KPMG

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

(A Component Unit of the State of Alaska)

Financial Statements
and Supplemental Schedules

June 30, 2008

(With Independent Auditors' Report Thereon)

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

June 30, 2008

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KPMG LLP
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Independent Auditors' Report

Alaska Retirement Management Board and
Division of Retirement and Benefits
State of Alaska Teachers' Retirement System:

We have audited the accompanying statement of net assets of the State of Alaska Teachers' Retirement System (System), a Component Unit of the State of Alaska, as of June 30, 2008, and the related statement of changes in net assets for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the State of Alaska Teachers' Retirement System, a Component Unit of the State of Alaska, as of June 30, 2008 and the changes in net assets for the year then ended in conformity with U.S. generally accepted accounting principles.

The accompanying required supplementary information of management's discussion and analysis on pages 3 to 10 and schedules of funding progress and employer contributions on pages 50 to 57 are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedules 1 and 2 on pages 58 and 59 are presented for the purpose of additional analysis and are not a required part of the basic financial statements. This information is the responsibility of the System's management, has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

December 15, 2008

This section presents management's discussion and analysis (MD&A) of the Teachers' Retirement System's (System) financial position and performance for the year ended June 30, 2008. This section is presented as a narrative overview and analysis. Please read the MD&A in conjunction with the financial statements, notes to the financial statements, required supplementary and additional information to better understand the financial condition and performance of the System during the fiscal year ended June 30, 2008.

Financial Highlights

The System's net assets held in trust for pension and post employment healthcare benefits as of June 30, 2008 is $4,823,247,000.

The System's net assets held in trust for pension and post employment healthcare benefits as of June 30, 2008 decreased by ($76,938,000) or -1.6% from June 30, 2007.

The System's contributions totaled $142,492,000 during fiscal year 2008; a decrease of ($73,629,000) or -34.1% from fiscal year 2007.

State of Alaska appropriations totaled $269,992,000 during fiscal year 2008. There were no State of Alaska appropriations in fiscal year 2007.

The System's net investment income in fiscal year 2008 is ($145,767,000); reflecting a decrease of ($926,572,000) or -118.7% from fiscal year 2007.

The System's pension benefit and post employment healthcare payments totaled $336,183,000 during fiscal year 2008, reflecting a decrease of ($53,585,000) or -13.7% from fiscal year 2007.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the System's financial statements. The System's financial statements are comprised of three components: (1) statement of plan net assets, (2) statement of changes in plan net assets, and (3) notes to financial statements. This report also contains required supplementary information and other supplementary schedules.

Statement of Plan Net Assets – This statement presents information regarding the System's assets, liabilities, and resulting net assets held in trust for pension and post employment healthcare benefits. This statement reflects the System's investments at fair market value, along with cash and short-term investments, receivables, and other assets less current liabilities at June 30, 2008.

Statement of *Changes in Plan Net Assets* – This statement presents how the System's net assets held in trust for pension and post employment healthcare benefits changed during the fiscal year ended June 30, 2008. This statement presents contributions earned and investment income (loss) during the period. Deductions for pension and post employment healthcare benefits, refunds, and operating deductions are also presented.

The above statements represent resources available for investment and payment of benefits as of June 30, 2008, and the sources and uses of those funds during fiscal years 2008 and 2007.

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

Required Supplementary Information – The required supplementary information consists of three schedules and related notes concerning the funded status of the Defined Benefit (DB) Plan and actuarial assumptions and methods used in the actuarial valuation.

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

Condensed Financial Information

	Net Assets (in thousands)			
			Increase/(decrease)	
Description	**2008**	**2007**	**Amount**	**Percentage**
Assets:				
Cash, cash equivalents and receivables	$ 1,192,256	26,502	1,165,754	2.3%
Securities lending collateral	—	531,810	(531,810)	n/a
Investments, at fair value	4,721,111	4,876,834	(155,723)	(3.2)%
Other assets	17	27	(10)	(37.0)%
Total assets	5,913,384	5,435,173	478,211	8.8
Liabilities:				
Accrued expenses	3,517	3,178	339	10.7%
Securities lending collateral payable	—	531,810	(531,810)	n/a
Other liabilities	1,086,620	—	1,086,620	n/a
Total liabilities	1,090,137	534,988	555,149	103.8
Net assets	$ 4,823,247	4,900,185	(76,938)	(1.6)%

TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Management's Discussion and Analysis

June 30, 2008

	Changes in Net Assets (In thousands)			
			Increase/(decrease)	
Description	**2008**	**2007**	**Amount**	**Percentage**
Net assets, beginning of year	$ 4,900,185	4,299,971	600,214	14.0%
Additions:				
Contributions	142,492	216,121	(73,629)	(34.1)
State of Alaska appropriation	269,992	—	269,992	n/a
Net investment income (loss)	(145,767)	780,805	(926,572)	(118.7)
Transfers in	1,086,620	—	1,086,620	n/a
Other additions	34	21	13	61.9
Total additions	1,353,371	996,947	356,424	279.7
Deductions:				
Pension and postemployment healthcare benefits	336,183	389,768	(53,585)	(13.7)
Refunds	3,963	4,555	(592)	(13.0)
Administrative	3,543	2,410	1,133	47.0
Transfers out	1,086,620	—	1,086,620	n/a
Total deductions	1,430,309	396,733	1,033,576	260.5
Increase (decrease) in net assets	(76,938)	600,214	(677,152)	(112.8)
Net assets, end of year	$ 4,823,247	4,900,185	(76,938)	(1.6)%

Financial Analysis of the System

The Statements of Plan Net Assets as of June 30, 2008 and 2007 showed net assets held in trust for pension and post employment healthcare benefits of $4,823,247,000 and $4,900,185,000, respectively. The entire amount is available to cover the System's obligations to pay pension and postemployment healthcare benefits to its members and their beneficiaries.

These amounts represent a decrease in the System's net assets held in trust for pension and postemployment healthcare benefits of ($76,938,000) or -1.6% from fiscal year 2007 to 2008. Over the long term, plan member, employer contributions, and State of Alaska appropriations, as well as investment income earned, are expected to sufficiently fund the pension benefit and postemployment healthcare costs of the System. The decrease in net assets is primarily due to the negative investment returns of the System.

The investment of pension funds is a long-term undertaking. On an annual basis, the Alaska Retirement Management Board (ARMB) reviews and adopts an asset allocation strategy to ensure the asset mix will remain at an optimal risk/return level given the Systems constraints and objectives. During Fiscal Year 2008, the ARMB adopted an asset allocation that includes 37% in domestic equities, 14% in international equities, 18% in domestic fixed income, 2% in international fixed income, 10% in real estate, 7% in private equity, 3% in high yield, 2% in emerging market equity, 4% in absolute return, and 2.5% in other investments. The asset allocation is expected to provide a five year median return of 8.12%.

For fiscal years 2008 and 2007, the System's investments generated a -3.05% and a +18.92% rate of return. The System's annualized rate of return was +8.84% over the last three years and +10.10% over the last five years.

Actuarial Valuations and Funding Progress – DB Plan

The overall objective of a pension fund is to accumulate sufficient funds to meet all expected future obligations to members. The employer contribution requirements are actuarially determined as a percentage of eligible salaries, and reflect the cost of benefits accruing during a fiscal year and a fixed amortization of the unfunded accrued liability. The amortization period is recommended by the Actuary and adopted by the ARMB. Contribution rates are recommended by the Actuary and adopted by the ARMB annually. Increasing healthcare costs and contribution shortfalls continue to impact the DB Plan's funding ratio. The ratio of assets to liabilities was 61.5%, at June 30, 2007 (the date of the DB Plan's latest actuarial valuation report). The goal for the DB Plan is to make progress toward achieving the funding objectives.

A summary of the actuarial assumptions and methods is presented in the Notes to Required Supplementary Information. The assumptions, when applied in combination, fairly represent past and anticipated future experience of the DB Plan.

For Fiscal Year 2008, the normal cost rate decreased from 13.76% to 12.56%, the past service rate increased from 28.02% to 29.70%, thus producing a total Fiscal Year 2008 annual contribution rate of 42.26%. The ARMB adopted a contribution rate of 42.26% for Fiscal Year 2008.

		Valuation Year (Dollars in thousands)	
		2007	**2006**
Valuation assets	$	4,424,399	4,141,700
Accrued liabilities (total benefits)		7,356,826	7,229,851
Funding ratio		60.1%	57.3%

Contributions and Investment Income

The additions required to fund retirement benefits are accumulated through a combination of employer and plan member contributions, State of Alaska appropriation, investment income (loss), other additions, and a transfer.

Additions (In thousands)

				Increase/(decrease)	
		2008	**2007**	**Amount**	**Percentage**
Plan member contributions	$	59,579	58,516	1,063	1.8%
Employer contributions		82,913	157,605	(74,692)	(47.4)
State of Alaska appropriation		269,992	—	269,992	n/a
Net investment income (loss)		(145,767)	780,805	(926,572)	(118.7)
Transfer from postemployment health fund		1,086,620	—	1,086,620	n/a
Other additions		34	21	13	61.9
Total additions	$	1,353,371	996,947	356,424	35.8%

The System's employer contributions decreased from $157,605,000 in Fiscal Year 2007 to $82,913,000 in Fiscal Year 2008, a decrease of ($74,692,000) or -47.4%. The State of Alaska provided $269,992,000 in employer on-behalf payments for Fiscal Year 2008 in House Bill 95, Section 15 (a). The employer contribution rate decreased from 26.00% in Fiscal Year 2007 to 12.56% in Fiscal Year 2008. The employer effective contribution rate of 12.56% for Fiscal Year 2008 was established in House Bill 95, Section 15 (b).

The System's net investment income in Fiscal Year 2008 decreased by ($926,572,000) or -118.7% from amounts recorded in Fiscal Year 2007. The System's total returns were -3.05, +18.92, and +11.78 for years ending 2008, 2007 and 2006. Changes were due to the performance of the equity markets. The Domestic Equity Pool realized a return of -13.5% in 2008 compared to +20.1% in 2007. The Retirement Fixed Income Pool realized a return of +6.6% in 2008 compared to +6.2% in 2007. The International Equity Pool realized a return of -9.4% in 2008 compared to +27.9% in 2007. The Real Estate Pool realized a return of +5.7% in 2008 compared to +20.7% in 2007. The International Fixed Income Pool realized a return of +19.0% in 2008 compared to +2.0% in 2007 compared. The Private Equity Pool realized a return of +13.2% in 2008 compared to +28.7% in 2007. The Emerging Markets Equity Pool realized a return of +4.0% in 2008 compared to +48.0% in 2007. The High Yield Pool realized a return of -0.9% in 2008 compared to +10.9% in 2007. The Other Investments Pool realized a return of +19.1% in 2008 compared to +11.3% in 2007. More than ninety-four percent of invested assets were invested in these pools.

The Defined Contribution Retirement (DCR) Pension Trust employer effective rate for Fiscal Year 2008 was 12.56%. The DCR Pension Trust employer contribution rate for Fiscal Year 2008 was 7.00%. The DCR Retiree Medical Fund rate for Fiscal Year 2008 was 0.99%. The DCR Occupational Death and Disability Fund rate for Fiscal Year 2008 was 0.62%. The rate for the Retiree Major Medical Insurance Fund was 0.99% per ARMB Resolution 2006-28, and the rate for the Health Reimbursement Arrangement Fund was set at 3% of the employer's average annual compensation per AS 39.30.370. Any remaining balance, if any, after subtracting the mandatory contributions from the total employer contribution rate of 12.56% was deposited in the DB Plan.

Over the long term, investment income has been a major component of additions to System assets. During Fiscal Year 2008, the System experienced a significant reduction in rates of return on investments. The rate of return used in the actuarial valuation report to determine liabilities of the DB Plan was 8.25%. The actual rate of return did not exceed the actuarial rate of return for Fiscal Year 2008 as it had for the four prior years.

During fiscal year 2008, the System transferred the $1,086,620,000 balance of the Postemployment Healthcare fund to the Alaska Retiree Healthcare Trust as a result of the creation of the Alaska Retiree Healthcare Trust fund, which began on July 1, 2007.

Benefits and Other Deductions

The primary deduction of the DB Plan is the payment of pension and post employment healthcare benefits. The primary deduction of the DCR Pension Trust Plan is the refund of contributions. These benefit payments, healthcare claims paid, lump sum refunds made to former plan members, and the cost of administering the plans comprise the costs of operation.

Deductions (In thousands)

				Increase/(decrease)	
		2008	**2007**	**Amount**	**Percentage**
Pension and postemployment healthcare benefits	$	336,183	389,768	(53,585)	(13.7)%
Refunds of contributions		3,963	4,555	(592)	(13.0)
Administrative		3,543	2,410	1,133	47.0
Total	$	343,689	396,733	(53,044)	(13.4)%

The System's pension and postemployment healthcare benefit payments in 2008 decreased ($53,585) or -13.7% from Fiscal Year 2007. The primary reason of the decrease was the change in how healthcare costs are reported in the System financial statements. The DB Plan ARHCT was established with Senate Bill 123 and became effective July 1, 2007. The ARHCT healthcare claims payments were $29,494,000 for Fiscal Year 2008. Prior to Fiscal Year 2008, the System was responsible for a healthcare premium paid directly to the Retiree Health Fund (RHF) for each retired member / beneficiary participating in the System. Beginning July 1, 2007, the System began funding the ARHCT via employer contributions. The RHF continued to pay healthcare claims for the three participating Systems until February 29, 2008. Beginning March 1, 2008, the ARHCT is responsible for payment of healthcare claims.

Funding

Retirement benefits are financed by accumulations from employers, plan members, State of Alaska appropriations, and income earned on System investments.

- The contribution rates are determined by the consulting actuary and approved by the ARMB annually. The DCR Pension Trust Fund's employer contribution rate is established by Alaska Statute and the remaining contribution rates adopted by the ARMB, with the exception of the Healthcare Reimbursement Arrangement Plan amounts, which are calculated and approved by the Department.
- Plan member contributions are established by Alaska Statute 14.25.050 for the DB Plan and Alaska Statute 14.25.340 for the DCR Pension Trust Fund.
- Alaska Statute 14.25.085 requires that additional state contributions are required each July 1 or as soon after July 1 for the ensuing fiscal year that when combined with the total employer contributions is sufficient to pay the System's past service liability at the contribution rate adopted by the ARMB for that fiscal year.
- The ARMB works with an external consultant to determine the proper asset allocation strategy.

Legislation

During Fiscal Year 2008, the Twenty-Sixth Alaska State Legislature enacted three laws that affect the System:

- Senate Bill 125 establishes an employer contribution rate of 12.56 percent for all TRS employers.
- House Bill 310 appropriates $206.3 million from the general fund to the Department of Administration for deposit in the System's defined benefit pension fund and retiree healthcare trust as partial payment of the participating employers' contributions for the fiscal year ending June 30, 2009. This appropriation is to fund the difference between the statutory required contribution established in Senate Bill 125 of 12.56 percent and the actuarially required contribution of 44.17 percent for Fiscal Year 2009.
- House Bill 13 authorizes the State of Alaska to issue pension obligation bonds to help reduce the Systems unfunded liability.

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

The financial market environment continues to challenge investors. The ARMB continues to diversify the portfolio of the System to maintain an optimal risk/return ratio. The return on the DB Plan's investments failed to meet or exceed its' actuarially assumed return of 8.25%. Even with investment returns exceeding the actuarial rate of return, the DB Plan will continue to see an increase in employer actuarial determined contribution rates due to rising medical costs and past contribution shortfalls.

The consulting actuary recommended an increase from the System's contribution rate of 41.78% in Fiscal Year 2007 to 42.26% in Fiscal Year 2008. The ARMB adopted a contribution rate of 54.03% for Fiscal Year 2008, up 28.03 points from the Fiscal Year 2007 contribution rate of 26.00%. The statutory contribution rate remained 12.56% for fiscal years 2007 and 2008.

The June 30, 2007, actuarial valuation for the DB Plan reported a funding ratio of 61.5% and an unfunded liability of $2.7 billion.

For Fiscal Years 2008 and 2007, the DCR Pension Trust Fund's employer contribution rate was established at 7.00%. The DCR Pension Trust Fund retiree medical plan contribution rate was adopted by the ARMB to be 0.99% and 1.75% for Fiscal Years 2008 and 2007 respectively. The DCR Pension Trust Fund's occupational death and disability rate was established by Senate Bill 123 and approved by the ARMB for Fiscal Year 2008 to be 0.62%.

Requests for Information

This financial report is designed to provide a general overview of the finances for all those with interest in the finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Alaska Teachers' Retirement System
Division of Retirement & Benefits, Accounting Section
P.O. Box 110203
Juneau, Alaska 99811-0203

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Statement of Plan Net Assets

June 30, 2008

(In thousands)

	Defined benefit plan 2008				Defined contribution pension trust plan 2008					
	Pension	**Postemployment healthcare**	**Alaska retiree healthcare trust**	**Total**	**Participant directed**	**Occupational death and disability**	**Retiree medical plan**	**Health reimbursement arrangement**	**Total**	**SYSTEM TOTAL**
Assets:										
Cash and cash equivalents (notes 3 and 5):										
Short-term fixed income pool	$ 4,303	2,148	7,838	14,289	159	35	108	304	606	14,895
Great West Account	—	—	—	—	77	—	—	—	77	77
Total cash and cash equivalents	4,303	2,148	7,838	14,289	236	35	108	304	683	14,972
Receivables:										
Contributions	3,196	—	1,714	4,910	361	15	24	70	470	5,380
Due from State of Alaska General Fund	12,963	—	5,697	18,660	639	26	42	106	813	19,473
Due from PERS Alaska Retiree Healthcare Trust	—	—	64,996	64,996	—	—	—	—	—	64,996
Due from Retiree Health Fund	—	—	754	754	—	—	—	—	—	754
Due from postemployment healthcare trust (note 6)	—	—	1,086,620	1,086,620	—	—	—	—	—	1,086,620
Other account receivable	5	—	56	61	—	—	—	—	—	61
Total receivables	16,164	—	1,159,837	1,176,001	1,000	41	66	176	1,283	1,177,284
Investments (notes 3, 4, 5, and 8):										
Domestic equity pool	1,471,637	55,250	—	1,526,887	—	—	—	—	—	1,526,887
Retirement fixed income pool	465,421	232,354	—	697,775	—	—	—	—	—	697,775
International equity pool	460,525	229,910	—	690,435	—	—	—	—	—	690,435
Real estate pool	387,754	193,580	—	581,334	—	—	—	—	—	581,334
International fixed income pool	65,454	32,677	—	98,131	—	—	—	—	—	98,131
Private equity pool	264,967	132,280	—	397,247	—	—	—	—	—	397,247
Emerging markets equity pool	87,448	43,657	—	131,105	—	—	—	—	—	131,105
Other investments pool	105,612	52,725	—	158,337	—	—	—	—	—	158,337
High yield pool	77,597	38,739	—	116,336	—	—	—	—	—	116,336
Absolute return pool	129,720	64,761	—	194,481	—	—	—	—	—	194,481
Treasury inflation protection pool	17,105	8,539	—	25,644	—	33	110	276	419	26,063
Collective investment funds, at fair value:										
Participant directed	—	—	—	—	12,883	—	—	—	12,883	12,883
Common trust funds	—	—	86,424	86,424	—	—	—	—	—	86,424
ERISA commingled and mutual funds	—	—	—	—	—	291	962	2,420	3,673	3,673
Total investments	3,533,240	1,084,472	86,424	4,704,136	12,883	324	1,072	2,696	16,975	4,721,111
Loans and mortgages, net of allowance for loan losses of $1 for 2008	17	—	—	17	—	—	—	—	—	17
Total assets	3,553,724	1,086,620	1,254,099	5,894,443	14,119	400	1,246	3,176	18,941	5,913,384
Liabilities:										
Accrued expenses	2,926	—	526	3,452	65	—	—	—	65	3,517
Due to Alaska Retiree Healthcare Trust - TRS (note 6)	—	1,086,620	—	1,086,620	—	—	—	—	—	1,086,620
Total liabilities	2,926	1,086,620	526	1,090,072	65	—	—	—	65	1,090,137
Commitment and contingencies (note 8)										
Net assets held in trust for pension and postemployment healthcare benefits	$ 3,550,798	—	1,253,573	4,804,371	14,054	400	1,246	3,176	18,876	4,823,247

See accompanying notes to financial statements.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Statement of Changes in Plan Net Assets

Year ended June 30, 2008

(In thousands)

	Defined benefit plan 2008				Defined contribution pension trust plan 2008					
	Pension	**Postemployment healthcare**	**Alaska retiree healthcare trust**	**Total**	**Participant directed**	**Occupational death and disability**	**Retiree medical plan**	**Health reimbursement arrangement**	**Total**	**SYSTEM TOTAL**
Additions:										
Contributions:										
Employers	$ 31,313	—	43,697	75,010	4,717	408	651	2,127	7,903	82,913
Plan members	54,121	—	111	54,232	5,347	—	—	—	5,347	59,579
Employer legislative relief	111,237	—	158,755	269,992	—	—	—	—	—	269,992
Total contributions	196,671	—	202,563	399,234	10,064	408	651	2,127	13,250	412,484
Investment income:										
Net appreciation (depreciation) in fair value (note 3)	(315,129)	—	(8,870)	(323,999)	(1,579)	(10)	(51)	(116)	(1,756)	(325,755)
Interest	58,061	—	2,386	60,447	340	2	53	184	579	61,026
Dividends	126,385	—	1,166	127,551	—	—	3	7	10	127,561
Net recognized loan recovery	11	—	—	11	—	—	—	—	—	11
Total investment income (loss)	(130,672)	—	(5,318)	(135,990)	(1,239)	(8)	5	75	(1,167)	(137,157)
Less investment expense	10,544	—	—	10,544	—	—	—	—	—	10,544
Net investment income (loss) before securities lending	(141,216)	—	(5,318)	(146,534)	(1,239)	(8)	5	75	(1,167)	(147,701)
Securities lending income (note 5)	17,913	—	—	17,913	—	—	—	—	—	17,913
Less securities lending expenses (note 5)	15,979	—	—	15,979	—	—	—	—	—	15,979
Net income from securities lending activities	1,934	—	—	1,934	—	—	—	—	—	1,934
Net investment income (loss)	(139,282)	—	(5,318)	(144,600)	(1,239)	(8)	5	75	(1,167)	(145,767)
Transfer from postemployment healthcare fund (note 6)	—	—	1,086,620	1,086,620	—	—	—	—	—	1,086,620
Other:										
Other	34	—	—	34	—	—	—	—	—	34
Total additions	57,423	—	1,283,865	1,341,288	8,825	400	656	2,202	12,083	1,353,371
Deductions:										
Pension and postemployment benefits	306,689	—	29,494	336,183	—	—	—	—	—	336,183
Refunds of contributions	3,761	—	—	3,761	202	—	—	—	202	3,963
Administrative	2,669	—	798	3,467	76	—	—	—	76	3,543
Total deductions	313,119	—	30,292	343,411	278	—	—	—	278	343,689
Transfer to Alaska Retiree Healthcare Trust (note 6)	—	1,086,620	—	1,086,620	—	—	—	—	—	1,086,620
Net increase (decrease)	(255,696)	(1,086,620)	1,253,573	(88,743)	8,547	400	656	2,202	11,805	(76,938)
Net assets held in trust for pension and postemployment healthcare benefits:										
Balance, beginning of year	3,806,494	1,086,620	—	4,893,114	5,507	—	590	974	7,071	4,900,185
Balance, end of year	$ 3,550,798	—	1,253,573	4,804,371	14,054	400	1,246	3,176	18,876	4,823,247

See accompanying notes to financial statements.

(1) Description

The following brief description of the State of Alaska Teachers' Defined Benefit Retirement System (TRS) Defined Benefit Retirement Pension and Postemployment Healthcare Plan (DB) and Defined Contribution Retirement Trust Fund (DCR). TRS is a Component Unit of the State of Alaska. The DCR Plan consists of a Participant Directed Fund, Retiree Medical Fund, Health Reimbursement Arrangement Fund, and Occupational Death and Disability Fund. Members should refer to the System agreement for more complete information then that noted in the notes to the financial statements.

At June 30, the number of participating local government employers was:

	2008	**2007**
State of Alaska	1	1
School districts	53	53
Other	4	4
	58	58

Inclusion in the DB Plan and DCR Pension Trust Fund is a condition of employment for permanent school district, University of Alaska and State Department of Education employees who meet the eligibility requirements for participation.

Defined Benefit Retirement Plan

General

The DB Plan is a defined benefit, cost–sharing, multiple employer plan within the System established and administered by the State of Alaska (State) to provide pension and postemployment healthcare benefits for teachers and other eligible members. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. The DB Plan is a plan within the System, which includes the DB Retirement Pension Trust Fund and Alaska Retiree Healthcare Trust Fund. TRS is a component unit of the State financial reporting entity and is included in the State's Comprehensive Annual Financial Report as a pension trust fund. With the passage of Senate Bill 141, the TRS DB Plan is closed to all new members effective July 1, 2006.

Senate Bill 123 was passed during the 2007 legislative session and created the Alaska Retiree Healthcare Trust (ARHCT). The ARHCT fund was established and effective July 1, 2007.

At June 30, DB Plan's membership consisted of:

	2008	**2007**
Retirees and beneficiaries currently receiving benefits	9,992	9,669
Terminated plan members entitled to future benefits	794	814
	10,786	10,483
Active plan members:		
Vested	5,678	5,632
Nonvested	3,004	3,624
	8,682	9,256
	19,468	19,739

Pension Benefits

Vested members hired prior to July 1, 1990, are entitled to pension benefits beginning at normal retirement age, fifty–five, or early retirement age, fifty. For members hired after June 30, 1990, the normal and early retirement ages are sixty and fifty–five, respectively. Members may also retire at any age and receive a normal benefit when they accumulate the required credited service.

The normal annual pension benefit is based on years of service and average base salary. The average base salary is based upon the members' three highest contract years' salaries.

The benefit related to all years of credited service prior to July 1, 1990 and for years of service through a total of twenty years is equal to 2% of the employee's average base salary. The benefit for each year over twenty years of service subsequent to June 30, 1990, is equal to 2–1/2% of the employee's base salary.

Minimum benefits for members eligible for retirement are $25 per month for each year of credited service.

Married members must receive their benefits in the form of a joint and survivor annuity unless their spouse consents to another form of benefit or benefits are payable under the 1% supplemental contributions provision.

The DB Plan has two types of post–retirement pension adjustments (PRPA). The automatic PRPA is issued annually to all eligible benefit recipients when the cost of living increases in the previous calendar year. The automatic PRPA increase is paid beginning July 1 of each year. The discretionary PRPA may be granted to eligible recipients by the DB Plan's administrator, if the cost of living in the previous calendar year rises and the financial condition of the DB Plan's permits. If both an automatic and discretionary PRPA are granted, and a retiree is eligible for both adjustments, the one that provides the retiree the greater increase will be paid.

Postemployment Healthcare Benefits

When pension benefits begin, major medical benefits are provided without cost to (1) all members first hired before July 1, 1990, (2) members hired after July 1, 1990 with 25 years of membership service, and (3) members who are disabled or age sixty or older, regardless of their initial hire dates. Members first hired after June 30, 1990, may receive major medical benefits prior to age sixty by paying premiums.

Prior to July 1, 1997, postemployment healthcare benefits were provided by the payment of premiums to an insurance company. Beginning July 1, 1997, the Retiree Health Fund (RHF), a pension trust fund of the State, was established. The RHF is self–funded and provides major medical coverage to retirees of the DB Plan. Retirees of three other State administered retirement Systems also participate in the RHF. The DB Plan, along with the other participating plans, retains the risk of loss of allowable claims. The RHF issues a publicly available financial report which may be obtained by writing to the State of Alaska, Department of Administration, Division of Retirement and Benefits, P.O. Box 110203, Juneau, Alaska, 99811–0203 or by calling (907) 465–4460.

Beginning July 1, 2007, the Alaska Retiree Healthcare Trust (ARHCT), a healthcare trust fund of the State, was established. The ARHCT is self-funded and provides major medical coverage to retirees of the System. The System retains the risk of loss of allowable claims for eligible members. The ARHCT began paying member healthcare claims on March 1, 2008. Prior to that, healthcare claims were paid for by the RHF.

Death Benefits

When benefits are payable under the 1% supplemental contribution provision, the DB Plan member's spouse is eligible for a spouse's pension if there is/are no dependent child(ren). If there is/are dependent child(ren), a survivor's allowance may be payable to the DB Plan member's spouse, or guardian of the dependent child(ren). The amount of the pension or allowance is determined by the DB Plan member's base salary. DB Plan members first hired after June 30, 1982, are not eligible to participate in this provision.

If an active DB Plan member dies from occupational causes, the spouse may receive a monthly pension from the DB Plan. When death is due to occupational causes and there is no surviving spouse, the DB Plan member's dependent child(ren) may receive a monthly pension until they are no longer dependents. If the member does not have a spouse or dependent children at the time of death, a lump sum death benefit is payable to the named beneficiary(ies). The amount of the occupational death pension is 40% of the member's base salary at the time of death. The amount of the occupational death pension changes on the date the DB Plan member's normal retirement would have occurred if the DB Plan member had lived. The new benefit is based on the DB Plan member's average base salary at the time of death and the credited service that would have accrued had the DB Plan member lived and continued to work until normal retirement. If benefits are payable under the 1% supplemental contribution provision, benefits are not payable under this provision. If the death was from nonoccupational causes, and the DB Plan member was vested, the spouse may receive a monthly 50% joint and survivor option benefit based on the member's credited service and average base salary at the time of death. If the DB Plan member is not married or vested, a lump sum death benefit is payable to the named beneficiary(ies).

Disability Benefits

If a DB Plan member has been in membership service for five or more years for which contributions have been made, is not eligible for normal retirement benefits and becomes permanently disabled, the DB Plan member is entitled to a monthly benefit. The annual disability benefit is equal to 50% of the base salary at the time of the disability plus an additional 10% of his/her base salary for each dependent child up to a maximum of four children. At normal retirement age, a disabled System member receives normal retirement benefits.

Contributions

DB Plan Member Contributions

The DB Plan members contribute 8.65% of their base salary as required by statute. The DB Plan's member contributions are deducted before federal tax is withheld. Eligible DB Plan members contribute an additional 1% of their salary under the supplemental contribution provision. Contributions are collected by employers and remitted to the DB Plan. DB Plan member contributions earn interest at the rate of 4.5% per annum, compounded annually.

Employer Contributions

The DB Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as a percent of annual covered payroll, are sufficient to accumulate assets to pay both pension and postemployment healthcare benefits when due. Employer contribution rates are determined using the entry age normal actuarial cost method of funding. The DB Plan uses the level percentage of pay method to amortize the unfunded liability over a twenty–five year fixed period. Employer contributions are accumulated in both the pension and the healthcare funds based on the approved contribution rate for the fiscal year.

Contributions from the State of Alaska

Alaska Statute 14.25.085 requires that additional state contributions are required each July 1 or as soon after July 1 for the ensuing fiscal year that when combined with the total employer contributions is sufficient to pay the System's past service liability at the contribution rate adopted by the ARMB for that fiscal year.

Refunds

DB Plan member contributions may be voluntarily or, under certain circumstances, involuntarily refunded to the employee or a garnishing agency sixty days after termination of employment. Voluntary refund rights are forfeited on July 1 following the member's 75th birthday or within fifty years of the member's last termination date. Members who have had contributions refunded forfeit all retirement benefits, including postemployment healthcare benefits. Members are allowed to reinstate refunded service due to involuntary refunds by repaying the total involuntary refunded balance and accrued interest. Members are allowed to reinstate voluntarily refunded service by repaying the voluntarily refunded balance and accrued interest, as long as they re–establish an employee relationship with a participating DB Plan employer before July 1, 2010. Members who have not re–established an employee relationship with a participating

DB Plan employer by June 30, 2010, will not be eligible to reinstate voluntarily refunded service and will forfeit any claim to DB Plan membership rights. Balances refunded to members accrue interest at the rate of 7.0% per annum, compounded semiannually.

Administrative Costs

Administrative costs are financed through investment earnings.

Due From (to) State of Alaska General Fund

Amounts due from (to) the State of Alaska General Fund represent the net difference between amounts paid by the DB Plan on behalf of others and amounts paid by others on behalf of the DB Plan.

DCR Pension Trust Fund

General

The DCR Pension Trust Fund is a defined contribution, cost-sharing, multiple employer public employee retirement plan within TRS established and administrated by the State of Alaska (State) to provide pension and postemployment healthcare benefits for eligible employees. Benefits and contribution provisions are established by State law and may be amended only by the State Legislature. The DCR Pension Trust Fund was created by State of Alaska Statutes effective July 1, 2006. A defined contribution plan is a plan in which savings are accumulated in an individual retirement account for the exclusive benefit of the member or beneficiaries.

At June 30, DCR Pension Trust Fund membership consisted of:

	2008
Retirees and beneficiaries currently receiving benefits	—
Terminated plan members entitled to future benefits:	
25% Vested	77
50% Vested	—
75% Vested	1
100% Vested	3
Total terminated plan members entitled to future benefits	81
Total current and future benefits	81
Active plan members:	
25% Vested	378
50% Vested	2
75% Vested	—
100% Vested	5
Nonvested	818
Total active plan members	1,203
	1,284

Pension Benefits

A participating member is immediately and fully vested in that member's contributions and related earnings. A member shall be fully vested in the employer contributions made on that member's behalf, and related earnings, after five years of service. A member is partially vested in the employer contributions made on that member's behalf, and the related earnings, in the ratio of a) 25% with two years of service, b) 50% with three years of service; c) 75% with four years of service; and d) 100% with five years of service.

Postemployment Healthcare Benefits

Major medical benefits available to eligible persons are access to the retiree major medical insurance plan and to the health reimbursement arrangement plan. Access to the retiree major medical insurance plan means that an eligible person may not be denied insurance coverage except for failure to pay the required premium.

Death Benefits

If (1) the death of an employee occurs before the employee's retirement and before the employee's normal retirement date, (2) the proximate cause of death is a bodily injury sustained or a hazard undergone while in the performance and within the scope of the employee's duties, and (3) the injury or hazard is not the proximate result of willful negligence of the employee, a monthly survivor's pension shall be paid to the surviving spouse. If there is no surviving spouse or if the spouse later dies, the monthly survivor's pension shall be paid in equal parts to the dependent children of the employee.

The monthly survivor's pension section for survivors of employees who were not peace officers or fire fighters is 40% of the employee's monthly compensation in the month in which the employee dies. The monthly survivor's pension for survivors of employees who were peace officers or fire fighters is 50% of the monthly compensation in the month in which the employee dies. While the monthly survivor's pension is being paid, the employer shall make contributions on behalf of the employee's beneficiaries based on the deceased employee's gross monthly compensation at the time of occupational death.

Disability Benefits

An employee is eligible for an occupational disability benefit if employment is terminated because of a total and apparently permanent occupational disability before the employee's normal retirement date. The occupational disability benefits accrue beginning the first day of the month following termination of employment as a result of the disability and are payable the last day of the month. If a final determination granting the benefit is not made in time to pay the benefit when due, a retroactive payment shall be made to cover the period of deferment.

Contributions

Defined Contribution Retirement Pension Trust Fund Member Contributions

Contribution rates are 8.0% for DCR Pension Trust Fund members, as required by statute. The employer shall deduct the contribution from the member's compensation at the end of each payroll period, and the contribution shall be credited by the plan to the member's individual account. The contributions shall be deducted from the member's compensation before the computation of applicable federal taxes.

Employer Contributions

An employer shall contribute to each member's individual account an amount equal to 7.0% of the member's compensation.

Participant Accounts

Participant accounts under the DCR Pension Trust Fund are self-directed with respect to investment options. Investment options are disclosed in note 3.

Each participant designates how contributions are 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.

Refunds

A member is eligible to elect distribution of the member's account in accordance with this section 60 days after termination of employment. Distributions that are being paid to a member may not be affected by the member's subsequent reemployment with the employer. Upon reemployment, a new individual account shall be established for the member to whom any future contributions shall be allocated.

(2) Summary of Significant Accounting Policies

Basis of Accounting

The Systems financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Contributions are recognized in the period in which they are due. Benefits and refunds are recognized when due and payable.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates.

GASB Statements No. 25 and No. 43

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

During the fiscal year, the DB Plan adopted GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (GASB 43). GASB 43 establishes uniform financial reporting standards for Other Postemployment Benefit Plans (OPEB) and supersedes the interim guidance included in GASB Statement No. 26, *Financial Reporting or Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans*. The approach followed by GASB 43 is generally consistent with the approach adopted in GASB 25, with modifications to reflect differences between pension and OPEB plans.

Investments

Investments are recorded at fair value. Fair value is "the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller – that is, other than in a forced or liquidation sale." Security transactions are accounted for on a trade date (ownership) basis at the current fair value. Dividend income on equity securities is accrued on the ex–dividend date. Net appreciation (depreciation) is determined by calculating the change in the fair value of investments between the end of the year and the beginning of the year, less purchases of investments at cost, plus sales of investments at fair value. Investment deductions consist of those administrative deductions directly related to the System's investment operations.

Basis of Accounting

The financial statements are prepared using the accrual basis of accounting for investment income. Assets are reported at fair value. Investment purchases and sales are recorded on a trade-date basis. Contributions, benefits paid and all expenses are recorded on a cash basis.

Valuation

Defined Benefit Pension and Postemployment Healthcare Investments

Fixed income securities are valued each business day using prices obtained from a pricing service when such prices are available; otherwise, such securities are valued at the most current sale price or based on a valuation provided by investment managers.

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

Emerging markets securities are valued on the last business day of each month by the investment managers.

Private equity investments are valued quarterly by the general partners and investment sponsors. Private equity oversight managers and ARMB staff employ a standard of reasonable care in verifying that the valuations reasonably reflect the underlying fair value of the investments.

Absolute return investments are valued monthly by the general partners. The fund administrators are held to a standard of reasonable care in verifying that the valuations reasonably reflect the underlying fair value of the investments.

The energy related investments in the other investments pool are valued quarterly by the general partners. The agricultural investments are valued quarterly by the investment managers based on market conditions. Agricultural holdings are appraised once every three years, in conjunction with the purchase anniversary date, by independent appraisers.

With the exception of real estate investment trust holdings, real estate investments are valued quarterly by investment managers based on market conditions. Separate account real estate investments are appraised annually by independent appraisers. Real estate investment trust holdings are valued each business day using prices obtained from a pricing service.

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

Defined Benefit Alaska Retiree Healthcare Trust Investments

With the exception of the SSgA emerging markets strategy which is valued bi-monthly following the third Wednesday and last business day of each month, common trust funds are valued daily. Equity investments for which market quotations are readily available are valued at the last reported sale price or close for certain markets on their principal exchange on the valuation date. If no sales are reported for that day, investments are valued at the more recent of the last published sale price or the mean between the last reported bid and asked prices, or at the fair value as determined in good faith by the Trustee.

Defined Contribution Pension Participant Direct Investments

Pooled investment funds, 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 System. The unit value is determined by the Trustees based on fair value of the underlying assets. Purchases and sales of securities are recorded on a trade-date basis.

Collective Investment Funds, 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 System. The unit value is determined by the Trustees based on fair value of the underlying assets. Purchases and sales of securities are recorded on a trade-date basis.

Occupational Death and Disability, Retiree Medical and Health Reimbursement Arrangement Investments

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

Income Allocation

Income in the fixed income and domestic and international equity pools is credited to the net asset value of the pool daily and allocated to pool participants daily on a pro rata basis.

Income in the emerging markets, private equity, absolute return, other investments, and real estate pools is credited to the net asset value of the pool daily and allocated to pool participants monthly on a pro rata basis.

Income for the common trust funds is credited and allocated in accordance with the participants pro rata share of the fund when received.

Income for the pooled investment and collective investment funds is credited to the fund's net asset value on a daily basis and allocated to pool participants daily on a pro rata basis.

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

Contributions Receivable

Contributions from the DB Plan and DCR Pension Trust Fund members and employers for service through June 30 are accrued. These contributions are considered fully collectible and, accordingly, no allowance for uncollectible receivables is reflected in the financial statements.

Federal Income Tax Status

The DB Plan and DCR Pension Trust Funds are qualified plans under Section 401(a) and 414(d) of the Internal Revenue Code and are exempt from federal income taxes under Section 501(a).

(3) Investments

The Alaska Retirement Management Board (ARMB) has statutory oversight of the DB Plan and DCR Pension Trust Fund's investments. As the fiduciary, the ARMB has the statutory authority to invest the assets under the Prudent Investor Rule. Alaska Statute provides that investments shall be made with the judgment and care under circumstances then prevailing that an institutional investor of ordinary professional prudence, discretion and intelligence exercises in managing large investment portfolios.

The Department of Revenue, Treasury Division (Treasury) provides staff for the ARMB. Treasury has created a pooled environment by which it manages the investments the ARMB has fiduciary responsibility for. Additionally, Treasury manages a mix of common trust pooled investments, collective investments, ERISA commingled and mutual funds for the Alaska Retiree Healthcare Trust, and the following Defined Contribution Retirement plans; which includes Participant Direct Pension, Occupational Death and Disability, Retiree Medical, and Health Reimbursement Arrangement Plans.

Actual investing is performed by investment officers in State's Department of Revenue, Treasury Division, or by contracted external investment managers. The ARMB has developed investment guidelines, policies and procedures for Treasury staff and external investment managers to adhere to when managing investments. Specifically, the international fixed income pool, high yield pool, domestic equity pool, international equity pool, emerging markets equity pool, private equity pool, absolute return pool, other investments pool, real estate pool investments (with the exception of real estate investment trust holdings), common trust funds, pooled investment funds, collective investment funds, ERISA commingled funds, and mutual funds are managed by external management companies. Treasury manages the retirement fixed income pool, enhanced cash pool, treasury inflation protected securities pool, real estate investment trust holdings and cash holdings of certain external managers in addition to acting as oversight manager for all externally managed investments.

The short-term fixed income pool is a State pool managed by the State's Department of Revenue, Treasury Division that holds investments on behalf of the System as well as other pension and state funds.

Both Defined Benefit and Defined Contribution Pension Trust Plan invested assets participate in two internally managed fixed income pools.

(a) Short-Term Fixed Income Pool

The System participates in the State's internally managed short–term fixed income pool which was established March 15, 1993, with a startup and maintained share price of $1. Treasury staff determine the allocation between permissible securities. Each member owns shares in the pool, the number of which fluctuates daily with contributions and withdrawals. Member shares also change at the beginning of each month when income is paid. At June 30, 2008 the System had a 0.34% direct ownership in the short–term fixed income pool which included interest receivable of $21,704. The System had a 1.30% indirect ownership in the short–term fixed income pool at June 30, 2008.

(b) Treasury Inflation Protected Securities (TIPS) Pool

The System participates in the State's internally managed TIPS pool which was established May 24, 2006 with a startup price of $1,000. The share price at June 30, 2008 was $1,177. Treasury staff determine the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each member. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2008 System's invested assets included a 29.15% ownership in the TIPS Pool.

Defined Benefit Investments -Pension Plan Investments

(c) Retirement Fixed Income Pool

The System participated in the ARMB's internally managed retirement fixed income pool which was established March 1, 1996, with a startup share price of $1,000. The share price at June 30, 2008, was $2,083. Treasury staff determine the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each member. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2008 the System's invested assets included a 29.37% ownership in the retirement fixed income pool.

Enhanced Cash Fixed Income Pool

The System participated in the State's internally managed enhanced cash fixed income pool which had only one investor, the retirement fixed income pool. The enhanced cash fixed income pool was established on June 27, 2007 with a startup price of $1,000. The share price at June 30, 2008 was $1,009. Treasury staff determine the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each member. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2008 System invested assets included a 29.37% indirect ownership in the Enhanced Cash Fixed Income Pool.

(d) Internal Fixed Income Pool

The System participates in the ARMB's externally managed international fixed income pool which was established March 3, 1997, with a startup share price of $1,000. The share price at June 30, 2008, was $2,172. The manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each member. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2008 the System had a 30.64% ownership in the international fixed income pool.

(e) High Yield Pool

The System participates in the ARMB's externally managed high yield fixed income pool which was established April 15, 2005, with a startup share price of $1,000. The share price at June 30, 2008, was $1,179. Each manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each member. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2008 the System had a 30.58% ownership in the high yield pool.

(f) Domestic Equity Pool

The domestic equity pool is comprised of an external large cap domestic equity pool and an external small cap domestic equity pool.

Large Cap Domestic Equity Pool

The System participates in the ARMB's externally managed large cap domestic equity pool which was established July 1, 2004, with a startup share price of $1,000. The share price at June 30, 2008, was $1,182. Each manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each member. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2008 the System had a 30.52% ownership in the large cap domestic equity pool.

Small Cap Domestic Equity Pool

The System participates in the ARMB's externally managed small cap domestic equity pool which was established July 1, 2004, with a startup share price of $1,000. The share price at June 30, 2008, was $1,194. Each manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each member. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2008 the System had a 30.46% ownership in the small cap domestic equity pool.

(g) International Equity Pool

The System participates in the ARMB's externally managed international equity pool which was established January 1, 1992, with a startup share price of $1,000. The share price at June 30, 2008, was $3,899. Each manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each member. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2008 the System had a 30.43% ownership in the international equity pool.

(h) Emerging Markets Equity Pool

The System participates in the ARMB's externally managed emerging markets equity pool which was established May 2, 1994, with a startup share price of $1,000. The share price at June 30, 2008, was $4,023. The pool participates in three externally managed commingled investment funds alongside other institutional investors through ownership of equity shares. The commingled funds invest in the securities markets of developing countries. Ownership in the pool is based on the number of shares held by each member. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2008 the System had a 30.70% ownership in the emerging markets equity pool.

(i) Private Equity Pool

The System participates in the ARMB's externally managed private equity pool which was established April 24, 1998, with a startup share price of $1,000. The share price at June 30, 2008, was $2,507. Underlying assets in the pool are comprised of venture capital, buyouts, restructuring and special situation investments through limited partnership agreements. Each manager independently determines the limited partnerships to invest in. Ownership in the pool is based on the number of shares held by each member. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2008 the System had a 30.89% ownership in the private equity pool.

(j) Absolute Return Pool

The System participates in the ARMB's externally managed absolute return pool which was established October 31, 2004, with a startup share price of $1,000. The share price at June 30, 2008, was $1,267. Underlying assets in the pool are comprised of hedge fund investments through limited partnership agreements. Each fund administrator independently determines the limited partnerships to invest in. Ownership in the pool is based on the number of shares held by each member. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2008 the System had a 30.64% ownership in the absolute return pool.

(k) Other Investments Pool

The System participates in the ARMB's externally managed other investments pool which was established March 18, 2004, with a startup share price of $1,000. The share price at June 30, 2008, was $1,532. Underlying assets in the pool are comprised of limited partnership interests in an energy related venture capital operating company and two agricultural entities. Each manager independently determines which permissible investments are made. Ownership in the pool is based on the number of shares held by each member. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2008 the System had a 30.88% ownership in the other investments pool.

(l) Real Estate Pool

The System participates in the ARMB's real estate pool which was established June 27, 1997, with a startup share price of $1,000. The share price at June 30, 2008, was $3,273. Underlying assets in the pool are comprised of separate accounts, commingled accounts, limited partnerships, and real estate investment trust holdings. With the exception of investments in real estate investment trusts, managers independently determine permissible investments. Treasury staff determines the permissible real estate investment trusts to invest in. Ownership in the pool is based on the number of shares held by each member. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2008 the System had a 30.62% ownership in the real estate pool.

Alaska Retiree Health Care Trust Investments

The Board Contracts with an external manager who manages a mix of Common Trust Funds.

(m) Domestic Equity

The Health Care Trust Investments in Domestic Equity are comprised of two externally managed Common Trust Funds.

SSgA Domestic Large Cap

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

SSgA Domestic Small Cap

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

(n) SSgA International Equity

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

(o) SSgA Emerging Markets

The purpose of this fund is to closely match the returns of the capitalization-weighted MSCI Emerging Markets Index.

(p) SSgA Domestic Fixed Income

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

(q) SSgA International Fixed Income

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

(r) SSgA High Yield Bond Index

The purpose of this fund is to deliver a risk-controlled, higher quality, liquid exposure to the broad U.S. high yield market with low tracking error. The strategy uses stratified sampling to create a portfolio of liquid issuers that target the Lehman High Yield $200 Million Very Liquid Index (HYVLI) in such characteristics as duration, issuer market weight, credit quality and industry.

(s) SSgA TIPS

The purpose of the U.S. Treasury Inflation Protected Securities Index Strategy is to replicate the returns and characteristics of the Lehman Brothers Inflation Notes Index.

Defined Contribution Pension Trust Fund Participant Directed Investments

Pooled Investment Funds

The ARMB contracts with an external investment manager who is given the authority to invest funds in a wholly owned pooled environment to accommodate four participant-directed funds.

(t) T. Rowe Alaska Target 2025 Trust

On July 1, 2006 the DCR Pension Trust Fund began participation in the Target 2025 Trust. The purpose of this fund is to provide a diverse mix of stocks, bonds, and cash for long-term investors with a high tolerance for risk. Underlying investments are comprised of domestic and international stocks, investment grade bonds, federally guaranteed mortgages, and money market instruments. At June 30, 2008 the DCR Pension Trust Fund's invested assets included a 0.04% ownership in the Alaska Target 2025 Fund.

(u) T. Rowe Alaska Balance Trust

On July 1, 2006 the DCR Pension Trust Fund began participation in the 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. At June 30, 2008 the DCR Pension Trust Fund's invested assets included a 0.01% ownership in the Alaska balanced trust.

(v) T. Rowe Long-Term Balance Trust

On July 1, 2006 the DCR Pension Trust Fund began participation in the long-term balanced 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. At June 30, 2008 the DCR Pension Trust Fund's invested assets included a 0.16% ownership in the long-term balanced trust.

(w) T. Rowe Alaska Money Market Trust

On July 1, 2006 the DCR Pension Trust Fund began participation in the Alaska money market trust. Underlying assets are comprised of cash equivalent instruments with maturities of less than one year which include commercial paper, banker acceptances, and certificates of deposit with ratings of A1/P1 or better; as well as, obligations of the US Government and its agencies, and repurchase agreements collateralized by

US Treasury Instruments with the goal of maintaining a $1.00 unit price. At June 30, 2008 the DCR Pension Trust Fund's invested assets included a 13.70% ownership in the Alaska money market trust

Collective Investment Funds

The ARMB contracts with external investment managers who maintain collective investment funds. Mangers selected are subject to the provision of the collective investment funds the ARMB has selected.

(x) SSgA Government/Corporate Bond Fund

The purpose of this fund was to match or exceed the return of the Lehman Brothers Government/Credit Bond Index. This fund was liquidated in September 2007 and replaced by the Barclays government/corporate bond fund.

(y) SSgA S&P 500 Stock Index Fund

The purpose of this fund is to provide income and capital appreciation that matches total return of the Standards & Poor's Composite Stock Price Index.

(z) Barclays Government/Corporate Bond Fund

The purpose of this fund is to match or exceed the return of the Lehman Brothers Government/Credit Bond Index.

(aa) Capital Guardian Global Balanced Fund

The purpose of this fund is to invest in stocks and bonds of U.S. and international companies and government bonds issued by the U.S. and other governments.

(bb) Brandes Institutional 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 stocks.

(cc) Citizens Core Growth Fund

The purpose of this fund is to invest primarily in U.S. large cap growth stocks, with an emphasis on those that are managed in a socially responsible manner. This fund was liquidated in April 2008 and replaced by the sentinel sustainable opportunities fund.

(dd) Sentinel Sustainable Opportunities Fund

The purpose of this fund is to invest primarily in U.S. large cap growth stocks, with an emphasis on those that are managed in a socially responsible manner.

(ee) T. Rowe Small Cap Stock Fund

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.

Defined Contribution Health and Occupational Death and Disability Investments

ERISA Commingled and Mutual Funds

The ARMB Contracts with external managers who manage a mix of ERISA and Mutual Funds.

(ff) Domestic Equity

The Health Care Trust Investments in domestic equity are comprised of two externally managed ERISA Funds.

SSgA Domestic Large Cap

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

SSgA Domestic Small Cap

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

(gg) SSgA International Equity

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

(hh) SSgA Domestic Fixed Income

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

(ii) SSgA International Fixed Income

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

(jj) SSgA Real Estate

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

(kk) Lazard Emerging Markets Mutual Fund

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

At June 30, 2008, the System investments included the following:

	Fair value (in thousands)								
	Fixed income pools								
	Short-term	Retirement	Enhanced cash	International	High yield	TIPS	Pooled investments funds	Other	Total
Deposits	$ -	-	-	360	-	-	1	2,289	2,650
Overnight sweep account (lmcs)	-	-	-	-	4,577	-	-	-	4,577
Short-term investment fund	-	-	-	615	-	-	10	13,380	14,005
Commercial paper	4,815	-	-	-	-	-	38	-	4,853
Domestic equity	-	-	-	-	24	-	230	-	254
International equity	-	-	-	-	-	-	14	-	14
Bridge loans	-	-	-	-	1,726	-	-	-	1,726
U.S. treasury notes	-	69,045	-	-	-	18,926	-	-	87,971
U.S. treasury bonds	-	27,901	-	-	-	6,882	17	-	34,800
U.S. treasury - TIPS	-	-	-	-	-	-	33	-	33
U.S. government agency	31,160	12,505	-	-	-	-	29	-	43,694
Municipal bonds	-	255	-	-	-	-	4	-	259
Foreign government bonds	-	-	-	54,504	-	-	-	-	54,504
Mortgage-backed	2,504	370,048	4,358	-	-	-	58	-	376,968
Other asset-backed	14,516	37,246	5,379	-	224	-	-	-	57,365
Corporate bonds	13,738	138,979	2,162	41,634	70,945	-	51	-	267,509
Convertible bonds	-	-	-	-	292	-	1	-	293
Yankees:									
Government	-	3,251	-	-	-	-	4	-	3,255
Corporate	4,120	17,942	1,220	-	7,128	-	8	-	30,418
Domestic equity pool:									
Limited partnership	-	-	-	-	-	-	-	69,152	69,152
Convertible bonds	-	-	-	-	-	-	-	218	218
Treasury bills	-	-	-	-	-	-	-	507	507
Equity	-	-	-	-	-	-	-	1,436,932	1,436,932
International equity pool:									
Convertible bonds	-	-	-	-	-	-	-	349	349
Equity	-	-	-	-	-	-	-	671,208	671,208
Emerging markets equity pool	-	-	-	-	-	-	-	131,105	131,105
Private equity pool:									
Limited partnerships	-	-	-	-	-	-	-	397,247	397,247
Absolute return pool:									
Limited partnerships	-	-	-	-	-	-	-	194,481	194,481
Other investments pool:									
Limited partnerships	-	-	-	-	-	-	-	23,827	23,827
Agricultural holdings	-	-	-	-	-	-	-	134,509	134,509
Real estate pool:									
Real estate	-	-	-	-	-	-	-	282,232	282,232
Commingled funds	-	-	-	-	-	-	-	106,892	106,892
Limited partnerships	-	-	-	-	-	-	-	168,367	168,367
Real estate investment trusts	-	-	-	-	-	-	-	23,486	23,486
Mortgages	-	-	-	-	-	-	-	17	17
Mutual funds	-	-	-	-	31,315	-	-	102,436	133,751
Net other assets (liabilities)	(17)	(21,735)	(1,093)	1,018	105	223	(3)	(1,953)	(23,455)
Other pool ownership	(55,941)	42,338	(12,026)	-	-	32	-	25,597	-
Unallocated deposits in transit	-	-	-	-	-	-	-	33	33
Total invested ssets	$ 14,895	$ 697,775	$ -	$ 98,131	$ 116,336	$ 26,063	$ 495	$ 3,782,311	$ 4,736,006

(ll) Interest Rate Risk

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

(mm) Short–Term Fixed Income Pool

As a means of limiting its exposure to fair value losses arising from increasing interest rates, Treasury's investment policy limits individual fixed rate securities to fourteen months in maturity or fourteen months expected average life. Floating rate securities are limited to three years in maturity or three years expected average life. Treasury utilizes the actual maturity date for commercial paper and twelve–month prepay speeds for other securities. At June 30, 2008, the expected average life of individual fixed income securities ranged from eight days to less than three months.

Duration is a measure of interest rate risk. It measures a security's sensitivity to a 100-basis point change in interest rates. The duration of a pool is the average fair value weighted duration of each security in the pool taking into account all related cash flows. Treasury uses industry standard analytical software developed by The Yield Book Inc. to calculate effective duration. The software takes into account various possible future interest rates, historical and estimated prepayment rates, options and other variable cash flows to calculate effective duration.

(nn) Other Defined Benefit Fixed Income Pools

Through the ARMB's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the retirement fixed income portfolio to ± 20% of the Lehman Brothers Aggregate Bond Index. The effective duration for the Lehman Brothers Aggregate Bond Index at June 30, 2008, was 4.68 years.

Through the ARMB's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the enhanced cash fixed income portfolio to one year.

Through the ARMB's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the international fixed income portfolio to ± 25% of the Salomon Non–U.S. World Government Bond Index. The effective duration for the Salomon Non–U.S. World Government Bond Index at June 30, 2008, was 6.24 years.

Through the ARMB's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the high yield portfolio to ± 20% of the Merrill Lynch U.S. High Yield Master II Index. The effective duration for the Merrill Lynch U.S. High Yield Master II Index at June 30, 2008, was 4.49 years.

Through the ARMB's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the TIPS portfolio to a band which may not exceed ± 20% around the duration of the Lehman Brothers Global Inflation-Linked U.S. TIPS Index, or a reasonable proxy thereof. The duration of the proxy index at June 30, 2008, was 6.19 years.

At June 30, 2008, the effective duration of the DB Plan's fixed income pools, by investment type, was as follows:

	Effective duration (in years)				
	Retirement	**Enhanced cash**	**International**	**High yield**	**TIPS**
U.S. treasury notes	7.24	-	-	-	3.52
U.S. treasury bonds	13.48	-	-	-	12.66
U.S. government agency	4.85	-	-	-	-
Municipal bonds	10.96	-	-	-	-
Mortgage-backed	4.37	0.73	-	-	-
Other asset-backed	2.58	0.18	-	3.25	-
Corporate bonds	4.91	(0.02)	-	4.46	-
Convertible bonds	-	-	-	5.91	-
Yankees					
Government	11.93	-	6.65	-	-
Corporate	5.48	(0.76)	4.09	4.04	-
Portfolio effective duration	**4.57**	**0.20**	**5.49**	**2.99**	**5.95**

Defined Benefit Common Trust Funds

The ARMB does not have a policy to limit interest rate risk for these investments. The weighted average maturity of the common trust investment funds that consists solely of debt securities, domestic fixed income, high yield, international fixed income, and TIPS were 4.69, 4.45, 6.31, and 7.83 years at June 30, 2008, respectively.

Defined Contribution Pension Trust Pooled Investment Funds

The ARMB contracts with an external investment manager who is given the authority to invest funds in a wholly owned pooled environment to accommodate four participant directed funds. Through the ARMB'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 June 30, 2008, the duration of the government and corporate debt securities was 5.32 years and the duration of the Lehman Brothers Government Credit Index was 5.30 years.
>
> For mortgage-backed securities, duration is limited to ± 0.25 years of the Lehman GNMA Index. At June 30, 2008, the duration of the mortgage-backed securities was 4.14 years and the duration of the Lehman GNMA Index was 4.25 years.

The weighted average maturity of the money market portfolio was forty-five days at June 30, 2008.

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

Defined Contribution Pension Trust Collective Investment Funds

The ARMB does not have a policy to limit interest rate risk for these investments. The weighted average maturity of the collective investment fund that consisted solely of debt securities, the government/corporate bond fund, was 5.18 years at June 30, 2008.

Defined Contribution Pension Trust Occupational Death and Disability, Retiree Medical, and Health Reimbursement ERISA Commingled and Mutual Funds

The ARMB does not have a policy to limit interest rate risk for these investments. The weighted average maturity of the ERISA commingled investment funds that consists solely of debt securities, domestic fixed income and international fixed income, were 4.69 and 6.31 years at June 30, 2008, respectively.

(oo) Credit Risk

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

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

Short-term fixed income pool investments are limited to instruments with a long-term credit rating of at least A3 or equivalent and instruments with a short-term credit rating of at least P1 or equivalent. Asset-backed and non-agency mortgage securities that are not rated by both Standard & Poor's and Moody's may be purchased if they have an AAA rating by two of the following: Standard & Poor's, Moody's or Fitch. Unexpected daily cash surpluses that arise in this pool are invested overnight in the custodian's repurchase agreement sweep account. Treasury does not have a policy to limit credit risk associated with the sweep account.

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

Retirement Fixed Income:

Commercial paper must carry a rating of at least P-1 by Moody's and A-1 by Standard and Poor's.
Corporate debt securities must be investment grade.
Corporate, asset-backed and non-agency mortgage securities must be investment grade. Investment grade is defined as the median rating of Standard & Poor's, Moody's and Fitch. Asset-backed and non-agency mortgage securities may be purchased if only rated by one of these agencies if they are rated AAA. Corporate bonds may be purchased if rated by two of these agencies.
No more than 40% of the portfolio's assets may be invested in investment grade corporate debt.
No more than 15% of the portfolio's assets may be invested in BBB+ to BBB- rated debt by Standard and Poor's Corporation or the equivalent by Moody's or Fitch.

Enhanced Cash Fixed Income:

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

The average portfolio credit quality shall be A3 or higher.

No more than 10% percent of the portfolio's assets may be invested in securities rated below investment grade as determined by the Lehman Brothers rating methodology.

No more than 2% percent of the portfolio's assets may be invested in the bonds of any non-U.S. government agency or instrumentality rated below investment grade.

International Fixed Income:

Corporate and asset-backed obligations must be rated investment grade or better by a recognized credit rating agency.

Commercial paper and euro commercial paper must be rated A-1 by Standard & Poor's or P-1 by Moody's or the equivalent of a comparable rating agency.

High Yield:

No more than 10% percent of the portfolio's assets may be invested in securities rated A3 or higher.

No more than 25% of the portfolio's assets may be invested in securities rated below B3.

No more than 5% percent of the portfolio's assets may be invested in unrated securities.

No more than 10% percent of the portfolio's assets may be invested in countries not rated investment grade, including emerging markets.

The lower of any Standard & Poor's, Moody's or Fitch rating will be used for limits on securities rated below B3 and the higher rating will be used for limits on securities rated A3 or higher.

Daily cash surpluses that arise in this pool are invested in the custodian's repurchase agreement sweep account. This account is secured by U.S. Government or Agency securities. As such, the ARMB does not consider this investment subject to the credit risk limitations above.

TIPS:

Commercial paper must be rated at least P-1 by Moody's and A-1 by Standard and Poor's.

Corporate debt securities must be investment grade.

No more than 5% percent of the portfolio's assets may be invested in investment grade corporate debt.

No more than 5% percent of the portfolio's assets may be invested in BBB+ to BBB- rated debt by Standard & Poor's or the equivalents by Moody's or Fitch.

Corporate, asset-backed and non-agency mortgage securities must be rated investment grade. The investment grade rating is defined as the median rating of the following three rating agencies: Standard & Poor's, Moody's, and Fitch. Asset-backed and non-agency mortgage securities may be purchased if only rated by one of these agencies if they are rated AAA. Corporate bonds may be purchased if rated by two of these agencies.

Domestic equity, international equity and emerging markets:

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

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

The ARMB does not have a policy to limit the concentration of credit risk for the common trust funds, defined contribution pooled investment funds, collective investment funds, ERISA commingled funds or mutual funds.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements

June 30, 2008

At June 30, 2008, the System's investments consisted of securities with credit quality ratings issued by nationally recognized statistical rating organizations as follows (using Standard & Poor's Corporation rating scale):

		Fixed income pools						
	Rating	Short-term	Retirement	Enhanced cash	International	High yield	TIPS	Pooled investment funds
Commercial paper	Not rated	6.80 %	- %	- %	- %	- %	- %	3.86 %
Bridge loans	Not rated	-	-	-	-	1.48	-	-
Short term investment fund	Not rated	-	-	-	-	-	-	2.45
U.S. treasury notes	AAA	-	9.89	-	-	-	72.62	9.29
U.S. treasury bonds	AAA	-	4.00	-	-	-	26.41	4.74
U.S. government agency								
Discount notes	AAA	-	-	-	-	-	-	0.04
U.S. government agency	AAA	44.00	1.34	-	-	-	-	7.19
U.S. government agency	Not rated	-	0.46	-	-	-	-	-
Municipal bonds	AA	-	0.04	-	-	-	-	-
Municipal bonds	A	-	-	-	-	-	-	0.28
Municipal bonds	Not rated	-	-	-	-	-	-	0.14
Mortgage-backed	AAA	2.99	45.33	19.37	-	-	-	13.97
Mortgage-backed	AA	0.20	-	-	-	-	-	-
Mortgage-backed	A	0.12	-	-	-	-	-	-
Mortgage-backed	BBB	-	-	2.36	-	-	-	-
Mortgage-backed	Not rated	0.24	7.68	7.70	-	-	-	1.43
Other asset-backed	AAA	16.17	3.88	23.11	-	-	-	-
Other asset-backed	AA	0.63	0.22	0.43	-	-	-	-
Other asset-backed	A	2.53	0.24	0.13	-	-	-	-
Other asset-backed	BBB	0.24	0.47	11.75	-	-	-	-
Other asset-backed	BB	0.92	0.53	0.92	-	0.16	-	-
Other asset-backed	Not rated	-	-	-	-	0.03	-	-
Corporate bonds	AAA	2.01	1.23	1.50	-	-	-	0.81
Corporate bonds	AA	12.20	4.42	3.42	-	-	-	2.19
Corporate bonds	A	4.10	9.07	6.41	-	-	-	6.67
Corporate bonds	BBB	-	4.69	2.46	-	3.38	-	4.14
Corporate bonds	BB	-	-	-	-	20.92	-	0.05
Corporate bonds	B	-	-	-	-	29.01	-	-
Corporate bonds	CCC	-	-	-	-	4.42	-	-
Corporate bonds	D	-	-	-	-	0.07	-	-
Corporate bonds	Not rated	1.09	0.51	0.80	-	3.19	-	0.06
Convertible bonds	AA	-	-	-	-	-	-	0.07
Convertible bonds	BBB	-	-	-	-	0.10	-	-
Convertible bonds	B	-	-	-	-	0.15	-	-
Yankees:								
Government	AAA	-	-	-	19.32	-	-	0.13
Government	AA	-	-	-	6.52	-	-	0.35
Government	A	-	-	-	21.96	-	-	0.37
Government	BBB	-	0.25	-	-	-	-	0.28
Government	Not rated	-	0.22	-	7.74	-	-	-
Corporate	AAA	-	-	-	28.78	-	-	0.61
Corporate	AA	3.81	0.62	2.92	13.00	-	-	0.27
Corporate	A	1.26	1.16	0.92	-	-	-	0.57
Corporate	BBB	-	0.58	0.93	-	0.15	-	0.72
Corporate	BB	-	-	-	-	2.50	-	-
Corporate	B	-	-	-	-	2.50	-	-
Corporate	CCC	-	-	-	-	0.29	-	-
Corporate	D	-	-	-	-	0.12	-	-
Corporate	Not rated	0.74	0.22	3.47	0.65	0.57	-	-
No credit exposure		(0.05)	2.95	11.40	2.03	30.96	0.97	39.32
		100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %

(pp) Custodial Credit Risk - Deposits

Custodial credit risk is the risk that deposits may not be returned in the event of a bank failure. The ARMB does not have a policy in relation to custodial credit risk for deposits. At June 30, 2008, the System had the following uncollateralized and uninsured deposits:

		Amount (In thousands)
International fixed income pool	$	360
International equity pool		2,293

(qq) Foreign Currency Risk

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

The ARMB's policy with regard to foreign currency risk in the international fixed income pool is to restrict obligations to those issued in the currencies of countries represented in the Citibank Non-U.S. World Government Bond Index. In addition, the ARMB's asset allocation policy permits the System to hold up to four percent of total investments in international fixed income.

The ARMB's policy with regard to foreign currency risk in the international equity pool and the emerging markets pool is to permit the System to hold up to twenty-one percent of total investments in these two pools combined.

The ARMB's policy with regard to foreign currency risk in the private equity pool is to permit the System to hold up to twelve percent of total investments in private equity.

The ARMB has no policy regarding foreign currency risk in the common trust, defined contribution pooled investment funds, collective investment funds, ERISA commingled and mutual funds.

At June 30, 2008, the System had exposure to foreign currency risk with the following deposits:

		Amount (In thousands)	
Currency		**Fixed income pool**	**International equity pool**
Australian Dollar	$	—	(8)
Brazilian Real		—	10
Canadian Dollar		—	14
Danish Krone		—	157
Euro Currency		1	398
Hong Kong Dollar		—	148
Japanese Yen		191	1,381
Mexican Peso		168	—
New Zealand Dollar		—	18
Norwegian Krone		—	72
Pound Sterling		—	58
Swedish Krona		—	35
Swiss Franc		—	1
	$	360	2,284

At June 30, 2008, the System had exposure to foreign currency risk with the following investments:

	Amount (In thousands)					
	International fixed income pool		International equity pool	Private equity pool	Pooled investement funds
Currency	Foreign government	Corporate	Equity	Limited partnerships	Equity
Australian Dollar	$ —	—	15,221	—	1
Brazilian Real	—	—	2,964	—	—
Canadian Dollar	—	—	20,088	—	—
Danish Krone	—	—	5,382	—	—
Euro Currency	34,488	1,515	198,835	67,659	5
Hong Kong Dollar	—	—	15,765	—	1
Indonesian Rupah	—	—	1,956	—	—
Japanese Yen	9,278	40,119	146,294	—	3
Mexican Peso	10,738	—	290	—	—
New Taiwan Dollar	—	—	719	—	—
New Zealand Dollar	—	—	975	—	—
Norwegian Krone	—	—	5,129	—	1
Polish Zloty	—	—	113	—	—
Pound Sterling	—	—	126,099	4,377	2
Singapore Dollar	—	—	5,025	—	—
South African Rand	—	—	2,869	—	—
South Korean Won	—	—	4,194	—	—
Swedish Krona	—	—	9,254	—	—
Swiss Franc	—	—	55,628	—	1
	$ 54,504	41,634	616,800	72,036	14

At June 30, 2008, the System also had exposure to foreign currency risk in the emerging markets equity pool. This pool consists of investments in commingled funds; therefore no disclosure of specific currencies is made.

(rr) Concentration of Credit Risk

Treasury's policy with regard to concentration of credit risk for the short-term fixed income pool is to prohibit the purchase of more than five percent of the portfolio's assets in corporate bonds of any one company or affiliated group.

The ARMB' s policy with regard to concentration of credit risk for the retirement fixed income, international fixed income and high yield pools is to prohibit the purchase of more than five percent of the portfolio's assets in corporate bonds of any one company or affiliated group. The ARMB does not have a policy with regard to concentration of credit for the enhanced cash and TIPS pools.

At June 30, 2008, the System invested assets did not have exposure to any one issuer greater than 5% of total invested assets.

(ss) Collective Investment Funds

The DCR Pension Trust Fund's investments include the following collective investment funds at June 30, 2008:

		Units owned	Unit value		Balance (In thousands)
Global balanced fund	$	39,860	31.270		1,246
Government/credit bond fund		496	25.359		13
Alaska long-term balanced trust		24,854	13.537		336
Alaska balanced trust		3,459	33.794		117
Alaska target 2025 trust		353	11.229		4
Brandes INST international equity fund		185,453	19.770		3,666
T. Rowe Price small cap stock trust		50,014	38.110		1,906
S&P 500 stock index fund		100,744	24.527		2,471
Sentinel sustainable core opportunities		236,364	12.850		3,037
Money market fund		37,236	1		37
Unallocated deposit in transit					50
Total collective investment funds				$	12,883

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

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

		2008 (In thousands)
Net realized gain on foreign currency	$	44,006
Net unrealized gain (loss) on foreign currency		14
Net realized gain (loss) on foreign exchange contracts		(39)

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

	2008 (In thousands)
Contract sales	$ 18,938
Less fair value	18,926
Net unrealized gains (losses) on contracts	$ 12

The counterparties to the foreign currency forward contracts consist of a diversified group of financial institutions. Credit risk exposure exists to the extent of nonperformance by these counterparties; however, the risk of default is considered to be remote. The market risk is limited to the difference between contractual rates and forward rates at the balance sheet date.

(5) Securities Lending

Alaska Statute 37.10.071 authorizes the ARMB to lend assets, under an agreement and for a fee, against deposited collateral of equivalent fair value. In February of 2008, the ARMB voted to suspend its securities lending agreement with State Street Corporation (the Bank) which lent equity and domestic fixed income securities. Prior to suspension, the Bank, acting as the ARMB's agent under the agreement, transferred securities to broker agents or other entities for collateral in the form of cash or securities and simultaneously agreed to return the collateral for the same securities in the future. There were no outstanding securities on loan at June 30, 2008.

While the securities lending agreement was active, there was no limit to the amount that could be loaned and the ARMB was able to sell securities on loan. International equity security loans were collateralized at not less than 105% of their fair value. All other security loans were collateralized at not less than 102% of their fair value. Loaned securities and collateral were marked to market daily and collateral was received or delivered the following day to maintain collateral levels.

There is no cash collateral at June 30, 2008. Cash collateral in the amount of $531,810,023 at June 30, 2007 was invested in a registered 2(a)–7 money market fund. Maturities of investments in the money market fund generally did not match the maturities of the loaned securities because the lending agreements were terminable at will. Collateral securities could have been pledged or sold upon borrower default. Securities under loan, cash collateral and cash collateral payable were recorded on the financial statements at fair value in prior years. The Bank, the DB Plan received a fee from earnings on invested collateral. The Bank and the DB Plan shared a fee paid by the borrower for loans not collateralized with cash.

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

(6) Transfers

During fiscal year 2008, the System transferred the $1,086,620,000 balance of the Postemployment Healthcare fund to the Alaska Retiree Healthcare Trust as a result of the creation of the Alaska Retiree Healthcare Trust fund, which began on July 1, 2007.

Under SB 123, enacted in 2007, the State of Alaska sought to enhance compliance of the states' pension systems with the Internal Revenue Code by creating a new defined benefit retiree healthcare trust into which OPEB contributions would be deposited, and from which OPEB benefits would be paid. Historically, all such contributions had been deposited and benefits paid from the pension trust fund account. With the creation of the new healthcare trust fund account, the systems then sought approval from the Internal Revenue Service through the Voluntary Compliance Program to post the amount allocated to healthcare in the 2007 CAFR to the new healthcare trust fund. On October 10, 2008, the Internal Revenue Service (IRS) orally advised tax counsel for the states' pension systems that the request to transfer the 2007 CAFR amount in the new healthcare trust had been approved. The systems are awaiting the formal VCP decision of the IRS.

(7) Funded Status and Funding Progress – DB Pension and Post employment Healthcare Benefit Plan

The funded status of the defined benefit pension and post employment healthcare benefit plan is as follows:

Actuarial valuation date	Actuarial value of assets	Actuarial accrued liability (AAL) entry age	Unfunded actuarial accrued liability (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
Pension						
June 30, 2007	$ 3,441,867	5,043,448	1,601,581	68.2%	$ 554,245	289.0%
Post employment healthcare						
June 30, 2007	$ 982,532	2,313,378	1,330,846	42.5%	$ 554,245	555.2%

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

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

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

Valuation date	June 30, 2007
Actuarial cost method	Entry age normal level percentage of pay for pension; level dollar for healthcare
Amortization method	Level dollar, closed
Equivalent single amortization period	21 years
Asset valuation method	5 year smoothing market
Actuarial Assumptions:	
Investment rate of return	8.25% for pension, 4.50% for healthcare (includes inflation at 3.5%)
Projected salary increases	6.0% for first 5 years of service grading down to 4.0% after 15 years
Cost-of-living adjustment	Postretirement pension adjustment

Health cost trend:

	Medical	Prescription drugs
FY08	8.5%	12.0%
FY09	8.0	11.0
FY10	7.5	10.0
FY11	7.0	9.0
FY12	6.5	8.0
FY13	6.0	7.0
FY14	5.5	6.0
FY15	5.0	5.0
FY16 and later	5.0	5.0

GASB 43 requires that the discount rate used in the valuation be the estimated long-term yield on investments that are expected to finance postemployment benefits. Depending on the method by which a plan is financed, the relevant investments could be plan assets, employer assets, or a combination of plan and employer assets. The investment return should reflect the nature and the mix of both current and expected investments and the basis used to determine the actuarial value of assets.

TRS retiree healthcare benefits are partially funded. GASB 43 outlines two reason able methods of developing a blended discount rate when a plan is partially funded. These methods base the proportion of assumed plan and employer asset returns on 1) the funded ratio and 2) the percentage of annual required contribution actually being contributed to the plan. The State of Alaska has utilized the second methodology to develop a discount rate of 4.50% as of June 30, 2007 to be used for fiscal 2008 disclosure.

(8) Commitments and Contingencies

Commitments

The ARMS entered into an agreement through and external investment manager to provide capital funding for a domestic equity limited partnership. At June 30, 2008, the DB Plan's member share of the unfunded commitment totaled $26,145,874. This commitment can be withdrawn annually in December with ninety days notice.

The ARMB entered into agreements through external investment managers to provide capital funding for limited partnerships as it continues to build the private equity portfolio. At June 30, 2008 the DB Plan's member share of these unfunded commitments totaled $220,349,814. These commitments are estimated to be paid through 2019.

The ARMB entered into an agreement through an external investment manager to provide capital funding for a limited partnership as it continues to build the other investment portfolio. At June 30, 2008, the DB Plan's member share of this unfunded commitment totaled $25,951,218 to be paid through 2018.

The ARMB entered into agreements through external investment managers to provide capital funding for real estate investments as it continues to build the real estate portfolio. At June 30, 2008, the DB Plan's member share of these unfunded commitments totaled $89,382,437 to be paid through the year 2018.

Contingencies

The Department of Administration determined that statutory changes were needed to ensure that the Defined Benefit Retiree Health Program is funded in compliance with the Internal Revenue Code. Consequently, during the Fiscal Year 2007 legislative session, a law was enacted that created the Alaska Retiree Health Care Trusts (ARHCT), two separate irrevocable trusts. Senate Bill 123 (SB 123), effective June 7, 2007, directs all separately calculated employer contributions for the retiree health benefits, and appropriations, earning and reserves for payment of retiree medical obligations, to be credited to the ARHCT. Pursuant to SB 123, Treasury and the Department of Administration established and implemented the ARHCT effective as of July 1, 2007. The ARHCT is funded through employer contributions, premiums paid by retirees, and investment income.

The Department of Administration has received a favorable tax determination letter from the Internal Revenue Service during the filing cycle beginning on February 1, 2008, and ending on January 31, 2009, concerning the status of the pension plans it administers as qualified governmental plans under Internal

Revenue Code Sections 401(a) and 414(d). In addition, the Department of Administration engaged counsel to submit a voluntary compliance program filing with respect to the retiree health program administered by the System. The voluntary compliance program filing provided, among other things, that the Department of Administration would transfer sufficient funds from pension assets to properly fund assets available to pay postemployment healthcare benefits. Verbal approval from the Internal Revenue Service has been received, and the Department of Administration believes that it is unlikely that the Internal Revenue Service will reverse its verbal approval. Pursuant to the filing, the accompanying financial statements reflect a transfer in the amount of $1,086,620 which will be made subsequent to year end.

Approximately 50 Plan members have filed administrative challenges to the DB Plan administrator's refusal to include leave cash-in payments in the compensation used to calculate the members' retirement benefits. The members were all first hired by DB Plan employers before July 1, 1977, and claim that they have a constitutional right, based on the DB Plan statutes in effect before that date, to have leave cash-in payments included. The DB Plan's prior board, which heard appeals from decisions of the System administrator, had ruled on two of the appeals, and those rulings had in turn been appealed to the Alaska Superior Court. The remaining appeals have been stayed by the DB Plan's board. In addition, a class action lawsuit, raising the same issues, had been filed in the superior court, but has been put on hold until final resolution of the members' claim. On January 27, 2006, the Alaska Supreme Court decided one such member's case in the State's favor. The administrator intends to vigorously contest all of the remaining claims and believes that the State's success to date will result in dismissal of the remaining cases and pending claims. The System has not recorded an accrual related to any of these cases or pending claims, because an unfavorable outcome in these matters is, in management's opinion, not considered probable but rather only possible, and the potential loss, if any, cannot be reasonably estimated at this time. If an unfavorable outcome occurs, the costs would be passed through to employers through the normal contribution process.

The State was a defendant in a class action lawsuit involving a constitutional challenge to DB Plan statutes that provide a 10% cost of living adjustment (COLA) to retirees and other benefit recipients who reside in the state of Alaska. The plaintiffs claimed that these statutes violate the right to travel of nonresident benefit recipients, and therefore, the 10% COLA should be paid to all benefit recipients, regardless of residence. On summary judgment motions, the superior court first ruled in favor of the plaintiffs on the issue of whether, if the residency requirements are unconstitutional, the residency requirements are severable from the COLA statutes. On summary judgment motions addressing the constitutionality of the statutes, the superior court ruled against the state, holding that the COLA statutes violate the constitutional right to travel. The court ordered payment of COLA to retirees and survivors in high-cost areas of other states. The State appealed to the Alaska Supreme Court. The Superior Court ruled against the plaintiffs on the issue of past damages, and has cross-appealed to the Alaska Supreme Court. On December 29, 2006, the State received a favorable ruling from the Alaska Supreme Court that reversed the Superior Court's ruling against the plaintiffs on the issue.

An IRS assessment may eventually result from the statutory provision and the System's practice under which retiree medical benefits were paid to some survivors' spouses and dependents who were not eligible dependents under the IRC, or from the manner in which retiree health benefits were funded before June 6, 2007. However, management believes that any such assessment would be paid from the State's general fund, not from the System's assets. Furthermore, the System's statutes under which payment of medical benefits was made for ineligible dependents was corrected by SB 141, effective January 1, 2006, and the funding of retiree medical benefits was clarified and corrected by SB 123, which was effective June 6, 2007. Finally, although there were press reports of possible legal action regarding amendments to the PERS and TRS statutes by HB 161 (rehired retiree legislation), no litigation has been served on the System challenging provisions of that legislation. Management is not aware of any other specific unasserted claims or assessments against the System.

(9) Subsequent Event

Recent market conditions have resulted in an unusually high degree of volatility and increased the risks and short-term liquidity associated with certain investments held by the System, which could impact the value of investments after the date of these financial statements. Estimated losses through November 30, 2008 are $1.0 billion, which could ultimately affect the funded status of the System. The ultimate impact on the funded status will be determined based upon market conditions in effect when the annual actuarial valuation report for the year ended June 30, 2010 is performed.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Required Supplementary Information (Unaudited)

Schedule of Funding Progress

Pension Benefits

June 30, 2008

(Dollars in thousands)

Actuarial valuation date as of June 30		Actuarial value of plan assets	Actuarial accrued liabilities (AAL)	Unfunded actuarial accrued liabilities (UAAL)	Funded ration	Covered payroll	UAAL as a percentage of covered payroll
2002	$	2,699,445	3,959,958	1,260,513	68.2%	509,437	247.4%
2003		2,694,785	4,190,970	1,496,185	64.3	532,630	280.9
2004		2,647,777	4,216,480	1,568,703	62.8	522,421	300.3
2005		2,640,642	4,334,585	1,693,943	60.9	561,038	301.9
2006		3,296,934	4,859,336	1,562,402	67.8	574,409	272.0
2007		3,441,867	5,043,448	1,601,581	68.2	554,245	289.0

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

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Required Supplementary Information (Unaudited)

Schedule of Funding Progress

Postemployment Healthcare Benefits

June 30, 2008

(Dollars in thousands)

Actuarial valuation date as of June 30	Actuarial value of plan assets	Actuarial accrued liabilities (AAL)	Unfunded actuarial accrued liabilities (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
2002	$ 989,591	1,451,684	462,093	68.2%	509,437	90.7%
2003	1,057,500	1,644,639	587,139	64.3	532,630	110.2
2004	1,197,593	1,907,120	709,527	62.8	522,421	135.8
2005	1,318,297	2,163,971	845,674	60.9	561,038	150.7
2006	844,766	4,288,707	3,443,941	19.7	574,409	599.6
2007	982,532	2,313,378	1,330,846	42.5	554,245	555.2

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

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Required Supplementary Information (Unaudited)

Schedule of Contributions from Employers

Pension and Postemployment Healthcare Benefits

June 30, 2008

(Dollars in thousands)

Year ended June 30	Actuarial valuation date as of June 30[1]	Annual required contribution			Pension percentage contributed		Postemployment healthcare percentage contributed		Total percentage contributed (note 3)
		Pension	Postemployment healthcare	Total	By employer (note 3)	By State of Alaska (note 3)	By employer (note 3)	By State of Alaska (note 3)	
2003	2000	$ 37,800	9,570	47,370	132.7%	—%	132.7%	—%	132.7%
2004	2001	65,571	17,089	82,660	83.1	—	83.1	—	83.1
2005	2002	152,168	55,783	207,951	45.0	—	45.0	—	45.0
2006	2003	170,019	66,719	236,738	54.1	—	54.1	—	54.1
2007	2004	169,974	76,879	246,853	62.2	—	62.2	—	62.2
2008	2005	134,544	185,271	319,815	23.3	82.7	23.6	85.7	107.9

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

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

(1) Description of Schedule of Funding Progress

Each time a new benefit is added which applies to service already rendered, an "unfunded actuarial accrued liability" is created. Laws governing the System require that these additional liabilities be financed systematically over a period of future years. Also, if actual financial experiences are less favorable than assumed financial experiences, the difference is added to the unfunded actuarial accrued liability.

In an inflationary economy, the value of the dollar is decreasing. This environment results in employee pay increasing in dollar amounts resulting in unfunded actuarial accrued liabilities increasing in dollar amounts, all at a time when the actual value of these items, in real terms, may be decreasing.

(2) Actuarial Assumptions and Methods

The actuarial valuation was prepared by Buck Consultants. The significant actuarial assumptions used in the valuation as of June 30, 2007 are as follows:

(a) Actuarial cost method – entry age, unfunded actuarial accrued liability or funding excess amortized over a fixed 25-year period as a level percentage of pay amount.

(b) Valuation of assets – recognizes 20% of the investment gain or loss in each of the current and preceding four years and phased in over the next five years. All assets are valued at market value. Valuation assets are constrained to a range of 80% to 120% of the market value of assets.

(c) Valuation of medical and prescription drug benefits – base claims cost rates are incurred healthcare cost expressed as a rate per member per year. Separate analysis is limited by the availability and credibility of cost and enrollment data for each component of cost. This valuation reflects nonprescription claims separated by Medicare status, including eligibility of free Part A coverage. Prescription costs are analyzed separately as in prior valuations. Administrative costs are assumed in the final per capita claims cost rates used for valuation purposes. Analysis to date on Medicare Part A coverage is limited since Part A coverage is not available by individual, nor is this status incorporated into historical claim data. Valuation assumes 5.0% of the current retiree population does not receive Part A coverage.

(d) Investment return/Discount Rate – 8.25% per year, compounded annually, net of expenses.

(e) Salary scale – inflation 3.5% per year, merit 2.0% per year for the first 5 years of employment grading down to 0% after 15 years, and productivity 0.5% per year.

(f) Payroll growth – 4.0% per year.

(g) Total inflation – total inflation as measured by the Consumer Price Index for urban and clerical workers for Anchorage is assumed to increase 3.5% annually.

(h) Mortality (Pre-retirement) – Based upon the 2001-2005 actual experience. 60% of 1994 Group Annuity Table 1994 Base Year for females and 55% for males. All deaths are assumed to result from nonoccupational causes.

(i) Mortality (Post-retirement) – Based upon the 2001-2005 actual experience. 1-year setback of the 1994 Group Annuity Table Base Year for females and 3-year setback for males.

(j) Turnover – select and ultimate rates based upon the 2001-2005 actual withdrawal experience.

(k) Disability – incidence rates based upon the 2001-2005 actual experience. Post-disability mortality in accordance with the 1979 Pension Benefit Guaranty Corporation Disability Mortality Table to reflect mortality of those receiving disability benefits under Social Security.

(1) Retirement – retirement rates based on the 2001-2005 actual experience. Deferred vested members are assumed to retire at their earliest retirement.

(m) Marriage and age difference – wives are assumed to be three years younger than husbands. 85% of male members and 75% of female members are assumed to be married.

(n) Dependent children – benefits to dependent children have been valued assuming members who are married and between the ages of 25 and 45 have two dependent children.

(o) Contribution refunds – 10% of those terminating are assumed to have their contributions refunded.

(p) Cost of Living Allowance (COLA) – of those benefit recipients who are eligible for the COLA, 60% are assumed to remain in Alaska and receive the COLA.

(q) Sick leave – 4.7 days of unused sick leave for each year of service are assumed to be available to be credited once the member is retired.

(r) Post-retirement pension adjustment (PRPA) – 50% and 75% of assumed inflation, or 1.75% and 2.625% respectively, is valued for the annual automatic PRPA as specified in the statute. Disability benefits are loaded by 9% to account for the immediate COLA of 75% of assumed inflation or 2.625%.

(s) Expenses – all expenses are net of investment return assumption.

(t) Part-time status – part-time members are assumed to earn 0.55 years of credited service per year.

(u) Re-employment option – the actuary assumes all re-employed retirees return to work under the Standard Option.

(v) Service – total credited service is provided by the State. The actuary assumes that this service is the only service that should be used to calculate benefits. Additionally, the State provided claimed serviced (including Bureau of Indian Affairs Service). Claimed service is used for vesting and eligibility purposes.

(w) Per capita claims cost – sample claims cost rates for FY08 medical benefits are shown below:

		Medical	**Prescription drugs**
Total	$	7,196	2,173
Medicare Part A and B		1,151	2,173
Medicare Part B Only		2,805	2,173
Medicare Part D		N/A	465

(x) Third party administrator fees - $146.18 per person per year; assumed trend rate of 5% per year.

(y) Health cost trend –

	Medical	**Prescription**
FY08	8.5%	12.0%
FY09	8.0	11.0
FY10	7.5	10.0
FY11	7.0	9.0
FY12	6.5	8.0
FY13	6.0	7.0
FY14	5.5	6.0
FY15	5.0	5.0
FY16 and later	5.0	5.0

For the June 30, 2005 valuation, graded Healthcare Cost Trend Rates (HCCTR) were reinitialized. A survey of healthcare trends in the past year has revealed a general lowering of HCCTR. No reinitialization is required this year, so the trend rates will follow the same pattern as of the 2005 and 2006 valuations.

(z) Aging Factors –

Age	**Medical**	**Prescription drugs**
0 – 44	2.0%	4.5%
45 – 54	2.5	3.5
55 – 64	3.5	3.0
65 – 74	4.0	1.5
75 – 84	1.5	0.5
85+	0.5	0.0

(aa) Retired member contributions for medical Benefits – currently contributions are required for TRS members who are underage 60 and have less than 30 years of service. Eligible Tier 1 members are exempt from contribution requirements. Annual FY08 contributions based on monthly rates shown below for calendar 2007 and 2008 are assumed based on the coverage category for current retirees. The composite rate shown is used for current active and inactive members assumed to retire prior to age 60 with less than 30 years of service:

Coverage category	**FY08 annual contribution**	**Calendar 2008 monthly contribution**	**Calendar 2007 monthly contribution**
Retiree only	$ 7,080	590	590
Retiree and spouse	14,148	1,179	1,179
Retiree and child(ren)	9,996	833	883
Retiree and family	17,076	1,423	1,423
Composite	10,512	876	876

(bb) Trend Rate for Retired Member Contributions –

FY08	7.7%
FY09	7.3
FY10	7.0
FY11	6.7
FY12	6.3
FY13	6.0
FY14	5.7
FY15	5.3
FY16	5.0
FY17 and later	5.0

Graded trend rates for retired member medical contributions were reinitialized for the June 30, 2005 valuation. A study of the required contribution history along with assumptions related to the impact of recent accounting regulations leads us to recommend the new assumptions above for the contribution trends. Note that actual FY07 retired member medical contributions are reflected in the valuation so trend on such contribution during FY07 is not applicable.

(cc) Healthcare participation – 100% of members are assumed to elect healthcare benefits as soon as they are eligible.

The assumptions and methods, when applied in combination, fairly represent past and anticipated future experience of the System. The foregoing actuarial assumptions are based on the presumption that the System will continue. Were the System to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated benefits.

Effective June 30, 2007, there was a change in the actuarial cost methods. The cost method was changed from Projected Unit Credit to Entry Age Normal. The ARMB adopted the changes to the demographic and economic assumptions recommended by the actuary based on the results of an experience analysis performed on the population experience from June 30, 2001 through June 30, 2005. The changes in assumptions were adopted by the ARMB during the October 2006 ARMB meeting. Additionally, the trend rate table for the retiree medical contributions was updated and the assumed lag between the medical claims incurred and paid dates was changed from 3 months to 2 months.

Changes in Assumptions since the Last Valuation

(a) Healthcare – 5.0% of current retirees are assumed to be covered by Part B only. Change assumed lag between medical claim incurred and paid dates from 2 months for medical and prescription combined to 2.3 months for medical and 0.6 months for prescription. Added explicit TPA fees based on current admin contract and assumed to increase at 5%. Partially reflected Alaska-specific trend rates to bring forward experience period claims to the base year.

(3) Contributions – State of Alaska

Alaska Statute 14.25.085 states that the State of Alaska shall contribute to the System each July 1 or, if funds are not available on July 1, as soon after July 1 as funds become available, an amount for the ensuing fiscal year that, when combined with the total employer contributions of 12.56 percent, is sufficient to pay the DB Plan's past service liability at the consolidated actuarially required contribution (ARC) adopted by the Alaska Retirement Management Board (Board) for the fiscal year. During fiscal year 2008, the actuarially required contribution adopted by the Board was 54.03 percent. The additional state contribution is sufficient to contribute the 41.47 percent difference between the ARC and the employer contribution rate of 22 percent.

Schedule 1

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Schedule of Administrative and Investment Deductions

Year ended June 30, 2008

(In thousands)

	Administrative	Investment	2008
Personal services:			
Wages	$ 995	616	1,611
Benefits	559	266	825
Total personal services	1,554	882	2,436
Travel:			
Transportation	15	59	74
Per diem	4	9	13
Total travel	19	68	87
Contractual services:			
Management and consulting	1,137	8,805	9,942
Accounting and auditing	31	419	450
Advertising and printing	25	6	31
Data processing	229	182	411
Communications	39	21	60
Rentals/leases	—	—	—
Legal	37	53	90
Medical specialists	2	9	11
Repairs and maintenance	11	7	18
Other professional services	159	45	204
Securities lending	—	15,979	15,979
Transportation	22	2	24
Total contractual services	1,692	25,528	27,220
Other:			
Equipment	239	7	246
Supplies	39	38	77
Total other	278	45	323
Total administrative and investment deductions	$ 3,543	26,523	30,066

See accompanying independent auditors' report.

Schedule 2

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Schedule of Payments to Consultants

Other than Investment Advisors

Year ended June 30, 2008

(In thousands)

Firm	Services		2008
State Street Corporation	Custodian banking services	$	416
Buck Consultants	Actuarial services		168
CTG Computer Task Group	Data processing consultants		100
Wostmann & Associates, Inc.	Data processing consultants		31
KPMG LLP	Auditing services		28
State of Alaska, Department of Law	Legal services		19
First National Bank	Banking services		9
		$	771

See accompanying independent auditors' report.