These contributions are considered fully collectible and, accordingly, no allowance for doubtful accounts is considered necessary.

(Continued)

(3) Collective Investment Funds

The Plan's investments at January 31 include the following collective investment funds:

	2007			2006		
	Units owned	**Unit value**	**Balance** (In thousands)	**Units owned**	**Unit value**	**Balance** (In thousands)
S&P 500 Stock Index Fund	10,172	$ 26.786	272,470	11,043	$ 23.392	258,308
Citizens Core Growth Fund	1,093	17.810	19,471	1,563	18.380	28,737
Daily Government/Corporate Bond Fund	1,632	21.765	35,529	2,247	17.627	39,615
Tactical Asset Allocation Fund	2,047	12.140	24,853	2,511	11.120	27,920
Global Balanced Fund	2,045	33.440	68,393	1,782	30.750	54,809
Small Cap Stock Trust	1,314	43.540	57,201	1,385	40.670	56,330
International Equity Fund	5,965	24.380	145,430	3,581	22.290	79,819
Money Market Fund – nonparticipant directed	304	15.836	4,816	215	15.125	3,257
Total collective investment funds			$ 628,163			$ 548,795

(4) Synthetic Investment Contracts

Accounts and terms of synthetic investment contracts in effect at December 31 are as follows:

(a) Bank of America

In 2004, the Plan's investment manager entered into an investment contract, on behalf of the Plan, with Bank of America. This financial institution provides a wrap contract that covers a separately managed structured payout synthetic investment portfolio. The account is credited with earnings and investment deposits, less administrative expenses charged by the financial institution and investment withdrawals. The contract is included in the Plan's financial statements at contract value. It is fully benefit responsive. There are no reserves against contract value for the credit risk of the contract issuer or otherwise. The contract value of the investment contract at January 31, 2006 and January 31, 2007 was $20,548 and $21,758 respectively as reported by Bank of America, and the market value of the portfolio at January 31, 2006 and January 31, 2007 was $20,153 and $21,422 respectively. The average crediting rates for 2005 and 2006 were approximately four percent. The crediting interest rates are based on the approximate rate of interest that will amortize differences between book and market value over the portfolio's average duration. As of January 31, 2007 the last maturity payment date was August 20, 2011.

(b) IXIS Financial Products Inc.

In 2004, the Plan's investment manager entered into an investment contract, on behalf of the Plan, with IXIS Financial Products Inc. This financial institution provides a wrap contract that covers a separately managed structured payout synthetic investment portfolio. The account is credited with earnings and investment deposits, less administrative expenses charged by the financial institution and investment withdrawals. The contract is included in the Plan's financial statements at contract value. It is fully benefit responsive. There are no reserves against contract value for the credit risk of the contract issuer or otherwise. The contract value of the investment contract at January 31, 2006 and January 31, 2007 was $20,548 and $21,758 respectively as reported by IXIS Financial Products Inc, and the market value of the portfolio at January 31, 2006 and January 31, 2007 was $20,153 and $21,422 respectively. The average yield and crediting interest rates for 2005 and 2006 were approximately four percent. The crediting interest rate is based on the approximate rate of interest that will amortize differences between book and market value over the portfolio's average duration. As of January 31, 2007 the last scheduled maturity payment date was August 20, 2011

(c) Pacific Life Insurance Co.

In 2004, the Plan's investment manager entered into an investment contract, on behalf of the Plan, with Pacific Life Insurance Co. This financial institution provides a wrap contract that covers a separately managed structured payout synthetic investment portfolio. The account is credited with earnings and investment deposits, less administrative expenses charged by the financial institution and investment withdrawals. The contract is included in the Plan's financial statements at contract value. It is fully benefit responsive. There are no reserves against contract value for the credit risk of the contract issuer or otherwise. The contract value of the investment contract at January 31, 2006 and January 31, 2007 was $20,548 and $21,758 respectively as reported by Pacific Life Insurance Co, and the market value of the portfolio at January 31, 2006 and January 31, 2007 was $20,153 and $21,422 respectively. The average yield and crediting interest rates for 2005 and 2006 were approximately four percent. The crediting interest rate is based on the approximate rate of interest that will amortize differences between book and market value over the portfolio's average duration. As of January 31, 2006 the last scheduled maturity payment date was August 20, 2011

(d) Rabobank Nederland

In 2004, the Plan's investment manager entered into an investment contract, on behalf of the Plan, with Rabobank Nederland. This financial institution provides a wrap contract that covers a separately managed constant duration synthetic investment portfolio. The account is credited with earnings and investment deposits, less administrative expenses charged by the financial institution and investment withdrawals. The contract is included in the Plan's financial statements at contract value. It is fully benefit responsive. There are no reserves against contract value for the credit risk of the contract issuer or otherwise. The contract value of the investment contract at January 31, 2006 and January 31, 2007 was $19,926 and $33,012 respectively as reported by Rabobank Nederland, and the market value of the portfolio at January 31, 2006 and January 31, 2007 was $19,562 and $32,704 respectively. The average yield and crediting interest rates for 2005 and 2006 were approximately five percent. The crediting interest rate is based on the approximate rate of interest that will amortize differences between book and market value over the portfolio's average duration

(e) State Street Bank & Trust Co.

In 2004, the Plan's investment manager entered into an investment contract, on behalf of the Plan, with State Street Bank & Trust Co. This financial institution provides a wrap contract that covers a separately managed constant duration synthetic investment portfolio. The account is credited with earnings and investment deposits, less administrative expenses charged by the financial institution and investment withdrawals. The contract is included in the Plan's financial statements at contract value. It is fully benefit responsive. There are no reserves against contract value for the credit risk of the contract issuer or otherwise. The contract value of the investment contract at January 31, 2006 and January 31, 2007 was $19,926 and $33,012 respectively as reported by State Street Bank & Trust Co, and the market value of the portfolio at January 31, 2006 and January 31, 2007 was $19,562 and $32,704 respectively. The average yield and crediting interest rates for 2005 and 2006 were approximately five percent. The crediting interest rate is based on the approximate rate of interest that will amortize differences between book and market value over the portfolio's average duration

(Dollars in thousands)

(5) Changes in Fiduciary Net Assets

During the years ended January 31, 2007 and 2006 the following changes in fiduciary net assets by fund took place:

	Participant directed							
	International Equity Fund	**Small Cap Stock Trust**	**Citizens Core Growth Fund**	**S&P 500 Stock Index Fund**	**Global Balanced Fund**	**Tactical Asset Allocation Fund**	**Daily Government/ Corporate Bond Fund**	**Stable Value Fund**
2007:								
Additions:								
Contributions:								
Mandatory contributions	$ 6,108	3,868	1,497	11,545	2,672	985	1,491	3,596
Voluntary contributions	—	—	—	—	—	—	—	—
Transfers in	443	111	88	210	140	14	32	212
Total contributions	6,551	3,979	1,585	11,755	2,812	999	1,523	3,808
Investment income (loss):								
Net appreciation (depreciation) in fair market value of investments	19,410	3,248	(845)	35,173	5,167	2,113	1,438	(1,624)
Interest income	—	—	—	—	—	—	—	5,777
Net investment income (loss)	19,410	3,248	(845)	35,173	5,167	2,113	1,438	4,153
Total additions	25,961	7,227	740	46,928	7,979	3,112	2,961	7,961
Deductions:								
Benefits paid to participants and purchases of annuity contracts	4,463	2,652	832	14,172	3,660	1,482	4,351	22,172
Insurance premiums and dependent care assistance reimbursements	—	—	—	—	—	—	—	—
Administrative expenses:								
Actual expenses paid	—	—	—	—	—	—	—	—
Expenses deducted from participant accounts	137	73	29	307	73	29	42	150
Total deductions	4,600	2,725	861	14,479	3,733	1,511	4,393	22,322
Net increase (decrease) prior to interfund transfers	21,361	4,502	(121)	32,449	4,246	1,601	(1,432)	(14,361)
Interfund transfers	44,250	(3,631)	(9,145)	(18,287)	9,338	(4,668)	(2,654)	23,285
Net increase (decrease) in net assets held in trust for individuals, organizations and other governments	65,611	871	(9,266)	14,162	13,584	(3,067)	(4,086)	8,924
Net assets, beginning of year	79,819	56,330	28,737	258,308	54,809	27,920	39,615	127,011
Net assets, end of year	$ 145,430	57,201	19,471	272,470	68,393	24,853	35,529	135,935

						Nonparticipant directed				
Alaska Target 2010 Fund	**Alaska Target 2015 Fund**	**Alaska Target 2020 Fund**	**Alaska Target 2025 Trust**	**Alaska Balanced Trust**	**Alaska Long Term Balanced Trust**	**Money Market Fund**	**Cash and cash equivalents**	**Contributions receivable**	**Accrued expenses**	**Total**
1,282	3,113	1,402	405	44,492	34,919	—	—	261	—	117,636
—	—	—	—	—	—	—	4,867	—	—	4,867
32	161	28	34	137	309	—	—	—	—	1,951
1,314	3,274	1,430	439	44,629	35,228	—	4,867	261	—	124,454
2,620	7,609	3,154	506	84,087	11,559	—	—	—	—	173,615
—	—	—	—	—	—	163	154	—	—	6,094
2,620	7,609	3,154	506	84,087	11,559	163	154	—	—	179,709
3,934	10,883	4,584	945	128,716	46,787	163	5,021	261	—	304,163
2,612	3,676	984	51	74,503	8,124	—	—	—	—	143,734
—	—	—	—	—	—	—	4,491	—	406	4,897
—	—	—	—	—	—	1,674	1,166	—	(108)	2,732
45	94	31	4	1,414	642	(3,070)	—	—	—	—
2,657	3,770	1,015	55	75,917	8,766	(1,396)	5,657	—	298	151,363
1,277	7,113	3,569	890	52,799	38,021	1,559	(636)	261	(298)	152,800
(5,033)	(5,328)	5,179	4,311	(38,512)	895	—	—	—	—	—
(3,756)	1,785	8,748	5,201	14,287	38,916	1,559	(636)	261	(298)	152,800
43,987	83,863	20,064	2,014	1,115,337	90,456	3,257	1,853	5,672	(1,236)	2,037,816
40,231	85,648	28,812	7,215	1,129,624	129,372	4,816	1,217	5,933	(1,534)	2,190,616

(Dollars in thousands)

	Participant directed							
	International Equity Fund	**Small Cap Stock Fund**	**Citizens Core Growth Fund**	**S&P 500 Stock Index Fund**	**Global Balanced Fund**	**Tactical Asset Allocation Fund**	**Daily Government/ Corporate Bond Fund**	**Stable Value Fund**
2006:								
Additions:								
Contributions:								
Mandatory contributions	$ 3,708	3,028	1,437	12,429	2,084	1,100	1,850	3,132
Voluntary contributions	—	—	—	—	—	—	—	—
Total contributions	3,708	3,028	1,437	12,429	2,084	1,100	1,850	3,132
Investment income (loss):								
Net appreciation (depreciation) in fair market value of investments	9,233	9,195	3,536	26,033	6,012	1,865	450	—
Interest income	—	—	—	—	—	—	—	3,858
Net investment income (loss)	9,233	9,195	3,536	26,033	6,012	1,865	450	3,858
Total additions	12,941	12,223	4,973	38,462	8,096	2,965	2,300	6,990
Deductions:								
Benefits paid to participants and purchases of annuity contracts	4,138	3,054	1,139	13,582	3,003	937	3,126	15,170
Insurance premiums and dependent care assistance reimbursements	—	—	—	—	—	—	—	—
Administrative expenses								
Actual expenses paid	—	—	—	—	—	—	—	—
Expenses deducted from participant accounts	78	58	31	313	55	30	50	124
Total deductions	4,216	3,112	1,170	13,895	3,058	967	3,176	15,294
Net increase (decrease) prior to interfund transfers	8,725	9,111	3,803	24,567	5,038	1,998	(876)	(8,304)
Interfund transfers	15,456	7,481	6,800	(29,666)	8,737	3,389	(4,840)	36,825
Net increase (decrease) in net assets held in trust for individuals, organizations and other governments	24,181	16,592	10,603	(5,099)	13,775	5,387	(5,716)	28,521
Net assets, beginning of year	55,638	39,738	18,134	263,407	41,034	22,533	45,331	98,490
Net assets, end of year	$ 79,819	56,330	28,737	258,308	54,809	27,920	39,615	127,011

							Nonparticipant directed				
Alaska Target 2005 Fund	**Alaska Target 2010 Fund**	**Alaska Target 2015 Fund**	**Alaska Target 2020 Fund**	**Alaska Target 2025 Trust**	**Alaska Balanced Trust**	**Alaska Long Term Balanced Trust**	**Money Market Fund**	**Cash and cash equivalents**	**Contributions receivable**	**Accrued expenses**	**Total**
327	1,441	3,420	1,274	35	47,109	28,079	—	—	410	—	110,863
—	—	—	—	—	—	—	—	4,820	5	—	4,825
327	1,441	3,420	1,274	35	47,109	28,079	—	4,820	415	—	115,688
396	2,020	6,136	2,012	59	59,663	5,929	—	—	—	—	132,539
—	—	—	—	—	—	—	69	99	—	—	4,026
396	2,020	6,136	2,012	59	59,663	5,929	69	99	—	—	136,565
723	3,461	9,556	3,286	94	106,772	34,008	69	4,919	415	—	252,253
1,628	1,632	3,324	814	—	72,383	5,198	—	—	—	—	129,128
—	—	—	—	—	—	—	—	4,531	—	266	4,797
—	—	—	—	—	—	—	1,285	1,109	—	160	2,554
12	50	97	24	1	1,452	546	(2,921)	—	—	—	—
1,640	1,682	3,421	838	1	73,835	5,744	(1,636)	5,640	—	426	136,479
(917)	1,779	6,135	2,448	93	32,937	28,264	1,705	(721)	415	(426)	115,774
(15,918)	(4,875)	(5,717)	881	1,921	(22,353)	1,879	(1,000)	1,000	—	—	—
(16,835)	(3,096)	418	3,329	2,014	10,584	30,143	705	279	415	(426)	115,774
16,835	47,083	83,445	16,735	—	1,104,753	60,313	2,552	1,574	5,257	(810)	1,922,042
—	43,987	83,863	20,064	2,014	1,115,337	90,456	3,257	1,853	5,672	(1,236)	2,037,816

(Dollars in thousands)

(6) Ownership of Pooled Investment Funds

The Plan has formed six pooled investment funds which six of the participant directed funds invest in. The pooled investment funds are wholly owned by the six participant directed funds. The pooled investment funds, and their investments, are as follows as of January 31:

		GNMA Pool	Government/ Corporate Pool	Cash Pool	Equity Pool	Small Cap Pool	International Equity Pool	Total
2007:								
Deposits – cash and cash equivalents and accrued interest	$	9,283	13,670	224	1,961	1,086	383	26,607
Commercial paper		—	—	54,806	—	—	—	54,806
Mortgage backed securities		212,380	—	—	—	—	—	212,380
Corporate notes and bonds		—	187,520	13,301	—	—	—	200,821
U.S. Treasury securities		—	211,624	—	—	—	—	211,624
Yankees		—	32,091	—	—	—	—	32,091
Federal agency government debt		—	104,619	—	—	—	—	104,619
Equity		—	5	—	521,653	26,202	30,094	577,954
Total investments	$	221,663	549,529	68,331	523,614	27,288	30,477	1,420,902

Ownership in the above pooled investments funds is summarized as follows:

	GNMA Pool	Government/ Corporate Pool	Cash Pool	Equity Pool	Small Cap Pool	International Equity Pool	Total
2007:							
Alaska Target 2010 Fund	0.71%	2.61%	23.65%	1.56%	—%	—%	2.83%
Alaska Target 2015 Fund	1.18	4.32	21.79	7.85	12.10	—	6.02
Alaska Target 2020 Fund	0.08	0.48	3.11	3.66	9.44	7.18	2.03
Alaska Target 2025 Fund	0.08	0.07	0.21	1.05	2.13	1.29	0.50
Alaska Long-term Balanced Fund	6.43	6.10	3.77	13.59	12.29	16.17	9.13
Alaska Balanced Fund	91.52	86.42	47.47	72.29	64.04	75.36	79.49
	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

(Dollars in thousands)

	GNMA Pool	Government/ Corporate Pool	Cash Pool	Equity Pool	Small Cap Pool	International Equity Pool	Total
2006:							
Deposits – cash and cash equivalents and accrued interest $	2,362	20,469	2,065	3,197	221	3,501	31,815
Commercial paper	—	—	49,292	—	—	—	49,292
Mortgage backed securities	210,622	—	—	—	—	—	210,622
Corporate notes and bonds	—	165,871	7,916	—	—	—	173,787
U.S. Treasury securities	—	216,647	—	—	—	—	216,647
Yankees	—	25,793	—	—	—	—	25,793
Federal agency government debt	—	92,908	—				92,908
Equity	—	—	—	498,189	28,622	28,047	554,858
Total investments $	212,984	521,688	59,273	501,386	28,843	31,548	1,355,722

Ownership in the above pooled investments funds is summarized as follows:

	GNMA Pool	Government/ Corporate Pool	Cash Pool	Equity Pool	Small Cap Pool	International Equity Pool	Total
2006:							
Alaska Target 2010 Fund	1.03%	3.74%	18.86%	2.21%	0.06%	—%	3.25%
Alaska Target 2015 Fund	0.99	3.74	22.22	8.98	14.12	—	6.20
Alaska Target 2020 Fund	—	0.22	1.87	2.75	6.81	6.80	1.47
Alaska Target 2025 Fund	0.02	0.02	0.06	0.28	0.52	0.38	0.14
Alaska Long-term Balanced Fund	4.43	4.26	3.02	9.85	9.56	12.81	6.60
Alaska Balanced Fund	93.53	88.02	53.97	75.93	68.93	80.01	82.34
	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

(7) Investment Loss Trust Fund

Deposits with contract values of $131,805 at January 31, 1991 were invested in guaranteed investment contracts with Executive Life Insurance Company (Executive Life), which was taken over by California State Regulators in April 1991, resulting in uncertainty about the value of these Plan assets.

To address this situation, the Investment Loss Trust Fund (Fund) was established by Alaska Statute 37.14.300. The Alaska Department of Administration is to spend that Fund as necessary to hold participants in the Plan and annuity holders (with Executive Life) harmless from a loss of value in the investment and annuity contracts issued by Executive Life.

The hold harmless loss limit was the principal plus accrued interest through May 3, 1991, plus earnings by the Fund on that balance since that date, less a portion of earnings to be used to pursue recovery (at a 1% rate) of the investment value and protect the interest of Plan participants and annuity holders. Unpaid annuity amounts due to current annuity holders under contracts issued by Executive Life are also covered by the Fund.

(Dollars in thousands)

The Fund was capitalized with $138,100 of appropriations by the State. The physical control and ownership of the assets of the Fund are under the control of the State, and not the Plan. However, through the Fund legislation and the Partial Interim Settlement Agreement in *Maupin, et al vs. State of Alaska, et al*, 3AN–91–6006 Civil, the participants in the Plan are held harmless to the extent allowed by law. Therefore, the amount represented by the asset, the Fund, is the amount computed to be the incremented hold harmless limit.

In February 1994, the State and the Plan elected to opt out of the plan of rehabilitation for Executive Life. By that action, which covered the guaranteed investment contracts issued before January 1, 1989, and a favorable ruling by the California Court of Appeals (as supported by the election of the California Supreme Court not to hear a further appeal of that ruling) which related to the contracts issued after 1989, the Plan received from the conservator, and therefore ultimately the State of Alaska received payments of $142,946 through January 31, 2007.

The availability of the amounts from the conservator did not affect the Partial Interim Settlement Agreement approved in 1992 by the Alaska Superior Court in *Maupin, et al vs. State of Alaska* as it related to the accounts of individual participants. From May 1991 through October 1995 the Plan recorded the assets of the Fund in lieu of carrying the Executive Life investment contracts. Also included were assets set aside to hold harmless those who had continuing annuity contracts with Aurora National Life Assurance Company.

At January 31, 2007 and 2006, the Fund was comprised as follows:

		2007	2006
Cash and cash equivalents	$	1,767	1,677

With the receipt of the October 1995 Executive Life Settlements, the amounts represented by Investment Loss Trust Fund assets, and the accumulated earnings thereon in individual accounts, were moved to the corresponding member's regular annuity plan account and their Investment Loss Trust Fund account closed. In April 1996, the Alaska Superior Court approved a final settlement with the State of Alaska that does not contemplate the making of any further payments by the State of Alaska to the members of the Class in *Maupin, et al vs. State of Alaska* beyond the payments already made pursuant to the Partial Interim Settlement Agreement described previously. During 2000, the State of Alaska Legislature appropriated a portion of the Fund assets, totaling $4 million, to be used for other purposes.

The remaining assets of the Fund relate to continuing annuity contracts with Executive Life and are managed by the State Treasury.

(8) Deposit and Investment Risk

(a) Interest Rate Risk

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

Collective Investment and Money Market Funds

The Alaska Retirement Management Board (Board) contracts with external investment managers who maintain collective investment funds. Managers selected to manage investments for the Plan are subject to the provisions of the collective investment funds the Board has selected. In addition, the Plan maintains a balance in a commingled money market portfolio.

The Board does not have a policy to limit interest rate risk for these investments. The weighted average maturity of the collective investment fund that consists solely of debt securities (Government/Corporate Bond Fund) was 5.56 years at January 31, 2007. The weighted average maturity of the money market portfolio was forty-nine days at January 31, 2007.

Short–Term Fixed Income Pool

The Investment Loss Trust Fund and the Plan's cash and cash equivalents are invested in the State's internally managed 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 January 31, 2007, the expected average life of individual fixed rate securities ranged from one day to seven months and the expected average life of floating rate securities ranged from fourteen days to three years.

Stable Value Fund

The Board contracts with an external investment manager who is given the authority to invest in synthetic investment contracts and a Reserve. This external manager also manages the securities underlying the synthetic investment contracts.

Through the Board's investment policy, exposure to fair value losses arising from increasing interest rates is managed by limiting the duration on synthetic investment contracts as follows:

> For constant duration synthetic investment contracts, duration cannot exceed the longer of six years or the duration of the Lehman Brothers Aggregate Bond Index plus one–half year. The aggregate duration of the constant duration synthetic investment contracts was 1.97 years at January 31, 2007. The duration of the Lehman Brother's Aggregate Bond Index was 2.00 years at January 31, 2007.

For structured payout synthetic investment contracts, duration cannot exceed seven years in the aggregate. The aggregate duration of the structured payout synthetic investment contracts was 4.78 years at January 31, 2007.

Duration is a measure of interest rate risk. In the case of the Plan's constant duration synthetic investment contracts, duration is the fair value weighted average term to maturity of all fixed income securities underlying the contracts and their related cash flows. Duration of the Plan's structured payout synthetic investment contracts is the weighted average maturity of the contract payments.

The Board does not have a policy to limit interest rate risk for the Reserve. The balance in the Reserve is invested in the custodian's Short-term Investment Fund which had a weighted average maturity of thirty-four days at January 31, 2007.

Pooled Investment Funds

The Board contracts with an external investment manager who is given the authority to invest funds in a wholly owned pooled environment to accommodate six participant directed funds. Through the Board's investment policy, exposure to fair value losses arising from increasing interest rates is managed by limiting the duration as follows:

For government and corporate debt securities, duration is limited to ± 0.25 years of the Lehman Brothers Government/Credit Index. At January 31, 2007, the duration of the government and corporate debt securities was 5.01 years and the duration of the Lehman Brothers Government Credit Index was 5.03 years.

For mortgage–backed securities, duration is limited to ± 0.25 years of the Lehman GNMA Index. At January 31, 2007, the duration of the mortgage–backed securities was 4.41 years and the duration of the Lehman GNMA Index was 3.76 years.

Duration is a measure of a security's sensitivity to a 100–basis point change in interest rates. Duration, for the securities in the pooled investment funds, is the fair value weighted average term to maturity for each security taking into account all related cash flows.

The Board does not have a policy to limit interest rate risk for funds held in foreign currency, the custodian's short–term investment fund or commercial paper.

(b) 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 credit risk for the Plan's Collective Investment Funds and commingled money market portfolio. These investments are not rated.

The Plan's Collective Investment Funds 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.

Treasury's investment policy limits credit risk in the Short–term Fixed Income Pool by limiting investments to instruments with a median long–term credit rating of at least A3 or equivalent and instruments with a short–term credit rating of at least A1 or equivalent. Treasury's investment policy further limits investments in institutional money market funds to those rated AAA. Treasury does not have a policy to limit credit risk associated with deposit accounts or investment funds maintained by the custodian.

The Board's investment policy has the following limitations with regard to credit risk for synthetic investment contracts, investments underlying the synthetic investment contracts and the Reserve:

> Synthetic investment contract issuers must have an investment grade rating,
>
> Supranational Agency and Foreign Government entity investments must have a minimum rating of A or equivalent,
>
> Corporate debt securities must have a minimum rating of BBB or equivalent,
>
> Asset–backed securities must have a minimum rating of AAA or equivalent,
>
> Mortgage–backed securities are allowed if issued by Federal National Mortgage Association, Federal Home Loan Mortgage Corporation or Government National Mortgage Association,
>
> Sequential class or type 1 or 2 planned amortization class collateralized mortgage obligations are allowed only if securitized by mortgage–backed securities listed above, and
>
> The ratings assigned to issuers of money market instruments must have the highest rating of any nationally recognized statistical rating organization. This limitation does not apply to the investment funds maintained by the custodian.

The Board's investment policy has the following limitations with regard to credit risk for wholly owned pooled investments:

> All government and corporate fixed income securities must be rated BBB or better at time of purchase.
>
> All mortgage–backed securities must be issued by the Government National Mortgage Association and

(Continued)

Commercial paper and other short–term debt obligations must be rated A1 or equivalent.

At January 31, 2007, Plan investments consisted of securities with credit quality ratings issued by a nationally recognized statistical rating organization as follows (using the Standard and Poor's rating scale):

		Fair value				
Investment type	**Rating**	**Short-term fixed income pool**	**Underlying synthetic investment contracts**	**Wholly owned pool**	**Investment loss trust**	**Collective investment funds**
				(In thousands)		
Investments with credit exposure:						
Overnight Sweep Account	Not rated	$ 5	—	—	7	—
Money market fund	Not rated	—	—	—	—	4,816
Short-term investment fund	Not rated	17	2,083	16,115	23	—
Commercial paper	A1	51	—	54,806	67	—
Commercial paper	AA	32	—	—	42	—
Commercial paper	Not rated	71	—	—	92	—
U.S. government agency discount notes	Not rated	—	—	—	—	—
U.S. government agency	AAA	—	—	—	—	—
U.S. government agency	Not rated	—	18,293	104,619	—	—
Mortgage-backed	AAA	93	3,103	—	135	—
Mortgage-backed	Not rated	22	37,530	—	13	—
Other asset-backed	AAA	476	23,320	—	615	—
Other asset-backed	AA	—	—	—	—	—
Other asset-backed	A	61	—	—	78	—
Corporate bonds	AAA	51	1,927	9,723	66	—
Corporate bonds	AA	269	6,478	46,719	348	—
Corporate bonds	A	127	21,886	92,484	163	—
Corporate bonds	BB	—	—	—	—	—
Corporate bonds	BBB	10	8,798	52,677	13	—
Corporate bonds	Not rated	9	—	—	12	—
Yankees:						
Corporate	AAA	—	155	7,303	—	—
Corporate	AA	39	758	1,553	50	—
Corporate	A	29	3,310	3,211	37	—
Corporate	BBB	—	981	4,545	—	—
Corporate	Not rated	18	—	—	23	—
Government	AAA	—	196	1,476	—	—
Government	AA	—	521	4,131	—	—
Government	A	—	173	5,109	—	—
Government	BBB	—	162	3,981	—	—

				Fair value		
Investment type	**Rating**	**Short-term fixed income pool**	**Underlying synthetic investment contracts**	**Wholly owned pool**	**Investment loss trust**	**Collective investment funds**
				(In thousands)		
Deposits and investments with no credit exposure:						
Deposits		$ —	—	16	—	—
U.S. treasury bills		—	—	—	—	—
U.S. treasury notes		—	—	143,370	—	—
U.S. treasury bonds		—	—	68,254	—	—
Mortgage-backed		—	—	212,380	—	—
Collective investment funds		—	—	—	—	623,347
Domestic equity		—	—	549,711	—	—
International equity		—	—	28,243	—	—
Total invested assets		1,380	129,674	1,410,426	1,784	628,163
Pool related net liabilities		(163)	—	10,476	(17)	—
Total		$ 1,217	129,674	1,420,902	1,767	628,163

(c) 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.

The Board does not have a policy to limit concentration of credit risk in the collective investment and money market funds.

Treasury's policy with regard to the Short–term Fixed Income Pool is to prohibit the purchase of more than 5% of the portfolio's assets in corporate bonds of any one company or affiliated group.

The Board's policy with regard to concentration of credit risk for synthetic investment contracts, investments underlying the synthetic investment contracts and the Reserve is as follows:

> No investment will be made if, at the time of purchase, total investment in any single issuer of investment contracts would exceed 35% of the Stable Value Fund's total value.

(Dollars in thousands)

No investment will be made if, at the time of the purchase, total investment in any single issuer or in all issuers of the securities held as supporting investments under synthetic investment contracts in the table below would exceed the respective percentages of all investments underlying the synthetic investment contracts.

Investment type	**Issuer**	**All issuers**
U.S. Treasury and agencies	100%	100%
Mortgage-backed securities and collateralized Mortgage obligations secured by Mortgage-backed securities limited to sequential class or PAC1 and II Collateralized Mortgage obligations	50	50
Asset-backed securities	5	50
Domestic and foreign corporate debt securities	5	50
Supranational agency and foreign government entity securities	5	50
Money market instruments – non gov/agency	5	100
Custodian short-term investment fund	100	100

The maximum exposure to securities rated BBB is limited to 20% of the total value underlying synthetic investment contracts.

For the Reserve, the total investment of any single issuer of money market instruments may not exceed 5% of the total value underlying synthetic investment contracts. This limitation does not apply to the investment funds maintained by the custodian.

The Boards policy with regard to concentration of credit risk for wholly owned pooled investments is as follows:

Equity holdings will be limited to 5% of the equity portfolio at the time of purchase,

With the exception of the U.S. Government or its agencies, fixed income holdings of any single issuer is limited to 2% of the total portfolio at the time of purchase,

Mortgage–backed securities must be those issued by the Government National Mortgage Association and

With the exception of the U.S. Government or its agencies, money market holdings of any single issuer are limited to no more than 5% of the portfolio at the time of purchase. This limitation does not apply to the investment funds maintained by the custodian.

At January 31, 2007, the Plan had no exposure to a single issuer in excess of 5% of total invested assets.

(Continued)

(d) *Foreign Currency Risk*

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

The Board does not have a policy to limit foreign currency risk associated with collective investment funds. The Plan has exposure to foreign currency risk in the International Equity and the Global Balanced collective investment funds.

The Board's policy with regard to the Stable Value Fund is to require that all investments underlying a synthetic investment contract be denominated in U.S. dollars.

The Board's policy with regard to pooled investments requires that all money market holdings be made in entities domiciled in the U.S. The Board has no policy with regard to other pooled investments.

At January 31, 2007, the Plan had exposure to foreign currency risk in the pooled investment funds as follows (stated in thousands):

Currency	Deposits	Equity (fair value)
Australian Dollar	$ 1	2,324
Euro Currency	(16)	10,063
Hong Kong Dollar	—	539
Japanese Yen	—	6,075
Mexican Peso	—	235
New Thailand Dollar	19	17
New Zealand Dollar	—	41
Norwegian Krone	—	521
Pound Sterling	1	4,515
Singapore Dollar	—	503
Swedish Krona	—	1,592
Swiss Franc	—	1,521
	5	27,946
U.S. Dollar	(639)	—
	$ (634)	27,946

(e) Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the deposits may not be returned. The Board does not have a policy for custodial credit risk. At January 31, 2007, the Plan's deposits were uncollateralized and uninsured.

(9) Risk and Uncertainty

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statement of net assets available for benefits.