KPMG

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

Financial Statements

January 31, 2009 and 2008

(With Independent Auditors' Report Thereon)

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

January 31, 2009 and 2008

Table of Contents

KPMG

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 – annuity and cafeteria plans of the State of Alaska Supplemental Benefits System (Plan), a Component Unit of the State of Alaska, as of January 31, 2009 and 2008, and the related statements of changes in fiduciary net assets – annuity and cafeteria plans 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 – annuity and cafeteria plans of the State of Alaska Supplemental Benefits System, a Component Unit of the State of Alaska, as of January 31, 2009 and 2008, and the changes in fiduciary net assets – annuity and cafeteria plans for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

KPMG LLP

October 26, 2009

This section presents management's discussion and analysis (MD&A) of the State of Alaska Supplemental Benefits System's (Plan) financial position and performance for the fiscal years ended January 31, 2009 and 2008. This section is presented as a narrative overview and analysis. Please read the MD&A in conjunction with the financial statements and notes to financial statements to better understand the financial condition and performance of the Plan during the fiscal years ended January 31, 2009 and 2008.

Financial Highlights

- The net assets held in trust for benefits at January 31, 2009 and 2008, are $1.8 billion and $2.2 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, 2009 decreased by ($404.5) million, or approximately -18.3%, from the prior fiscal year. The net assets of the Plan at January 31, 2008 increased by $25.1 million, or approximately 1% from the prior fiscal year.
- The Plan incurred a net investment loss of ($403.9) million in the 2009 fiscal year, compared to a $65.9 million investment gain in the 2008 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 the Financial Statements

Statements of Fiduciary Net Assets – This statement presents information regarding the Plan's assets, liabilities, and resulting net assets held in trust for pension and insurance benefits for individuals, organizations, and other governments. 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, 2009 and 2008. This statement is presented individually for both the Supplemental Annuity Plan and the Supplemental Benefits Cafeteria Plans.

Statements of Changes in Fiduciary Net Assets – This statement presents how the Plan's net assets held in trust changed during the fiscal years ended January 31, 2009 and 2008. This statement presents contributions by employees and employers along with net investment income (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 Cafeteria Plans.

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

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

Condensed Financial Information (in thousands)

Net Assets

Description		2009	2008	Increase/(decrease) Amount	Increase/(decrease) Percentage	2007
Assets:						
Cash and cash equivalents	$	1,073	1,234	(161)	(13.0)%	1,217
Receivables		6,876	6,203	673	10.8	5,933
Investments at fair value:						
Collective investment funds		393,544	573,069	(179,525)	(31.3)	628,163
Stable value fund		262,436	185,518	76,918	41.5	135,935
Ownership of pooled investment funds		1,148,210	1,450,935	(302,725)	(20.9)	1,420,902
Total investments		1,804,190	2,209,522	(405,332)	(10.7)	2,185,000
Investment Loss Trust Fund, at fair value		1,862	1,849	13	0.7	1,767
Total assets		1,814,001	2,218,808	(404,807)	(18.2)	2,193,917
Liabilities:						
Payable to Plan participants		1,862	1,849	13	0.7%	1,767
Accrued expenses		959	1,283	(324)	(25.3)	1,534
Total liabilities		2,821	3,132	(311)	(24.6)	3,301
Net assets	$	1,811,180	2,215,676	(404,496)	(18.3)%	2,190,616

(Continued)

Changes in Net Assets

Description		2009	2008	Increase/(decrease) Amount	Increase/(decrease) Percentage	2007
Net assets, beginning of year	$	2,215,676	2,190,616	25,060	1.1%	2,037,816
Additions (reductions):						
Contributions		136,852	127,410	9,442	7.4	124,454
Government Corporate Bond Fund Settlement		113	6,298	(6,185)	(98.2)	—
Net investment (loss) income		(403,918)	65,864	(469,782)	(713.3)	179,709
Total (reductions) additions		(266,953)	199,572	(466,525)	(233.8)	304,163
Deductions:						
Benefits paid to participants and purchases of annuity contracts		130,416	166,473	(36,057)	(21.7)	143,734
Insurance premiums and dependent care assistance plan reimbursements		3,964	4,949	(985)	(19.9)	4,897
Administrative expenses		3,163	3,090	73	2.4	2,732
Total deductions		137,543	174,512	(36,969)	(21.2)	151,363
(Decrease) increase in net assets		(404,496)	25,060	(429,556)	(1,714.1)	152,800
Net assets, end of year	$	1,811,180	2,215,676	(404,496)	(18.3)%	2,190,616

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 $1.811 billion at January 31, 2009, 99.3% of which, or $1.799 billion, are specifically allocated to individual participant accounts. Of total Plan Fiduciary Net Assets of $2.216 billion at January 31, 2008, 99.5% of which, or $2.204 billion, are specifically allocated to individual participant accounts.

Each participant designates how their 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.

(Continued)

Participant Directed Investments at January 31 Year End (In thousands)

		2009	2008
Alaska Balanced Trust	$	873,536	1,116,647
Stable Value Fund		262,436	185,518
Alaska Long-Term Balanced Trust		150,465	176,381
S&P 500 Stock Index Fund		148,234	233,003
Alaska Target 2015 Fund		62,960	79,438
International Equity Fund		60,597	127,248
Government Credit Bond Index Fund		50,186	69,174
Global Balanced Fund		43,311	68,635
Alaska Target 2010 Fund		35,851	40,639
Small Cap Stock Trust Fund		31,645	42,339
Alaska Target 2020 Fund		19,323	28,796
Intermediate Bond Fund		18,988	-
RCM Socially Responsible Investment Fund		13,474	-
Long US Treasury Bond Index Fund		7,518	-
State Street Institutional Treasury Money Market Fund		6,570	-
Alaska Target 2025 Trust		6,075	9,034
US Treasury Inflation Protected Securities Index		3,005	-
Russell 3000 Index Fund		1,584	-
US Real Estate Investment Trust Index Fund		1,434	-
World Government Bond Ex-US Index		1,046	-
World Equity Ex-US Index		826	-
Citizens Core Growth Fund		-	26,838
Total	$	1,799,064	2,203,690

(Continued)

Investment Returns for the 12-Month Periods Ended December 31, 2008 and 2007

	2008 1-Year Actual	2007 1-Year Actual
International Equity Fund	(37.20) %	8.50 %
S&P 500 Stock Index Fund	(36.93)	5.53
Alaska Target 2025 Trust	(33.73)	5.48
Small Cap Stock Trust	(33.31)	(1.28)
Alaska Target 2020 Fund	(27.98)	6.04
Global Balanced Fund	(27.28)	3.59
Alaska Long-Term Balanced Trust	(23.19)	6.23
Alaska Target 2015 Fund	(14.40)	6.35
Alaska Balanced Trust	(12.41)	6.68
Alaska Target 2010 Fund	(2.43)	6.18
State Street Institutional Treasury Money Market Fund	1.24	N/A
Stable Value Fund	4.41	4.89
Government Credit Bond Index Fund	5.76	7.25
Intermediate Bond Fund	10.80	N/A
Citizens Core Growth Fund	N/A	13.90
RCM Socially Responsible Investment Fund	N/A	N/A
Long US Treasury Bond Index Fund	N/A	N/A
US Treasury Inflation Protected Securities Index	N/A	N/A
Russell 3000 Index Fund	N/A	N/A
US Real Estate Investment Trust Index Fund	N/A	N/A
World Government Bond Ex-US Index	N/A	N/A
World Equity Ex-US Index	N/A	N/A

The Tactical Asset Allocation Fund was closed on September 17, 2007, and the balances remaining in the fund on that date were transferred into the Alaska Long-Term Balanced Trust.

Contributions and Distributions

The Plan had contributions of $136.9 million in fiscal year 2009 compared to $127.4 million in fiscal year 2008. Increased maximum contribution limits contributed to the increase in contributions.

The Plan had benefits paid to participants and purchase agreement contracts of $130.4 million in fiscal year 2009 compared to $166.5 million in fiscal year 2008. Decreased account values resulting from overall negative investment returns contributed to the reduced amount of withdrawals.

(Continued)

Fiduciary Responsibilities

The Alaska Retirement Management Board, the plan administrator, and the Commissioner of Administration are co-fiduciaries of the Plan.

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:

State of Alaska Supplemental Benefits System
Division of Retirement & Benefits, Accounting Section
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, 2009 and 2008

(In thousands)

	2009			2008		
	Annuity	**Cafeteria**	**Total**	**Annuity**	**Cafeteria**	**Total**
Assets:						
Cash and cash equivalents	$ 296	777	1,073	387	847	1,234
Receivables:						
Mandatory contributions	6,726	—	6,726	5,980	—	5,980
Voluntary contributions	—	150	150	—	223	223
Total receivables	6,726	150	6,876	5,980	223	6,203
Investments:						
Collective investment funds, at fair value:						
Participant-directed	388,418	—	388,418	567,237	—	567,237
Money market fund – nonparticipant directed	5,126	—	5,126	5,832	—	5,832
	393,544	—	393,544	573,069	—	573,069
Stable Value Fund:						
Synthetic investment contracts, at fair value	238,603	—	238,603	169,261	—	169,261
Cash and cash equivalents, at fair value	23,833	—	23,833	16,257	—	16,257
	262,436	—	262,436	185,518	—	185,518
Ownership of pooled investment funds, participant directed at fair value	1,148,210	—	1,148,210	1,450,935	—	1,450,935
Total investments	1,804,190	—	1,804,190	2,209,522	—	2,209,522
Investment Loss Trust Fund, at fair value	1,862	—	1,862	1,849	—	1,849
Total assets	1,813,074	927	1,814,001	2,217,738	1,070	2,218,808
Liabilities:						
Payable to Plan participants	1,862	—	1,862	1,849	—	1,849
Accrued expenses	262	697	959	421	862	1,283
Total liabilities	2,124	697	2,821	2,270	862	3,132
Commitments and contingencies						
Net assets held in trust for individuals and organizations	$ 1,810,950	230	1,811,180	2,215,468	208	2,215,676

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

January 31, 2009 and 2008

(In thousands)

	2009			2008		
	Annuity	**Cafeteria**	**Total**	**Annuity**	**Cafeteria**	**Total**
Additions (reductions):						
Contributions:						
Mandatory	$ 131,873	—	131,873	121,033	—	121,033
Voluntary	—	3,986	3,986	—	4,993	4,993
Transfers in	993	—	993	1,384	—	1,384
Total contributions	132,866	3,986	136,852	122,417	4,993	127,410
Government Corporate Bond Fund Settlement	113	—	113	6,298	—	6,298
Investment income (loss):						
Net (depreciation) appreciation in fair value of investments	(409,915)	—	(409,915)	58,478	—	58,478
Interest	5,997	—	5,997	7,386	—	7,386
Net investment income (loss)	(403,918)	—	(403,918)	65,864	—	65,864
Total (reductions) additions	(270,939)	3,986	(266,953)	194,579	4,993	199,572
Deductions:						
Benefits paid to participants and purchases of annuity contracts	130,416	—	130,416	166,473	—	166,473
Insurance premiums and dependent care assistance plan reimbursements	—	3,964	3,964	—	4,949	4,949
Administrative expenses – annuity	2,892	—	2,892	2,824	—	2,824
Administrative expenses – paid by annuity for cafeteria	271	—	271	266	—	266
Total deductions	133,579	3,964	137,543	169,563	4,949	174,512
Net (decrease) increase in assets held in trust for individuals and organizations	(404,518)	22	(404,496)	25,016	44	25,060
Net assets, beginning of year	2,215,468	208	2,215,676	2,190,452	164	2,190,616
Net assets, end of year	$ 1,810,950	230	1,811,180	2,215,468	208	2,215,676

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, 2009 and 2008. There were approximately 38,000 and 36,000 participants in the Plan as of January 31, 2009 and 2008, respectively.

The Division of Retirement and Benefits is responsible for Plan administration and recordkeeping. The Alaska Retirement Management Board (Board) is responsible for the specific investment of moneys in the Plan.

(b) Contributions

Mandatory contributions are made to the Supplemental Annuity Plan, a defined contribution plan, and voluntary contributions to the Supplemental Benefits Cafeteria 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 Cafeteria 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.

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

At January 31, 2009, 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 that appear undervalued or offer the potential for superior earnings growth. This fund invests at least 65% of its total assets in the stocks 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. The fund owns all 500 of the securities in the S&P 500 Index in proportion to each security's size as measured by its total market value.

Government / Credit Bond Index Fund – this fund buys and holds representative 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. This fund replaced the State Street Daily Government/Corporate Bond Fund. 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 Board directed that the Barclay's Government/Credit Bond Index 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. On December 20, 2007, the State reached a settlement with State Street that provided each participant invested in the State Street Daily Government/Corporate Bond Fund with an amount equal to 100% of the losses incurred between June 29, 2007 and August 28, 2007 plus interest on these losses from August 28, 2007 to December 5, 2007. For the Supplemental Annuity Plan, this amount totaled $6,298 thousand with a subsequent additional residual settlement amount received late March 2008 of $113 thousand.

Global Balanced Fund – this fund seeks the balanced accomplishment of long-term growth of capital, current income and conservation of principle through investments 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 invested primarily in U.S. large cap growth stocks, with an emphasis on those that were managed to a high standard of corporate responsibility. Effective April 7, 2008, this fund was re-organized to become the Sentinel (SRI) Sustainable Core Opportunities Fund.

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

World Equity ex-US Index Fund – this fund, which was added to the Plan on September 18, 2008, invests in one or more commingled funds managed by State Street Global Advisors (SSgA), which, in combination, are designed to replicate the returns and characteristics of the MSCI ACWI Ex-US Index while providing for daily liquidity for Plan participants.

World Government Bond ex-US Index Fund – this fund, which was added to the Plan on September 18, 2008, invests in one or more commingled funds managed by SSgA which, in combination, are designed to replicate the returns and characteristics of the Citigroup World Government Bond Ex-US Index, while providing for daily liquidity for Plan participants. This fund employs a passive bond indexing strategy, investing in a well diversified portfolio which is representative of the international government bond market.

Russell 3000 Index Fund – this fund, which was added to the Plan on September 18, 2008, invests in one or more commingled funds managed by SSgA which, in combination, are designed to replicate the returns and characteristics of the Russell 3000 Index, while providing for daily liquidity for plan participants. This fund seeks to match the returns of the Index by investing in a portfolio that replicates the Index.

Sentinel Sustainable Core Opportunities Fund – this fund sought to provide long-term capital appreciation by investing in superior companies with a positive multi-year outlook. The fund employed a process of corporate, social and environmental screening that was overseen by Sentinel's in-house social research department. Effective October 30, 2008, this fund re-organized and became the RCM Socially Responsible Investment Fund.

RCM Socially Responsible Investment Fund – this fund is actively managed and only invests in companies contained within the KLD Large-Mid Cap Social Index (LMSI). The LMSI holds approximately 600 companies with the highest environmental, social and governance (ESG) rankings in each sector of the 1,000 largest US stocks. This fund replaced the Sentinel Sustainable Core Opportunities Fund effective October 30, 2008.

Intermediate Bond Fund – this fund buys and holds representative securities included in the Lehman Brothers Intermediate Bond Index. The fund seeks to closely match the Index's total rate of return.

Long US Treasury Bond Index Fund – this fund, which was added to the Plan on September 18, 2008, invests in one or more commingled funds managed by SSgA which, in combination, are designed to replicate the return of the Barclays Capital Long Treasury Bond Index while providing for daily liquidity for Plan participants. The fund seeks to match the return of Barclays Capital Long Treasury Bond Index by investing in a well-diversified portfolio of treasury securities with maturities longer than ten years.

US Real Estate Investment Trust Index Fund – this fund, which was added to the Plan on September 18, 2008, seeks to provide income and capital appreciation and to replicate the returns and characteristics of the Dow Jones Wilshire REIT Index. Using a replication process, the fund seeks to purchase each security in the same capitalization weight as it appears in the Dow Jones Wilshire REIT Index.

US Treasury Inflation-Protected Securities (TIPS) Index Fund – this fund, which was added to the Plan on September 18, 2008, invests in the SSgA TIPS Index NL Series (Class A) and is intended to replicate the return of the index while providing for daily liquidity for the Plan participants. The fund seeks to match the returns of the index by investing in a portfolio of US Treasury inflation protected securities.

State Street Institutional Treasury Money Market Fund – the purpose of this money market fund, which was added to the Plan on September 18, 2008, seeks to achieve its investment objective by investing substantially all of its investable assets in the State Street Money Market Portfolio of State Street Master Funds, which has the same investment objective as, and investment policies that are substantially similar to those of the fund. The fund attempts to achieve its investment objective by investing exclusively in direct obligations of the US Treasury, such as US Treasury bills, notes, and bonds. The fund may also invest in other mutual funds, subject to regulatory limitations, that invest exclusively in such obligations.

Pooled Investment Funds

Alaska Target 2010 Fund – the purpose of this fund is designed to gradually invest more conservatively, with an emphasis on capital preservation, as the year 2010 approaches. At January 31, 2009, the fund was invested in approximately 70 percent cash, 20 percent bonds, and 10 percent stocks. In calendar year 2010, the fund will invest entirely in money market investments (cash).

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

Alaska Balanced Trust – the purpose of this fund is to provide a balanced and diversified mix of U.S. and international stocks, investment-grade bonds, federally guaranteed mortgages, and money market instruments for investors with a low to average risk tolerance.

Alaska Long–Term Balanced Trust – the purpose of this fund is to provide a balanced and diversified mix of U.S. and international stocks, investment-grade bonds, federally guaranteed mortgages, and money market instruments for investors with a moderate risk tolerance. Balances remaining in the Tactical Asset Allocation Fund on the September 17, 2007 date of its elimination were transferred into the Alaska Long-Term Balanced Trust.

(Continued)

Stable Value Fund

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 issued by banks and insurance companies that meet stringent credit standards. Supporting securities for synthetic investment contracts typically include U.S. Treasury/Agency obligations, mortgage and asset-backed securities, as well as investment grade corporate bonds.

(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 Cafeteria 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 Plan is administered by the State.

(f) Funding of the Annuity Plan

Supplemental annuity contributions from employers were deposited with investment managers under contract with the Plan for the years ended January 31, 2009 and 2008. 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.

(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 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, 2009 and 2008 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.

(3) Collective Investment Funds

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

	Units owned	Unit value		Balance (In thousands)
2009				
Equity funds:				
International Equity Fund	5,449,329	11.120	$	60,597
Small Cap Stock Trust	1,231,818	25.690		31,645
S & P 500 Index Fund	9,215,743	16.085		148,234
RCM Socially Responsible Investment Fund	1,554,426	8.668		13,474
World Equity ex-US Index Fund	113,730	7.259		826
Russell 3000 Index Fund	233,131	6.797		1,584
US Real Estate Investment Trust Index Fund	295,338	4.857		1,434
				257,794
Bond and debt securities funds:				
Government / Credit Bond Fund	1,919,015	26.152		50,186
Intermediate Bond Fund	812,381	23.374		18,988
World Government Bond ex-US Index Fund	102,966	10.155		1,046
Long US Treasury Bond Index Fund	698,134	10.771		7,518
US Treasury Inflation Protected Securities Index	314,600	9.549		3,005
				80,743
Bond and equity funds:				
Global Balanced Fund	1,832,091	23.640		43,311
				43,311
Money market fund –				
Participant directed	6,570,029	1.000		6,570
Nonparticipant directed	304,596	16.828		5,126
				11,696
Total collective investment funds			$	393,544

	Units owned	Unit value		Balance (In thousands)
2008				
Equity funds:				
International Equity Fund	5,885,642	21.620	$	127,248
Small Cap Stock Trust	1,071,593	39.510		42,339
S & P 500 Index Fund	8,904,853	26.170		233,003
Citizens Core Growth Fund	1,501,857	17.870		26,838
				429,428
Bond and debt securities funds:				
Government/Credit Bond Fund	2,704,634	25.580		69,174
				69,174
Bond and equity funds:				
Global Balanced Fund	2,062,337	33.250		68,635
				68,635
Money market fund – nonparticipant directed	352,122	16.560		5,832
				5,832
Total collective investment funds			$	573,069

(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 market value. It is fully benefit responsive. There are no reserves against market value for the credit risk of the contract issuer or otherwise. The contract value of the investment contract at January 31, 2009 and January 31, 2008 was $47,044 and $33,156, respectively, as reported by Bank of America, and the market value of the portfolio at January 31, 2009 and January 31, 2008 was $47,724 and $33,853, respectively. The average crediting rate for fiscal year 2009 and 2008 was approximately 4.63 and 4.50 percent, respectively. 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.

(b) NATIXIS Financial Products Inc.

In 2004, the Plan's investment manager entered into an investment contract, on behalf of the Plan, with NATIXIS 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 market 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, 2009 and January 31, 2008 was $47,040 and $33,156, respectively, as reported by NATIXIS Financial Products Inc, and the market value of the portfolio at January 31, 2009 and January 31, 2008 was $47,719 and $33,853, respectively. The average yield and crediting interest rate for fiscal year 2009 and 2008 was approximately 4.63 and 4.50 percent, respectively. 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.

(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 market value. It is fully benefit responsive. There are no reserves against market value for the credit risk of the contract issuer or otherwise. The contract value of the investment contract at January 31, 2009 and January 31, 2008 was $47,044 and $33,156, respectively, as reported by Pacific Life Insurance Co, and the market value of the portfolio at January 31, 2009 and January 31, 2008 was $47,724 and $33,853, respectively. The average yield and crediting interest rate for fiscal year 2009 and 2008 was approximately 4.63 and 4.50 percent, respectively. 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.

(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 market 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, 2009 and January 31, 2008 was $46,930 and $33,154, respectively, as reported by Rabobank Nederland, and the market value of the portfolio at January 31, 2009 and January 31, 2008 was $47,714 and $33,851, respectively. The average yield and crediting interest rate for fiscal year 2009 and 2008 was approximately 4.50 and 5.00 percent, respectively. 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 market 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, 2009 and January 31, 2008 was $47,042 and $33,154, respectively, as reported by State Street Bank & Trust Co. and the market value of the portfolio at January 31, 2009 and January 31, 2008 was $47,722 and $33,851, respectively. The average yield and crediting interest rate for fiscal year 2009 and 2008 was approximately 4.63 and 5.00 percent, respectively. 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.

(5) Changes in Fiduciary Net Assets

During the years ended January 31, 2009 and 2008, the following changes in fiduciary net assets by fund took place (in thousands):

	Participant directed			
	International Equity Fund	Small Cap Stock Trust	S&P 500 Stock Index Fund	Government / Credit Bond Index Fund
2009:				
Additions (reductions):				
Contributions:				
Mandatory contributions	$ 7,688	3,765	10,879	2,630
Voluntary contributions	—	—	—	—
Transfers in	96	19	94	95
Total contributions	7,784	3,784	10,973	2,725
Government Corporate Bond Fund Settlement	2	2	39	610
Investment income (loss):				
Net (depreciation) appreciation in fair market value of investments	(47,397)	(17,285)	(88,816)	639
Interest income	—	—	—	—
Net investment (loss) income	(47,397)	(17,285)	(88,816)	639
Total (reductions) additions	(39,611)	(13,499)	(77,804)	3,974
Deductions:				
Benefits paid to participants and purchases of annuity contracts	4,854	1,749	8,281	4,540
Insurance premiums and dependent care assistance reimbursements	—	—	—	—
Administrative expenses:				
Actual expenses paid	—	—	—	—
Expenses deducted from participant accounts	134	60	250	43
Total deductions	4,988	1,809	8,531	4,583
Net (decrease) increase prior to interfund transfers	(44,599)	(15,308)	(86,335)	(609)
Interfund transfers	(22,052)	4,614	1,566	(18,379)
Net (decrease) increase in net assets held in trust for individuals, organizations, and other governments	(66,651)	(10,694)	(84,769)	(18,988)
Net assets, beginning of year	127,248	42,339	233,003	69,174
Net assets, end of year	$ 60,597	31,645	148,234	50,186

Participant directed							
Global Balanced Fund	**Citizens Core Growth Fund**	**Stable Value Fund**	**World Equity Ex-US Index Fund**	**World Gov't Bond Ex-US Index Fund**	**Russell 3000 Index Fund**	**Sentinel Sustainable Core Opportunities Fund**	**RCM Sustainable Core Opportunities Fund**
3,002	321	6,325	29	25	42	1,223	367
—	—	—	—	—	—	—	—
11	—	295	3	—	—	25	4
3,013	321	6,620	32	25	42	1,248	371
2	2	13	—	—	—	—	—
(18,667)	478	3,501	(233)	(15)	(326)	(8,336)	(2,164)
—	—	5,909	—	—	—	—	—
(18,667)	478	9,410	(233)	(15)	(326)	(8,336)	(2,164)
(15,652)	801	16,043	(201)	10	(284)	(7,088)	(1,793)
3,693	322	28,252	—	17	2	602	111
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
72	5	245	1	1	1	15	10
3,765	327	28,497	1	18	3	617	121
(19,417)	474	(12,454)	(202)	(8)	(287)	(7,705)	(1,914)
(5,907)	(27,312)	89,372	1,028	1,054	1,871	7,705	15,388
(25,324)	(26,838)	76,918	826	1,046	1,584	—	13,474
68,635	26,838	185,518	—	—	—	—	—
43,311	—	262,436	826	1,046	1,584	—	13,474

(Continued)

Participant directed							
Intermediate Bond Fund	Long US Treasury Bond Index Fund	US Real Estate Investment Trust Index Fund	US Treasury Inflation Protection Securities Index Fund	State Street Institutional Treasury Money Market Fund	Alaska Target 2010 Fund	Alaska Target 2015 Fund	Alaska Target 2020 Fund
336	114	25	41	208	1,038	2,747	1,409
—	—	—	—	—	—	—	—
—	—	—	—	—	2	46	4
336	114	25	41	208	1,040	2,793	1,413
—	—	—	—	—	—	9	—
693	222	(303)	(61)	—	(1,306)	(11,991)	(8,307)
—	—	—	—	3	—	—	—
693	222	(303)	(61)	3	(1,306)	(11,991)	(8,307)
1,029	336	(278)	(20)	211	(266)	(9,189)	(6,894)
345	84	5	53	235	2,582	3,180	660
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
10	5	1	1	3	41	82	31
355	89	6	54	238	2,623	3,262	691
674	247	(284)	(74)	(27)	(2,889)	(12,451)	(7,585)
18,314	7,271	1,718	3,079	6,597	(1,899)	(4,027)	(1,888)
18,988	7,518	1,434	3,005	6,570	(4,788)	(16,478)	(9,473)
—	—	—	—	—	40,639	79,438	28,796
18,988	7,518	1,434	3,005	6,570	35,851	62,960	19,323

Participant directed			Nonparticipant directed				
Alaska Target 2025 Trust	**Alaska Balanced Trust**	**Alaska Long-Term Balanced Trust**	**Money Market Fund**	**Cash and cash equivalents**	**Contributions receivable**	**Accrued expenses**	**Total**
992	40,350	47,571	—	—	746	—	131,873
—	—	—	—	4,059	(73)	—	3,986
77	112	110	—	—	—	—	993
1,069	40,462	47,681	—	4,059	673	—	136,852
—	135	6	(707)	—	—	—	113
(3,490)	(158,706)	(48,045)	—	—	—	—	(409,915)
—	—	6	76	3	—	—	5,997
(3,490)	(158,706)	(48,039)	76	3	—	—	(403,918)
(2,421)	(118,109)	(352)	(631)	4,062	673	—	(266,953)
490	59,100	11,259	—	—	—	—	130,416
—	—	—	—	4,129	—	(165)	3,964
—	—	—	1,728	1,594	—	(159)	3,163
8	1,315	819	(3,153)	—	—	—	—
498	60,415	12,078	(1,425)	5,723	—	(324)	137,543
(2,919)	(178,524)	(12,430)	794	(1,661)	673	324	(404,496)
(40)	(64,587)	(13,486)	(1,500)	1,500	—	—	—
(2,959)	(243,111)	(25,916)	(706)	(161)	673	324	(404,496)
9,034	1,116,647	176,381	5,832	1,234	6,203	(1,283)	2,215,676
6,075	873,536	150,465	5,126	1,073	6,876	(959)	1,811,180

(5) Changes in Fiduciary Net Assets (cont.)

		Participant directed			
		International Equity Fund	Small Cap Stock Trust	Citizens Core Growth Fund	S&P 500 Stock Index Fund
2008:					
Additions (reductions):					
Contributions:					
Mandatory contributions	$	8,288	3,848	1,555	11,167
Voluntary contributions		—	—	—	—
Transfers in		153	76	7	34
Total contributions		8,441	3,924	1,562	11,201
Government Corporate Bond Fund Settlement		—	—	—	—
Investment income (loss):					
Net appreciation (depreciation) in fair market value of investments		3,332	(4,812)	(688)	(4,948)
Interest income		—	—	—	—
Net investment income (loss)		3,332	(4,812)	(688)	(4,948)
Total additions (reductions)		11,773	(888)	874	6,253
Deductions:					
Benefits paid to participants and purchases of annuity contracts		8,569	4,011	1,543	18,937
Insurance premiums and dependent care assistance reimbursements		—	—	—	—
Administrative expenses:					
Actual expenses paid		—	—	—	—
Expenses deducted from participant accounts		184	74	36	315
Total deductions		8,753	4,085	1,579	19,252
Net increase (decrease) prior to interfund transfers		3,020	(4,973)	(705)	(12,999)
Interfund transfers		(21,202)	(9,889)	8,072	(26,468)
Net increase (decrease) in net assets held in trust for individuals, organizations, and other governments		(18,182)	(14,862)	7,367	(39,467)
Net assets, beginning of year		145,430	57,201	19,471	272,470
Net assets, end of year	$	127,248	42,339	26,838	233,003

Participant directed							
Global Balanced Fund	**Tactical Asset Allocation Fund**	**Daily Government/ Corporate Bond Fund**	**Government Credit Bond Fund**	**Stable Value Fund**	**Alaska Target 2010 Fund**	**Alaska Target 2015 Fund**	**Alaska Target 2020 Fund**
2,888	509	790	655	3,670	1,051	2,825	1,459
—	—	—	—	—	—	—	—
44	12	4	1	69	45	2	28
2,932	521	794	656	3,739	1,096	2,827	1,487
—	—	—	5,549	—	—	—	—
(706)	1,023	(5,391)	1,889	5,111	2,203	2,996	(110)
—	—	—	—	7,044	—	—	—
(706)	1,023	(5,391)	1,889	12,155	2,203	2,996	(110)
2,226	1,544	(4,597)	8,094	15,894	3,299	5,823	1,377
4,824	1,518	2,483	894	21,209	5,160	4,981	843
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
83	15	23	25	174	43	93	35
4,907	1,533	2,506	919	21,383	5,203	5,074	878
(2,681)	11	(7,103)	7,175	(5,489)	(1,904)	749	499
2,923	(24,864)	(28,426)	61,999	55,072	2,312	(6,959)	(515)
242	(24,853)	(35,529)	69,174	49,583	408	(6,210)	(16)
68,393	24,853	35,529	—	135,935	40,231	85,648	28,812
68,635	—	—	69,174	185,518	40,639	79,438	28,796

Participant directed			Nonparticipant directed				
Alaska Target 2025 Trust	Alaska Balanced Trust	Alaska Long Term Balanced Trust	Money Market Fund	Cash and cash equivalents	Contributions receivable	Accrued expenses	Total
791	40,982	40,291	—	—	264	—	121,033
—	—	—	—	4,987	6	—	4,993
52	285	572	—	—	—	—	1,384
843	41,267	40,863	—	4,987	270	—	127,410
—	—	—	749	—	—	—	6,298
(424)	56,741	2,262	—	—	—	—	58,478
—	—	—	178	164	—	—	7,386
(424)	56,741	2,262	178	164	—	—	65,864
419	98,008	43,125	927	5,151	270	—	199,572
164	78,023	13,314	—	—	—	—	166,473
—	—	—	—	5,323	—	(374)	4,949
—	—	—	1,656	1,311	—	123	3,090
8	1,414	723	(3,245)	—	—	—	—
172	79,437	14,037	(1,589)	6,634	—	(251)	174,512
247	18,571	29,088	2,516	(1,483)	270	251	25,060
1,572	(31,548)	17,921	(1,500)	1,500	—	—	—
1,819	(12,977)	47,009	1,016	17	270	251	25,060
7,215	1,129,624	129,372	4,816	1,217	5,933	(1,534)	2,190,616
9,034	1,116,647	176,381	5,832	1,234	6,203	(1,283)	2,215,676

(6) 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.

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, 2009.

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, 2009 and 2008, the Fund was comprised as follows:

		2009	2008
Cash and cash equivalents	$	1,862	1,849

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.

(7) 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 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 money market portfolio was 43.87 days at January 31, 2009.

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 at the time of purchase. Floating rate securities are limited to three years in maturity or three years expected average life at the time of purchase. Treasury utilizes the actual maturity date for commercial paper and twelve month prepay speeds for other securities. At January 31, 2009, the expected average life of individual fixed rate securities ranged from one day to ten months and the expected average life of floating rate securities ranged from six days to five months.

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 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 Barclays Capital Intermediate Aggregate Index plus one–half

year. The aggregate duration of the constant duration synthetic investment contracts was 3.02 years at January 31, 2009. The duration of the Barclays Capital Intermediate Aggregate Index was 2.87 years at January 31, 2009.

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-three days at January 31, 2009.

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 ten 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 ± 0.20 years of the Barclays Aggregate Bond Index. At January 31, 2009, the duration of the government and corporate debt securities was 3.70 years and the duration of the Aggregate Bond Trust was 3.79 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 long–term credit rating of at least A3 or equivalent and instruments with a short–term credit rating of at least P1 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, 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,
>
> GNMA, FNMA, and FHLMC mortgage-backed securities may be purchased even if they are not rated by all or any of these rating agencies as long as they are rated investment grade by T. Rowe's internal credit evaluation, and
>
> Commercial paper and other short–term debt obligations must be rated A1 or equivalent.

At January 31, 2009, 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):

Investment type	Rating	Short-term fixed income pool	Underlying synthetic investment contracts	Investment loss trust	Other	Total
		Fair value (in thousands)				
Investments with credit exposure:						
Money market fund	Not rated	$ —	—	—	5,126	5,126
Short-term investment fund	Not rated	—	(1,732)	—	—	(1,732)
Commercial paper	Not rated	129	—	226	—	355
U.S. government agency	AAA	240	66,955	423	—	67,618
Mortgage-backed	AAA	49	12,438	87	—	12,574
Mortgage-backed	A	2	—	4	—	6
Mortgage-backed	Not rated	3	104,723	6	—	104,732
Other asset-backed	AAA	158	5,808	276	—	6,242
Other asset-backed	AA	1	256	2	—	259
Other asset-backed	A	12	66	21	—	99
Other asset-backed	BBB	2	232	4	—	238
Corporate bonds	AAA	30	7,285	52	—	7,367
Corporate bonds	AA	104	4,215	183	—	4,502
Corporate bonds	A	80	18,745	140	—	18,965
Corporate bonds	BBB	—	9,356	—	—	9,356
Corporate bonds	Not rated	8	—	13	—	21
Yankees:						
Corporate	AAA	10	—	18	—	28
Corporate	AA	39	462	69	—	570
Corporate	A	4	1,782	7	—	1,793
Corporate	BBB	—	1,598	—	—	1,598
Corporate	Not rated	9	—	15	—	24
Government	AAA	—	2,046	—	—	2,046
Government	AA	—	1,182	—	—	1,182
Government	A	—	181	—	—	181
Government	BBB	—	68	—	—	68
Deposits and Investments with no credit exposure:						
Deposits		—	2,937	—	—	2,937
U.S. treasury bills		165	—	289	—	454
U.S. treasury notes		—	—	—	—	—
U.S. treasury bonds		—	—	—	—	—
Participant directed						
Pooled investment funds		—	—	—	1,148,210	1,148,210
Collective investment funds		—	—	—	388,418	388,418
Domestic equity		—	—	—	—	—
International equity		—	—	—	—	—
Total invested assets		1,045	238,603	1,835	1,541,754	1,783,237
Pool related net assets (liabilities)		28	—	27	—	55
Total		$ 1,073	238,603	1,862	1,541,754	1,783,292

(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.

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 %
U.S. Agency Securities	100	100
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 Board's policy with regard to concentration of credit risk for wholly owned pooled investments is as follows:

Equity holdings will be limited to 5% per issuer 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, 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, 2009, the Plan had no exposure to a single issuer in excess of 5% of total invested assets.

(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.

(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, 2009, the Plan's deposits were uncollateralized and uninsured.

(8) 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.

The Plan may invest in pooled separate accounts which include securities with contractual cash flows which may include asset-backed securities, collateralized mortgage obligations and commercial mortgage backed securities. The value, liquidity and related income of these securities are sensitive to changes in economic conditions, including real estate value, delinquencies or defaults, or both, and may be adversely affected by shifts in the market's perception of the issuers and changes in interest rates.