TEACHERS' RETIREMENT SYSTEM
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Investment Section (continued)

December 16, 2003

The Honorable Frank H. Murkowski, Governor
Members of the Alaska State Legislature
Teachers' Retirement Board
Alaska State Pension Investment Board
Employers and Plan Members of the System

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the Teachers' Retirement System (TRS) (System) for the fiscal year ended June 30, 2003.

This report is intended to provide comprehensive information on the financial operations of the System for the year. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the management of the System. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the System for the year ended June 30, 2003. All disclosures necessary to enable the reader to gain an understanding of the System's activities have been included.

For financial reporting purposes, the System utilizes Governmental Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*: *Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. Assets of the System are presented at fair value. The actuarial value of assets and the actuarial accrued liability are presented in the required supplementary information following the notes to the financial statements.

The FY 2003 CAFR is divided into five sections:

- **Introductory Section**, which contains this letter of transmittal, the administrative organization of the System, and a list of the members serving on the Teachers' Retirement Board;
- **Financial Section**, which contains the Independent Auditors' Report, management's discussion and analysis (MD&A), Independent Auditors' Report, basic financial statements, required supplementary information, and additional information;
- **Investment Section**, which contains a message from the Chair of the Alaska State Pension Investment Board (ASPIB), a list of members serving on the ASPIB, a report on investment activity, investment results, and various investment schedules;
- **Actuarial Section**, which contains the Actuarial Certification letter and the results of the most current (June 30, 2002) annual actuarial valuation; and
- **Statistical Section**, which includes graphs and tables of significant data.

December 16, 2003

The Alaska TRS was established in 1955 to provide pension and postemployment healthcare benefits for teachers and other eligible participants. Normal service, survivor, and disability benefits are available to all members who attain the age and service requirements of the System.

	TRS		
	FY03	**FY02**	**FY01**
Net Assets (millions)	$3,602.6	3,689.0	4,086.9
Participating Employers	57	57	60

Reporting Entity

The System is considered a component unit of the State of Alaska for financial reporting purposes. Because of the closeness of the System's relationship to the State, it is included in the State of Alaska CAFR as a blended component unit.

The Commissioner of the Department of Administration, appointed by the Governor, is responsible for administering the System. In order to meet the statutory requirements of administering the System, the Commissioner appoints the Director of the Division of Retirement and Benefits. The Director is responsible for the daily operations of the System.

The Teachers' Retirement Board prescribes policies and regulations, hears appeals, and approves employers' contribution rates prepared by the System's independent actuary.

The ASPIB has statutory oversight of the System's investments and the authority to invest the System's monies. Actual investing is performed by external investment firms and investment officers of the Department of Revenue, Treasury Division, listed in the Investment Section of this report. The Treasury Division is responsible for carrying out investment policies established by ASPIB.

Major Initiatives

The System continues to make progress on completing several on-going projects. Most of these efforts focused on improvements in technology, improving methods for members to obtain information about the System and their benefits, and continued compliance with accounting requirements of the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB) as applicable in the circumstances.

During FY 2003, the System granted a discretionary cost-of-living increase, along with the statutorily required automatic cost-of-living increase.

Financial Information

Management is responsible for maintaining a system of adequate internal accounting controls designed to provide reasonable assurance that transactions are executed in accordance with management's general or specific authorization, and are recorded as necessary to maintain accountability for assets and to permit preparation of financial statements in accordance with generally accepted accounting principles. Discussion and analysis of net assets and related additions and deductions is presented in the MD&A beginning on page 13.

December 16, 2003

Independent Audit

The System's annual audit was conducted by the independent accounting firm of KPMG LLP. The auditors' report on the basic financial statements is included in the Financial Section of this report.

Actuarial Valuation

An actuarial valuation of the System is performed annually. An assumption experience study is performed at least every other year. The actuarial firm, Mercer Human Resource Consulting, Inc. completed the actuarial reviews and valuations as of June 30, 2002, and served as technical advisor to the System. Actuarial certifications and supporting statistics are included in the Actuarial and Statistical Sections of this report.

Actuarial Audit

In Fiscal Year 2003, the System contracted for an actuarial audit of the System's consulting actuary, Mercer Human Resource Consulting, Inc. Based upon a review of the 2000 experience studies and the 2001 valuation reports, including the underlying data and calculations, the actuarial auditor, Milliman USA, found the actuarial work to be generally reasonable. However, the auditor found a number of areas where changes were needed, and made additional observations and recommendations for improving the actuarial process.

The major issues noted by the auditor were categorized under two levels of significance to the overall funding status of the Plan. Level A findings included areas where changes were needed to correct the implementation of a method, calculation, or use of data, and which would result in a financial impact on the actuarial findings. Level B findings were in areas where the auditor recommended changes based on their professional opinion or preferences; these would also have some financial impact, if adopted, on the resulting actuarial valuation.

The actuarial audit reports are posted on the Division's website at: www.state.ak.us/drb/pers/actuarial-audits.html.

Professional Services

Professional consultants are retained to perform professional services that are essential to the effective and efficient operation of the System. A list of consultants is provided in the Introductory Section with the exception of investment professional consultants, who are listed in the Investment Section of this report.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Alaska Teachers' Retirement System for its comprehensive annual financial report for the fiscal year ended June 30, 2002. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

December 16, 2003

Acknowledgments

The preparation of this report is made possible by the dedicated service of the staff of the System. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means of determining responsible stewardship of the funds of the system.

The report is being mailed to all employer members of the System. They form the link between the System and the membership. Their cooperation contributes significantly to the success of the System. We hope the employers and their employees find this report informative.

We would like to take this opportunity to express our gratitude to the Teachers' Retirement Board, the Alaska State Pension Investment Board, the staff, the advisors, and to the many people who have worked so diligently to assure the successful operation of the System.

Respectfully submitted,

Mike Miller
Commissioner

Melanie Millhorn
Director

Janet L. Parker
Deputy Director

Anselm Staack, CPA, JD
Chief Financial Officer

Kevin Worley, CPA
Defined Benefits Accounting Supervisor

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Alaska Teachers' Retirement System

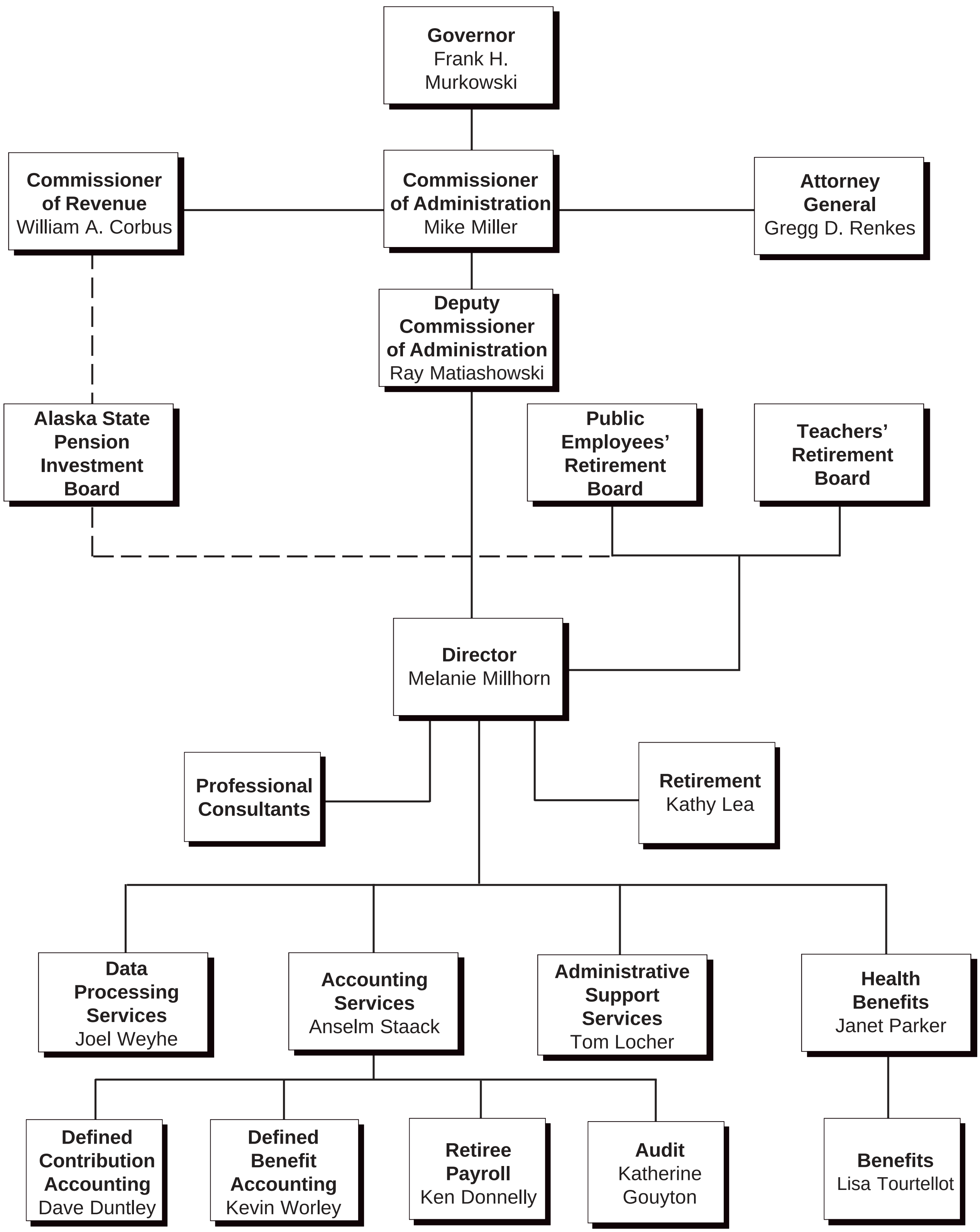
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2002

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

ORGANIZATION CHART



Section Responsibilities

The **Retirement Section** is responsible for providing comprehensive retirement counseling to the participating members and employers in the plan. The section appoints members to retirement benefits and maintains benefit payment information.

The **Benefits Section** is responsible for the administration of group health, disability, and life insurance. This section provides benefits counseling and plan change information to the membership.

The **Defined Benefit Accounting Section** is responsible for maintaining the employee and employer records and accounts in each of the defined benefit plans administered by the Division, producing financial statements and reports, and assuring compliance with the Internal Revenue Service requirements for defined benefit plans.

The **Defined Contribution Accounting Section** is responsible for accounting, plan operations, and financial activities related to the defined contribution plan systems administered by the Division.

The **Data Processing Services Section** supports the information systems the Systems use. Responsibilities include planning, development, data base design, programming, and operational support of the data processing systems, including the Local Area Network.

The **Administrative Support Services Section** is responsible for budget preparation, fiscal management of appropriations, procurement of professional services, supplies, and equipment. The section manages the Systems' record center containing the members' physical records and performs other administrative functions, such as legislative tracking and personnel management.

The **Retiree Payroll Section** is responsible for issuing monthly and on demand retirement benefit payments to eligible retirees or their beneficiaries. The section maintains accurate records for reporting benefit recipient tax statements and reporting and paying withheld income taxes, garnishments, and IRS levies.

PROFESSIONAL CONSULTANTS

Consulting Actuary
Mercer Human Resource Consulting
Seattle, Washington

Independent Auditors
KPMG LLP
Anchorage, Alaska

Benefits Consultant
Deloitte & Touche, LLP
Minneapolis, Minnesota

Third Party Health Claim Administrator
Aetna Life Insurance Company
Walnut Creek, California

Legal Counsel
Keith Levy
Virginia Ragle
Kathleen Strasbaugh
Assistant Attorney Generals
Juneau, Alaska

Legal Counsel - Retirement Boards
Wohlforth, Vassar, Johnson & Brecht
Anchorage, Alaska

Consulting Physicians
Kim Smith, M.D.
William Cole, M.D.
Juneau, Alaska

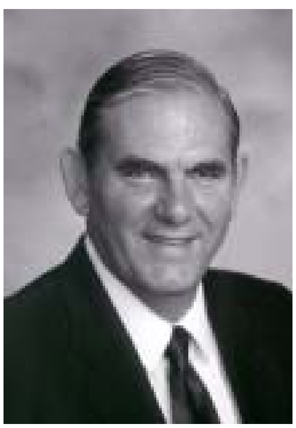
A list of external money managers and consultants for the System can be found on pages 50-51, and the Schedule of Investment Management Fees on pages 58-59.

TEACHERS' RETIREMENT BOARD

(as of June 30, 2003)

Elizabeth Briggs Hertz, Chair
Term Expires: January 31, 2003

Elizabeth "Betty" Briggs Hertz arrived in Alaska in 1967. Ms. Hertz taught for 23 years in the Anchorage School District and retired in 1990. During her teaching career, she taught at West Anchorage High School and Steller Secondary School. Ms. Hertz has also held a variety of positions in the Anchorage Education Association. Since retirement, Ms. Hertz has taught English classes at the University of Alaska-Anchorage and management courses at the Alaska Pacific University. She and her husband own Windemere Consultants, a management consulting business specializing in interpersonal communications and career development planning.



Gerald Patterson, Vice Chair
Term Expires: June 30, 2005

Gerald "Jerry" Patterson began his Alaskan teaching career in Juneau in 1971 as a reading specialist but spent most of his time teaching fifth grade. He remained in the same school, Auke Bay Elementary, until his retirement in 1990 and currently resides in Juneau with his wife Carol, also a retired teacher. Mr. Patterson is a graduate of Western Washington State College where he received both his bachelors and masters degrees. During his teaching career, he was active with the Juneau Education Association, holding a variety of positions, and remains active with two retired teacher groups. In his spare time, Mr. Patterson enjoys traveling and taking advantage of the many outdoor opportunities available in Juneau.

Charlie Arteaga
Term Expires: January 31, 2005

Charlie Arteaga has been an Alaskan resident for 33 years. He resides in Ketchikan. He received his Bachelor's in Education at Arizona State University and his Masters in Counseling at the University of Oregon. He was an educator with the Ketchikan Gateway Borough School District until 1996.

Mr. Arteaga was appointed to the Teachers' Retirement Board by Governor Tony Knowles. He is now employed in other sectors of public service and tourism. He intends to remain an active Alaskan citizen.

Gayle W. Harbo
Term Expires: June 30, 2005

Gayle Harbo arrived in Alaska in 1957, married Sam Harbo in 1958, and lived in Cold Bay, Juneau and Nome before settling in Fairbanks in 1962. She graduated from North Carolina State University in Raleigh with a BS in Mathematics and earned a Master of Arts in Teaching at the University of Alaska-Fairbanks. She taught at Lathrop High School for most of her twenty-five years in the Fairbanks District and served as coordinator of the school's Advanced Placement Program and on the District’s Curriculum Committee. She worked on committees which wrote the evaluation documents used by the district and served on several budget committees. Since retiring in 1993, she has enjoyed traveling with her husband and assisting him with several building projects for each of their four children. She loves her home and garden and the opportunity to take care of any or all of their seven grandchildren.

Robert Salo
Term Expires: January 31, 2004

Robert Salo first began teaching in Alaska in 1965. Before Mr. Salo retired in 1990 he spent 22 years teaching Physical Education and 3 years as Kenai Central High School’s assistant principal. Mr. Salo’s wife, Judith, and his daughter, Holly, are also teachers. He resides in Kenai.

Mr. Salo has a long involvement with teaching and has served, in a leadership capacity, on many committees and boards including NEA, American Alliance of Health, National Interscholastic Association of Athletic Directors and Kenai Peninsula School Administrators Association.

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KPMG

701 West Eighth Avenue
Suite 600
Anchorage, AK 99501

Independent Auditors' Report

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

We have audited the accompanying statements of plan net assets of the State of Alaska Teachers' Retirement System (Plan), a Component Unit of the State of Alaska, as of June 30, 2003 and 2002, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the State of Alaska Teachers' Retirement System, a Component Unit of the State of Alaska, as of June 30, 2003 and 2002, and the changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying required supplementary information of management's discussion and analysis on pages 13 to 19 and schedules of funding progress and employer contributions on pages 38 to 40 and additional information pages 41 to 44 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedules 1 and 2 on pages 45 and 46 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 Plan'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.

The investment, actuarial and statistical data on pages 47 through 87 are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the State of Alaska Teachers' Retirement System (Plan), a Component Unit of the State of Alaska. Such additional information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

KPMG LLP

September 26, 2003

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

Management's Discussion and Analysis

This section presents management's discussion and analysis (MD&A) of the Teachers' Retirement System's (Plan) financial position and performance for the year ended June 30, 2003. This section is presented as a narrative overview and analysis. Please read the MD&A in conjunction with the letter of transmittal, including the Introductory Section, the financial statements, and other information to better understand the financial condition and performance of the Plan during the fiscal year ended June 30, 2003. Prior fiscal years' information is presented for comparative purposes.

Financial Highlights

The Plan's total current assets exceeded its total current liabilities by $3,602,619,000 and $3,689,036,000 at the close of Fiscal Years 2003 and 2002, respectively.

The Plan's "Net assets held in trust for pension and postemployment healthcare benefits" as of June 30, 2003 and 2002 decreased by $86,417,000 and $397,812,000 or 2.3% and 9.7% over the closing balances of those assets in Fiscal Years 2002 and 2001, respectively.

Plan member and employer contributions received totaled $118,645,000 and $112,476,000 during Fiscal Years 2003 and 2002; an increase of $6,169,000 or 5.5% and a decrease of $390,000 or 0.4% from Fiscal Years 2002 and 2001, respectively.

Net investment income (loss) increased from ($225,234,000) to $111,575,000 during Fiscal Year 2003 and decreased from ($245,363,000) to ($225,234,000) during Fiscal Year 2002; reflecting an increase of 149.5% and a decrease of 8.2% from Fiscal Years 2002 and 2001, respectively.

Pension benefit and postemployment healthcare payments totaled $310,416,000 and $279,843,000 during Fiscal Years 2003 and 2002, respectively; reflecting an increase of $30,573,000 and $19,970,000 or 10.9% and 7.7% from Fiscal Years 2002 and 2001, respectively.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Plan's basic financial statements. The Plan's basic 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 the financial statements. This report also contains required supplementary information in addition to the basic financial statements.

Statement of Plan Net Assets – This statement presents information regarding the Plan's assets, liabilities, and net assets. Net assets represent the total amount of assets less the total liabilities. The Statement of Plan Net Assets classifies assets, liabilities and net assets as current, non-current and restricted.

Statement of Changes in Plan Net Assets – This statement presents how the Plan's net assets changed during the fiscal year as a result of contributions, investment income (loss), operating expenses, and changes in net assets.

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

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

Management's Discussion and Analysis

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

Required Supplementary Information – The required supplementary information consists of three schedules and related notes concerning the funded status and actuarial assumptions and methods of the Plan.

Other Supplementary Schedules – Other supplementary schedules include detailed information on administrative and investment expenses incurred by the Plan and payments to consultants for professional services.

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

Management's Discussion and Analysis

Condensed Financial Information

Teachers' Retirement System
(000's omitted)

NET ASSETS

Description	2003	2002	Increase/Decrease Amount	Increase/Decrease %	2001
Assets:					
Cash and receivables	$ 6,849	10,955	(4,106)	(37.5%)	15,403
Investments, at fair value	3,598,476	3,681,951	(83,475)	(2.3%)	4,075,096
Other assets	88	71	17	23.9%	443
Total assets	3,605,413	3,692,977	(87,564)	(2.4%)	4,090,942
Liabilities:					
Accrued expenses	2,794	3,418	(624)	(18.3%)	4,022
Other liabilities	-	523	(523)	(100.0%)	72
Total liabilities	2,794	3,941	(1,147)	(29.1%)	4,094
Total net assets	$ 3,602,619	3,689,036	(86,417)	(2.3%)	4,086,848

CHANGES IN NET ASSETS

Description	2003	2002	Increase/Decrease Amount	Increase/Decrease %	2001
Net assets, beginning of year	$ 3,689,036	4,086,848	(397,812)	(9.7%)	4,484,902
Additions:					
Contributions	118,645	112,476	6,169	5.5%	112,866
Net investment loss	111,575	(225,234)	336,809	149.5%	(245,363)
Other additions	14	4	10	250.0%	(4)
Total additions	230,234	(112,754)	342,988	304.2%	(132,501)
Deductions:					
Benefits	310,416	279,843	30,573	10.9%	259,873
Refunds	3,840	3,120	720	23.1%	3,742
Administrative expenses	2,395	2,095	300	14.3%	1,938
Total deductions	316,651	285,058	31,593	11.1%	265,553
Decrease in net assets	(86,417)	(397,812)	311,395	(78.3%)	(398,054)
Net assets, end of year	$ 3,602,619	3,689,036	(86,417)	(2.3%)	4,086,848

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

Management's Discussion and Analysis

Financial Analysis of the Plan

The Statement of Plan Net Assets as of June 30, 2003 and 2002 showed total assets exceeding total liabilities by $3,602,619,000 and $3,689,036,000, respectively. These amounts represent the Plan "Net assets held in trust for pension and postemployment healthcare benefits". The entire amount is available to cover the Plan's obligations to pay pension and postemployment healthcare benefits to its members and their beneficiaries.

These amounts also represent a decrease in "Net assets held in trust for pension and postemployment healthcare benefits" of $86,417,000 and $397,812,000, or 2.3% and 9.7% from Fiscal Years 2002 and 2001, respectively. The decrease is mainly due to increased benefit costs for pensions and postemployment healthcare. Over the long term, plan member and employer contributions as well as investment income received are expected to cover the pension benefit and postemployment healthcare costs of the Plan.

The investment of pension funds is a long-term undertaking. On an annual basis, the Alaska State Pension Investment Board (ASPIB) reviews and adopts an asset allocation strategy to ensure the asset mix will remain at an optimal risk/reward level given the Plan's constraints and objectives. During Fiscal Year 2003, ASPIB adopted an asset allocation that includes 40% in Domestic Equities, 17% in International Equities, 31% in Domestic Fixed Income, 3% in International Fixed Income, and 9% in Real Estate.

For Fiscal Year 2003, the Plan's investments generated a 3.68% rate of return. The Plan's annualized rate of return was –2.51% over the last three years and 2.48% over the last five years.

Actuarial Valuations and Funding Progress

The overall objective of a pension fund is to accumulate sufficient funds to meet all expected future obligations to participants. The contribution requirements are determined as a percentage of eligible salaries, and reflect the cost of benefits accruing in Fiscal Year 2003 and a fixed amortization of the funding target surplus or the unfunded accrued liability. The amortization period is set by the Teachers' Retirement Board. Contribution levels are recommended by the Actuary and adopted by the Board each year. Investment losses and increasing healthcare costs impacted the Plan's funding ratio as of June 30, 2002 (the date of the Plan's latest actuarial valuation report). The ratio of assets to liabilities decreased from 95.0% to 68.2% during the year, using June 30, 2002 net assets as a base. The goal for the Plan is to have progress toward achieving the funding objectives of the Plan.

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

	(000's omitted)	
Valuation Year	**2002**	**2001**
Valuation Assets	$ 3,689,036	4,372,229
Accrued Liabilities	5,411,642	4,603,147
Funding ratio	68.2%	95.0%

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

Management's Discussion and Analysis

Contributions and Investment Income (Loss)

The revenues required to finance retirement benefits are accumulated through a combination of employer and plan member contributions and investment income.

Revenues	Millions		Inc/(Dec)		
	FY03	FY02	Amt	%	FY01
Plan Member Contributions	$55.8	51.1	4.7	9.2%	48,725
Employer Contributions	62.9	61.4	1.4	2.4%	64,141
Net Investment Income (Loss)	111.6	(225.2)	336.8	149.5%	(245,363)
Total	**$230.2**	**(112.7)**	**343.0**	**304.2%**	**(132,497)**

Plan member contributions increased from $51,074,000 during Fiscal Year 2002 to $55,789,000 during Fiscal Year 2003, an increase of $4,715,000 or 9.2%. There was an increase from $48,725,000 in Fiscal Year 2001 to $51,074,000 during Fiscal Year 2002, an increase of $2,349,000 or 4.8%. Investment income increased by $336,809,000 or 149.5% over amounts recorded in Fiscal Year 2002, thereby providing a substantial boost to increase net assets of the Plan over the same period. Investment income decreased by $20,129,000 or 8.2% from amounts recorded in Fiscal Year 2001.

Over the long term, the investment portfolio has been a major component in additions to plan assets. A favorable fourth quarter for Fiscal Year 2003 propelled the Plan into positive annual earnings for the first time in three years. In the fourth quarter, the Plan generated a 10.46% return, which resulted in a 3.68% return for the fiscal year.

Benefits, Refunds, and Expenses

The primary expense of the Plan is the payment of pension benefits. These benefit payments, together with postemployment healthcare premiums paid, lump sum refunds made to former plan members and the cost of administering the Plan comprise the costs of operation.

Expenses	Millions		Inc/(Dec)		
	FY03	FY02	Amt	%	FY01
Pension Benefits	$ 244.5	222.9	21.6	9.7%	210,945
Healthcare Benefits	65.9	57.0	9.0	15.7%	48,928
Refunds of Contributions	3.8	3.1	0.7	23.1%	3,742
Administrative Expenses	2.4	2.1	0.3	14.3%	1,938
Total	**$ 316.7**	**285.1**	**31.6**	**11.1%**	**265,553**

Pension benefit payments increased $21,621,000 and $11,952,000 or 9.7% and 5.7% from Fiscal Years 2002 and 2001, respectively. The majority of the increase in pension benefits was the result of a continuing increase in the number of retirees. Also, the Plan granted a discretionary cost-of-living (post retirement pension adjustment (PRPA)) increase at the beginning of the fiscal year 2003.

Postemployment healthcare benefits increased $8,952,000 and $8,018,000 or 15.7% and 16.4% from Fiscal Years 2002 and 2001, respectively. Healthcare costs continue to rise in amounts exceeding 10% year over year.

Funding

Retirement benefits are financed by accumulations from employer and plan member contributions and income earned on the Plan's investments.

- Employer contributions are determined by the Plan's consulting actuaries and approved by the Plan's governing board.

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

Management's Discussion and Analysis

- Plan member contributions are determined by statute.
- ASPIB works in conjunction with the Department of Revenue, Division of Treasury, in determining the proper asset allocation strategy.

Legislation

During the Fiscal Year 2003 legislative session, four laws were enacted that affected the Plan:

Senate Bill 26 – This bill was written to authorize state employees who are members of a reserve or auxiliary component of the armed forces of the United States, including the organized militia of Alaska, and are called to active duty by the appropriate state or federal authority to continue to receive the equivalent of their state compensation and some or all of their state benefits.

Senate Bill 140 – This bill affects retired members who chose to retire early via retirement incentive programs (RIP) and are subsequently reemployed as a commissioner. This act removes a major disincentive to serving as a commissioner.

Senate Bill 177 – This bill affects retired PERS and TRS members who are called to active military duty so that their cost-of-living benefits are not affected while serving any length of time outside the state.

House Bill 192 – This bill was written based on the transfer of TRS members from the Department of Education and Early Development to the Department of Labor and Workforce Development so that these members could continue their eligibility in the Plan.

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

During the period July 1, 2002 to March 31, 2003, the Plan's investments continued to decline, a continuation of Fiscal Years 2001 and 2002. However, the last quarter of the fiscal year provided the necessary strength to push the Plan's rate of return into positive returns, resulting in a 3.68% return for the fiscal year. While the Plan did not meet its' actuarially assumed investment return of 8.25%, the year ended on a positive note. By not meeting the assumed rate of return, the Plan could see an increase in the employer contribution rates in Fiscal Year 2006.

The financial market environment during the period July 1, 2002 through March 31, 2003 was another harsh and challenging one. Financial conditions during the fourth quarter changed substantially to the positive and netted a quarterly return of 10.46%. While equities have typically outperformed other investment types over longer periods, equity investments can yield disappointing or even negative returns for indefinite periods of time.

The impact of Fiscal Year 2001 and 2002's decline on the Plan's market value has an obvious impact on the Fiscal Year 2005 employer contribution rate as well as the Plan's funding status as of June 30, 2002. Due to these declines, the June 30, 2002 actuarial valuation report for the Plan's reported a funding ratio of 68.2%. As a result of the decline in the funding ratio, a rate increase to 35.57% for Fiscal Year 2005 was recommended by the consulting actuary. The TRS board adopted an employer contribution rate of 16% as the financial

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

Management's Discussion and Analysis

impact of a full rate increase on member employers would be devastating to their budgets and to the communities that the member employers serve.

Requests for Information

This financial report is designed to provide a general overview of the Plan's finances for all those with interest in the Plan's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Alaska Teachers' Retirement System, Division of Retirement and 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)

Statements of Plan Net Assets

June 30, 2003 and 2002
(000's omitted)

	2003			2002		
	Pension	Post-employment Healthcare	Total	Pension	Post-employment Healthcare	Total
Current assets:						
Cash and cash equivalents (notes 3 and 4):						
Short-term fixed income pool	$ 449	114	563	1,936	433	2,369
Receivables:						
Contributions	4,748	1,202	5,950	4,908	1,100	6,008
Retirement incentive program employer contributions (note 7)	-	-	-	2,106	472	2,578
Due from State of Alaska General Fund	268	68	336	-	-	-
Total receivables	5,016	1,270	6,286	7,014	1,572	8,586
Investments, at fair value (notes 3 and 4):						
Domestic equity pool	1,194,813	248,928	1,443,741	1,066,699	276,234	1,342,933
Retirement fixed income pool	549,367	139,093	688,460	927,721	207,900	1,135,621
International equity pool	443,713	112,342	556,055	492,231	110,308	602,539
Real estate pool	200,400	50,739	251,139	236,044	52,897	288,941
International fixed income pool	106,615	26,994	133,609	101,170	22,673	123,843
Private equity pool (note 8)	83,703	21,193	104,896	79,259	17,762	97,021
External domestic fixed income pool	303,580	76,863	380,443	43,485	9,745	53,230
Emerging markets equity pool	32,025	8,108	40,133	30,899	6,924	37,823
Total investments	2,914,216	684,260	3,598,476	2,977,508	704,443	3,681,951
Loans and mortgages, at fair value, net of allowance for loan losses of $31 in 2003 and $60 in 2002	59	15	74	48	11	59
Other current assets	12	2	14	10	2	12
Total assets	2,919,752	685,661	3,605,413	2,986,516	706,461	3,692,977
Current liabilities:						
Accrued expenses	2,229	565	2,794	2,792	626	3,418
Due to State of Alaska General Fund	-	-	-	427	96	523
Total liabilities	2,229	65	2,794	3,219	722	3,941
Commitments and contingencies (note 8)						
Net assets held in trust for pension and postemployment healthcare benefits	**$ 2,917,523**	**685,096**	**3,602,619**	**2,983,297**	**705,739**	**3,689,036**

(Schedules of funding progress are presented on pages 38 and 39)

See accompanying notes to financial statements.

STATE OF ALASKA
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Statements of Changes in Plan Net Assets

Years ended June 30, 2003 and 2002
(000's omitted)

	2003			2002		
	Pension	Post-employment Healthcare	Total	Pension	Post-employment Healthcare	Total
Additions:						
Contributions:						
Employers	$ 50,157	12,699	62,856	50,161	11,241	61,402
Plan members	44,518	11,271	55,789	41,724	9,350	51,074
Total contributions	94,675	23,970	118,645	91,885	20,591	112,476
Investment income (loss):						
Net appreciation (depreciation) in fair value of investments (note 3)	1,607	407	2,014	(289,117)	(64,790)	(353,907)
Interest	48,782	12,351	61,133	66,717	14,951	81,668
Dividends	45,051	11,406	56,457	45,476	10,191	55,667
Net recognized mortgage loan recovery	23	6	29	69	16	85
Total investment income (loss)	95,463	24,170	119,633	(176,855)	(39,632)	(216,487)
Less investment expense	6,430	1,628	8,058	7,146	1,601	8,747
Net investment income (loss)	89,033	22,542	111,575	(184,001)	(41,233)	(225,234)
Other	11	3	14	4	-	4
Total additions	183,719	46,515	230,234	(92,112)	(20,642)	(112,754)
Deductions:						
Benefits	244,518	65,898	310,416	222,897	56,946	279,843
Refunds of contributions	3,064	776	3,840	2,549	571	3,120
Administrative expenses	1,911	484	2,395	1,712	383	2,095
Total deductions	249,493	67,158	316,651	227,158	57,900	285,058
Net decrease	(65,774)	(20,643)	(86,417)	(319,270)	(78,542)	(397,812)
Net assets held in trust for pension and postemployment healthcare benefits:						
Balance, beginning of year	2,983,297	705,739	3,689,036	3,302,567	784,281	4,086,848
Balance, end of year	**$2,917,523**	**685,096**	**3,602,619**	**2,983,297**	**705,739**	**3,689,036**

See accompanying notes to financial statements.

STATE OF ALASKA
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Notes to Financial Statements

June 30, 2003 and 2002
(000's omitted)

(1) DESCRIPTION

The following brief description of the State of Alaska Teachers' Retirement System (Plan), a Component Unit of the State of Alaska, is provided for general information purposes only. Participants should refer to the Plan agreement for more complete information.

(a) General

The Plan is a defined benefit, cost-sharing, multiple employer public employee retirement system established and administered by the State of Alaska (State) to provide pension and postemployment healthcare benefits for teachers and other eligible participants. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. The Plan is considered a component unit of the State financial reporting entity and is included in the State's financial reports as a pension trust fund.

At June 30, 2003 and 2002, the number of participating local government employers was:

	2003	2003
State of Alaska	1	1
School districts	53	52
Other	3	4
Total employers	57	57

Inclusion in the Plan 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 in the Plan. At June 30, 2002 and 2001, the dates of the two most recent actuarial valuations, Plan membership consisted of:

	2002	2001
Retirees and beneficiaries currently receiving benefits	7,804	7,333
Terminated Plan members entitled to future benefits	783	767
	8,587	8,100
Current Plan members:		
Vested	5,224	5,499
Nonvested	4,466	4,316
	9,690	9,815
	18,277	**17,915**

(b) Pension Benefits

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

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The normal annual pension benefit is based on years of service and the average base salary. The average base salary is based upon the employee's 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 employees 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 spouses consent to another form of benefit or benefits are payable under the 1% supplemental contributions provision.

The 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 Plan Administrator, if the cost of living in the previous calendar year rises and the financial condition of the Plan 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.

(c) Postemployment Healthcare Benefits

When pension benefits begin, major medical benefits are provided without cost to (1) all employees first hired before July 1, 1990, (2) employees hired after July 1, 1990 with 25 years of membership service, and (3) employees who are disabled or age sixty or older, regardless of their initial hire dates. Employees 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 Plan. Retirees of three other State retirement plans also participate in the RHF. The Plan, along with the other participating plans, retains the risk of loss of allowable claims. Each year, 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.

(d) Death Benefits

When benefits are payable under the 1% supplemental contribution provision, the 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 Plan member's spouse, or guardian of the dependent child(ren). The

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amount of the pension or allowance is determined by the Plan member's base salary. Plan members first hired after June 30, 1982, are not eligible to participate in this provision.

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

(e) Disability Benefits

If a 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 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 Plan member receives normal retirement benefits.

(f) Contributions

Plan Member Contributions

Plan members contribute 8.65% of their base salary as required by statute. The Plan member contributions are deducted before federal tax is withheld. Eligible Plan members contribute an additional 1% of their salary under the supplemental contribution provision. Contributions are collected by employers and remitted to the Plan and may be voluntarily or, under certain circumstances, involuntarily refunded to the Plan member or a garnishing agency sixty days after termination of employment. Plan member contributions earn interest at the rate of 4.5% per annum, compounded annually.

Employer Contributions

The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate assets to pay both pension and postemployment healthcare benefits when due. Employer contribution rates are level percentages of payroll and are determined using the projected unit credit actuarial funding method. The Plan uses the level percentage of pay method to amortize the unfunded liability or funding surplus over a twenty-five year fixed period.

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(g) Administrative Costs

Administrative costs are financed through investment earnings.

(h) Due To/From State of Alaska General Fund

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

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

The Plan's 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.

(b) 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.

(c) GASB Statements No. 25 and No. 26

Governmental Accounting Standards Board (GASB) Statements No. 25 and No. 26 require that Plan net assets be split between pension and postemployment healthcare. To meet these requirements, Plan assets, liabilities, revenues and expenses not specifically identifiable to either plan are allocated to the pension and postemployment healthcare plans based on their proportionate share of actuarial accrued liabilities.

(d) Investments

Security transactions and any resulting gains or losses are accounted for on a trade date (ownership) basis at the current fair value. Dividend income on domestic and international equity securities is accrued on the ex-dividend date. Interest in the international fixed income pool is accrued daily.

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."

Income in the short-term fixed income pool is calculated daily and credited monthly to each participant. Total income, which includes interest and realized and unrealized gains and losses on securities, is calculated daily and distributed monthly to each participant on a pro rata basis.

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Income in the retirement fixed income pool and the external domestic fixed income pool is calculated daily and is reinvested. Total income, which includes interest and realized and unrealized gains and losses on securities, is allocated daily to each participant on a pro rata basis but is not distributed.

As the emerging markets equity pool recognizes income, the per share value changes, resulting in the recognition of unrealized gains/losses at the pool and participant level. When participants' shares in the pool are sold, previously unrealized income is realized at the participant level.

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 expense consists of those administrative expenses directly related to the Plan's investment operations.

Real estate investments include commingled real estate equities, separate account limited partnerships, mortgage loans and other real estate acquired by foreclosure and judgments. Commingled real estate equities and separate account limited partnerships are valued quarterly by public market quotations, where a quoted market exists, or by independent appraisers, and are periodically adjusted by trustees of the investments when market conditions change. The cost of commingled real estate equities and separate account limited partnerships securities is determined on the average cost basis. Mortgage loans are valued at their principal balance (cost) less an allowance for loan loss, the net result of which approximates fair value. The allowance for loan loss is considered by management to be sufficient to cover any losses to the mortgage loan portfolio. Real estate acquired by foreclosure and judgments is carried at estimated net realizable value.

Venture capital investments in the private equity pool are comprised of limited partnerships in privately held companies of which equity ownership is not traded on a national or international exchange. Investments in the private equity pool are valued quarterly by the general partners and investment sponsors. The private equity oversight manager is held to a standard of reasonable care in verifying that the general partners' valuations reasonably reflect the underlying value of the investments. The cost of investments in the private equity pool is determined on the average cost basis.

The Plan holds shares, rather than specific securities, in the emerging markets equity pool, a closed-end mutual fund-like commingled equity investment pool. Underlying securities within the pool are priced on the last business day of each week and each month. Equity securities are valued using the last reported sale price on the exchange on which the securities are traded as of the close of business on the day the securities are being valued, or, in the absence of any sales price, at the last reported bid price. Fixed income securities are valued at prices obtained from a bond pricing service when such

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prices are available; otherwise, such securities are valued at the mid-point between the bid and asked price or at prices for securities of comparable maturity, quality and type. Short-term securities with 60 days or less to maturity are amortized to maturity based on cost. Securities expressed in terms of foreign currencies are translated into U.S. dollars at the prevailing market rates. Forward currency contracts are valued at the mid-point of representative quoted bid and asked prices. Securities and assets for which representative market quotations are not readily available are valued at fair value as determined in good faith under policies approved by the commingled equity fund's board of directors.

The fair value of all other debt and equity securities is determined by the custodial agent each business day. The custodian determines fair value using pricing services or prices quoted by one or more independent brokers. Equity securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates, if applicable, defaulting to current bid price if a particular security was not traded that day. Fair value of debt securities has been established as the midpoint between the bid and asked prices. The cost of debt and equity investments is determined on the average cost basis.

(e) Contributions Receivable

Contributions from Plan 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.

(f) Federal Income Tax Status

The Plan is a qualified plan under Section 401(a) of the Internal Revenue Code and is exempt from federal income taxes under Section 501(a).

(g) GASB Statement No. 34

The Plan adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34) on July 1, 2001, concurrent with the State of Alaska's adoption of GASB No. 34. This statement, known as the "reporting model" statement, affects the way the Plan presents financial information. GASB No. 34 requires the basic financial statements of fiduciary funds to include statements of plan net assets and statements of changes in plan net assets. Modifications made to the Plan's financial reporting model as a result of the adoption of GASB No. 34 include presentation of management's discussion and analysis (as required supplementary information) and presentation of assets and liabilities in a classified format. The adoption of GASB No. 34 had no cumulative effect on net assets.

(3) INVESTMENTS

GASB Statement No. 3 requires a disclosure regarding custodial credit risk to indicate the chance of loss in the event a financial institution or third party holding the Plan's deposits or

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Notes to Financial Statements

June 30, 2003 and 2002
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securities fails. Deposits and those investments represented by specific, identifiable securities are classified into three categories of credit risk: Category 1 – Insured or registered, or securities held by the State or its custodian in the State's name; Category 2 – Uninsured or unregistered, with securities held by the counterparty's trust department (if a bank) or agent in the State's name; and Category 3 – Uninsured and unregistered, with securities held by the counterparty, or by its trust department (if a bank) or agent, but not in the State's name. Category 1 is the highest level of safekeeping security as defined by GASB.

At June 30, 2003 and 2002, the Plan's cash and cash equivalents and investments other than mortgage-related assets are represented by participation in investment pools rather than specific, identifiable securities. Although pooled investments represent the Plan's share of ownership in the pool rather than ownership of specific securities, all of the underlying securities in the pools in which the Plan participates are considered to be Category 1 as defined by GASB Statement No. 3, except: (A) investments in the mutual fund-like emerging markets equity pool which are considered to be Category 2, and (B) shares in the private equity pool and the real estate pool which, like the Plan's mortgage-related assets, are not transferable financial instruments and therefore cannot be categorized with regard to custodial credit risk.

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June 30, 2003 and 2002
(000's omitted)

The cost and fair value of the Plan's investments at June 30, 2003 and 2002 are as follows:

	Cost	Fair Value
2003:		
Domestic equity pool	$ 1,349,855	1,443,741
Retirement fixed income pool	661,022	688,460
International equity pool	663,498	556,055
Real estate pool	230,775	251,139
International fixed income pool	118,148	133,609
Private equity pool	143,420	104,896
Emerging markets equity pool	49,325	40,133
External domestic fixed income pool	371,343	380,443
	$ 3,587,386	**3,598,476**
2002:		
Domestic equity pool	$ 1,331,620	1,342,933
Retirement fixed income pool	1,117,114	1,135,621
International equity pool	693,048	602,539
Real estate pool	268,655	288,941
International fixed income pool	120,291	123,843
Private equity pool	116,264	97,021
Emerging markets equity pool	49,086	37,823
External domestic fixed income pool	52,041	53,230
	$ 3,748,119	**3,681,951**

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June 30, 2003 and 2002
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During 2003 and 2002, the Plan's investments (including investments bought, sold, as well as held during the year) appreciated (depreciated) in value as follows:

	2003	2002
Investments measured by quoted fair value in an active market:		
Domestic equity pool	$ (16,651)	(293,734)
Retirement fixed income pool	33,296	18,454
International equity pool	(49,916)	(70,824)
Real estate pool	3,494	(4,843)
International fixed income pool	22,041	17,111
Private equity pool	(16,519)	(20,253)
Emerging markets equity pool	2,071	(1,561)
External domestic fixed income pool	24,198	1,743
	$ 2,014	**(353,907)**

Based on the Plan's percentage of ownership in each investment pool as of June 30, 2003 and 2002, the Plan held no individual investments which exceeded 5% of net assets held in trust for pension and postemployment healthcare benefits.

The Alaska State Pension Investment Board (ASPIB) has statutory oversight of the Plan's investments and the authority to invest the Plan's monies. As the fiduciary, ASPIB 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. Actual investing is performed by the investment officers of the Division of Treasury of the Department of Revenue or by contracted external investment managers.

(4) POOLED INVESTMENTS

(a) Short-Term Fixed Income Pool

The Plan, along with other State funds, participates in an internally managed short-term fixed income pool, which was established March 15, 1993, with a start up and maintained share price of $1. Each participant owns shares in the pool, the number of which fluctuates daily with contributions, withdrawals and income. The assets of the short-term fixed income pool are comprised of money market instruments, U.S. Treasuries, mortgage and asset-backed securities, corporate debt and other U.S. dollar denominated bonds. Individual fixed rate securities in this pool are limited to 14 months in maturity. Floating rate securities are limited to three years in maturity. At June 30, 2003 and 2002, the Plan has a 0.03% and 0.17% direct ownership in the short-term fixed income pool totaling $563 and $2,369, respectively. These amounts include interest receivable of $4 and $6, respectively.

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(000's omitted)

(b) Domestic Equity Pool

The Plan, along with three other State retirement systems, participates in an externally managed domestic equity pool. The pool was established July 1, 1991, with a start up share price of $1,000. Each manager may independently determine the allocation between equities and other permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the net asset value per share on the day of the transaction. At June 30, 2003 and 2002, the Plan's investment in the domestic equity pool totaled 32.44% and 32.98%, respectively, and consisted of the following:

	2003	2002
Domestic equity securities	$1,428,452	1,324,517
Convertible bonds	996	3,842
Cash and cash equivalents held in the short-term fixed income pool, other short-term debt instruments, and currency	13,942	16,885
Net receivables (payables)	351	(2,311)
	$1,443,741	**1,342,933**

(c) Retirement Fixed Income Pool

The Plan, along with three other State retirement systems, participates in an externally managed retirement fixed income pool. The pool was established March 1, 1996, with a start up share price of $1,000. Each manager may independently determine the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the net asset value per share on the day of the transaction. At June 30, 2003 and 2002, the Plan's investment in the retirement fixed income pool totaled 32.74% and 32.93%, respectively, and consisted of the following:

	2003	2002
Mortgage related	$ 306,050	402,370
Corporate	193,016	291,951
U.S. Treasury	84,619	202,886
Municipal	7,708	-
Yankees	6,916	15,352
Asset backed	36,017	72,009
U.S. government agency	33,570	70,055
Cash and cash equivalents held in the short-term fixed income pool	94,171	90,773
Net payables	(73,607)	(9,775)
	$ 688,460	**1,135,621**

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(d) International Equity Pool

The Plan, along with three other State retirement systems, participates in an externally managed international equity pool. The pool was established January 1, 1992, with a start up share price of $1,000. Each manager may independently determine the allocation between equities and other permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the net asset value per share on the day of the transaction. At June 30, 2003 and 2002, the Plan's investment in the international equity pool totaled 32.31% and 32.81% respectively, and consisted of the following:

	2003	2002
International equity securities	$ 547,062	591,088
Cash and cash equivalents held in short-term debt instruments and foreign currency	8,903	8,873
Net receivables	90	2,578
	$ 556,055	**602,539**

(e) Real Estate Pool

The Plan, along with one other State retirement system, participates in an externally managed real estate pool. The pool was established June 27, 1997, with a start up share price of $1. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the net asset value per share on the day of the transaction. At June 30, 2003 and 2002, the Plan has a 32.46% and 33.24% direct ownership in the real estate pool totaling $251,139 and $288,941 respectively.

(f) International Fixed Income Pool

The Plan, along with one other State retirement system, participates in an externally managed international fixed income pool. The pool was established March 3, 1997, with a start up share price of $1,000. Each manager may independently determine the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the net asset value per share on the day of the transaction. At June 30, 2003 and 2002, the Plan's investment in the international

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fixed income pool totaled 32.51% and 33.15% respectively, and consisted of the following:

	2003	2002
International fixed income securities	$ 129,525	119,655
Cash and cash equivalents held in short-term debt instruments and foreign currency	1,471	1,921
Net receivables	2,613	2,267
	$ 133,609	**123,843**

(g) Private Equity Pool

The Plan, along with one other State retirement system, participates in an externally managed private equity pool. The pool was established April 24, 1998, with a start up share price of $1,000. Ownership in the pool is based on the number of shares held by each participant. Underlying assets in the pool are composed of venture capital, buyouts and special situation investments through limited partnership agreements. Contributions to and withdrawals from the pool are based on the net asset value per share on the day of the transaction. At June 30, 2003 and 2002, the Plan has a 32.68% and 33.13% direct ownership in the private equity pool totaling $104,896 and $97,021, respectively.

(h) Emerging Markets Equity Pool

The Plan, along with one other State retirement system, participates in an externally managed emerging markets equity pool. The pool was established May 2, 1994, with a start up share price of $1,000. The pool participates in two externally managed commingled investment funds through ownership of equity shares. The commingled funds, comprised of various institutional investors, invest in the securities markets of developing countries. Each manager may independently determine the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the net asset value per share on the day of the transaction. At June 30, 2003 and 2002, the Plan has a 35.00% ownership in the emerging markets equity pool totaling $40,133 and $37,823, respectively.

(i) External Domestic Fixed Income Pool

The Plan, along with three other State retirement systems, participates in an externally managed domestic fixed income pool. The pool was established June 25, 1999 with a start up share price of $1,000. Each manager may independently determine the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the net asset value per share on the day of the transaction. At June 30, 2003 and

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

Notes to Financial Statements

June 30, 2003 and 2002
(000's omitted)

2002, the Plan's investment in the external domestic fixed income pool totaled 32.54% and 32.83%, respectively, and consisted of the following:

	2003	2002
Mortgage backed	$ 169,162	21,236
Corporate	75,743	10,963
U.S. Treasury	35,002	9,161
U.S. government agency	25,319	1,482
Asset backed	12,269	3,472
Yankees	4,230	331
Municipal	4,699	328
Cash and cash equivalents held in short-term debt instruments	124,644	5,097
Net receivables (payables)	(70,625)	1,160
	$ 380,443	**53,230**

(5) FOREIGN EXCHANGE CONTRACTS AND OFF-BALANCE SHEET RISK

The Plan, through its investment in the international equity pool, entered into 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 in these currencies. The maturity periods for these contracts range from one to two months. The Plan had net unrealized gains with respect to such contracts, calculated using forward rates at June 30, as follows:

	2003	2002
Net contract sales	$ 466	4,049
Less: fair value	460	4,337
Net unrealized gains (losses) on contracts	**$ 6**	**(288)**

The counterparties to the foreign currency forward contracts consist of a diversified group of financial institutions. The Plan is exposed to credit risk to the extent of non-performance by these counterparties; however, the Plan considers the risk of default to be remote. The Plan's market risk is limited to the difference between contractual rates and forward rates at the balance sheet date.

(6) SECURITIES LENDING

Alaska Statute 37.10.071 authorizes the Alaska State Pension Investment Board (the Board) to lend assets, under an agreement and for a fee, against deposited collateral of equivalent market value. In January 2001 the Board entered into an agreement with State Street Corporation (the Bank) to lend short-term fixed income, marketable debt, domestic equity and international equity securities. The Bank, acting as the Board's agent under the agreement, transfers securities to broker agents or other entities for

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Notes to Financial Statements

June 30, 2003 and 2002
(000's omitted)

collateral in the form of cash or securities and simultaneously agrees to return the collateral for the same securities in the future.

At June 30, 2003 and 2002, the fair value of securities on loan allocable to the Plan totaled $303,478 and $366,685, respectively. There is no limit to the amount that can be loaned and the Board is able to sell securities on loan. International equity security loans are fully collateralized at not less than 105 percent of their fair value. All other security loans are fully collateralized at not less than 102 percent of their fair value. The Bank invests the collateral in a commingled investment pool; maturities of these investments generally did not match the maturities of the loaned securities because the lending agreements are terminable at will. The Bank may pledge or sell collateral upon borrower default. Since the Board does not have the ability to pledge or sell the collateral unless the borrower defaults, no assets or liabilities are recorded on the financial statements. There is limited credit risk associated with the lending transactions since the Board is indemnified by the Bank against any loss resulting from counterparty failure or default on a loaned security subject to limitation relating to war, civil unrest or revolution, or beyond the reasonable control of the Bank. The Bank and the borrower receive a fee from earnings on invested collateral.

For the year ended June 30, 2003 and 2002, there were no losses incurred as a result of securities lending transactions and there were no significant violations of legal or contractual provisions nor failures by any borrowers to return loaned securities.

(7) RETIREMENT INCENTIVE PROGRAM

House Bill 354 (Chapter 65, SLA 96) was passed on June 18, 1996, and provided for a retirement incentive program (RIP or Program) for members of school district employers and employees of Mt. Edgecumbe and the Alaska Vocational Technical Center. The RIP encouraged eligible employees to retire up to three years earlier than they had planned as a cost savings for school districts. The incentive program could be implemented if the program produced an overall cost savings to the employer. The application and retirement deadlines were determined by the employer when they established a program. The original application period for school district employees under House Bill 354 was June 30, 1996 through December 31, 1996. During fiscal year 1997, Senate Bill 130 (Chapter 92, SLA 97) was passed which amended the original program. Senate Bill 130 allowed for additional application periods of 30-60 days, ending no later than June 30, 1999.

Employers who participated in the RIP were required to reimburse the Plan for the actuarial equivalent of the difference between the benefits each employee received after the addition of the retirement incentive under the program and the amount the employee would have received without the incentive, less any amount the employee was indebted as a result of retiring under the program. Reimbursements from employers were due in minimum equal annual installments so that the entire balance was paid within three years after the end of the fiscal year in which each employee retired.

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Notes to Financial Statements

June 30, 2003 and 2002
(000's omitted)

Employers were also required to reimburse the Plan for the estimated costs of administering the program. The Plan established a receivable for employer reimbursements and administrative costs as employees retired. There were no additions to plan net assets during fiscal year 2003 or 2002.

When employees terminated employment to participate in the program, they were indebted to the Plan for 25.95% of their annual compensation for the calendar year in which they terminated. Any outstanding indebtedness at the time an employee was appointed to retirement resulted in an actuarial adjustment of his/her benefit amount.

(8) COMMITMENTS AND CONTINGENCIES

(a) Commitments

The Plan, through its investment in the private equity pool, entered into agreements through an external investment manager to provide capital funding for limited and general partnerships as it continues to build a private equity portfolio. At June 30, 2003, the Plan's share of these unfunded commitments totaled $129,096 to be paid through the year 2008.

(b) Contingencies

The State is a defendant in a lawsuit filed by the Alaska Civil Liberties Union and seven same-sex couples with regards to the statutes limiting employee health insurance coverage to employees and their spouses and dependents, thus excluding coverage for domestic partners of employees. An adverse ruling against the State would increase the number of persons that would be covered by insurance paid by the Plan. Although the ultimate outcome of the litigation discussed above is uncertain at this point in time, the Plan believes that an unfavorable outcome, if rendered, would not have a material adverse effect on its financial position or funding status. The Plan has not recorded an accrual related to the above lawsuit, because an unfavorable outcome in this matter 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.

The Plan is a defendant in four similar lawsuits, three of which are class action suits. The lawsuits pertain to whether recent changes to the retiree health insurance program under the Plan resulted in violations of members' constitutional rights to retirement benefits. In 2001, the Superior Court of the State of Alaska issued an order granting the plaintiffs' motion for partial summary judgment. The Supreme Court reversed the Superior Court and remanded for further proceedings. The Supreme Court ruled that provisions to health coverage programs can be made if, from the perspective of the retiree group as a whole, they are balanced by comparable increases in benefits. The issue is now pending before the Superior Court. The likelihood of an unfavorable outcome is reasonably possible, however, the costs would be passed through to employers through the normal contribution process.

The State is a defendant in a class action lawsuit involving a constitutional challenge to PERS and TRS statutes that provide a 10 percent cost

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Notes to Financial Statements

June 30, 2003 and 2002
(000's omitted)

of living adjustment (COLA) to retirees and other benefit recipients who reside in the state of Alaska. The plaintiffs claim that these statutes violate the right to travel of non-resident benefit recipients, and therefore, the 10 percent COLA should be paid to all benefit recipients, regardless of residence. The class action lawsuit will be submitted to the Alaska Supreme Court to consider the constitutionality of the COLA statutes and how they are applied. The likelihood of an unfavorable outcome of the litigation is reasonably possible and the Plan believes that an unfavorable outcome, if rendered, would negatively impact its financial position and funding status. The ultimate impact cannot be determined within a reasonable range.

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Required Supplementary Information
(Unaudited)

Schedule of Funding Progress
Pension Benefits

June 30, 2003 and 2002
(000's omitted)

Actuarial valuation year ended June 30	Actuarial value of plan assets	Actuarial accrued liabilities (AAL)	Funding Excess (FE)/ (Unfunded actuarial accrued liabilities) (UAAL)	Funded ratio	Covered payroll	FE/(UAAL) as a percentage of covered payroll
1997	$2,563,693	2,728,050	(164,357)	94.0%	$466,455	(35.2%)
1998	2,825,528	2,893,325	(67,797)	97.7%	469,433	(14.4%)
1999	3,120,951	3,043,509	77,442	102.5%	466,414	16.6%
2000	3,338,700	3,350,552	(11,852)	99.6%	482,571	(2.5%)
2001	3,468,310	3,651,488	(183,178)	95.0%	496,188	(36.9%)
2002	2,699,445	3,959,958	(1,260,513)	68.2%	509,437	(247.4%)

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

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Required Supplementary Information
(Unaudited)

Schedule of Funding Progress
Postemployment Healthcare Benefits

June 30, 2003 and 2002
(000's omitted)

Actuarial valuation year ended June 30	Actuarial value of plan assets	Actuarial accrued liabilities (AAL)	Funding Excess (FE)/ (Unfunded actuarial accrued liabilities) (UAAL)	Funded ratio	Covered payroll	FE/(UAAL) as a percentage of covered payroll
1997	$556,351	592,019	(35,668)	94.0%	$466,455	(7.6%)
1998	620,542	635,432	(14,890)	97.7%	469,433	(3.2%)
1999	694,682	677,445	17,237	102.5%	466,414	3.7%
2000	845,315	848,316	(3,001)	99.6%	482,571	(0.6%)
2001	903,919	951,659	(47,740)	95.0%	496,188	(9.6%)
2002	989,591	1,451,684	(462,093)	68.2%	509,437	(90.7%)

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

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Required Supplementary Information
(Unaudited)

Schedule of Employer Contributions
Pension and Postemployment Healthcare Benefits

June 30, 2003 and 2002
(000's omitted)

Year ended June 30	Pension annual required contribution	Postemployment healthcare annual required contribution	Total annual required contribution	Pension percentage contributed (note 3)	Postemployment healthcare percentage contributed (note 3)	Total percentage contributed (note 3)
1998	$ 62,787	13,717	76,504	80%	80%	80%
1999	44,142	9,759	53,901	114%	114%	114%
2000	55,448	12,426	67,874	92%	92%	92%
2001	46,067	10,324	56,391	114%	114%	114%
2002	32,331	7,245	39,576	155%	155%	155%
2003	37,800	9,570	47,370	133%	133%	133%

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

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

Notes to Required Supplementary Information
(Unaudited)

June 30, 2003 and 2002
(000's omitted)

(1) DESCRIPTION OF SCHEDULE OF FUNDING PROGRESS

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

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 is prepared by Mercer Human Resource Consulting. The significant actuarial assumptions used in the valuation as of June 30, 2002 are as follows:

(a) Actuarial cost method – projected unit credit, unfunded actuarial accrued liability or funding excess amortized over a twenty-five year fixed period level percentage of pay.

(b) Mortality – 1994 Group Annuity Mortality Basic Table for males and females, 1994 base year. All deaths are assumed to result from non-occupational causes.

(c) Retirement age – retirement rates based on the 1997-1999 actual experience.

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

(e) Health cost trend –

Fiscal Year	
03-05	12.0%
06	11.5%
07	11.0%
08	10.5%
09	10.0%
10	9.5%
11	9.0%
12	8.5%
13	8.0%
14	7.5%
15	7.0%
16	6.0%
FY17 and later	5.0%

(f) Salary scale – inflation 3.5%, productivity 0.5%, merit (first five years of employment) 1.5%.

(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) Cost of living allowance (domicile in Alaska) – 65% of those benefit recipients who are eligible for the allowance are assumed to remain in Alaska and receive the allowance.

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Notes to Required Supplementary Information (Unaudited)

June 30, 2003 and 2002 (000's omitted)

(i) Contribution refunds – 100% of those terminating after age thirty-five who are vested will leave their contributions in the Plan and thereby retain their deferred vested benefit. All others who terminate are assumed to have their contributions refunded.

(j) Total turnover – select and ultimate rate based upon the 1997-1999 actual withdrawal experience.

(k) Disability – incidence rates based upon the 1991-1995 actual experience. Post-disability mortality in accordance with rates published by the Pension Benefit Guaranty Corporation to reflect mortality of those receiving disability benefits under Social Security.

(l) Asset valuation method – recognize 20% of the investment gains and losses 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 cannot be outside a range of 80% to 120% of the market value of assets.

(m) Valuation of medical benefits for retirees – a pre-age sixty-five cost and lower post-age sixty-five cost (due to Medicare) are assumed such that the total rate for all retirees equals the present premium rate assumption. These medical premiums are then increased with the health cost inflation assumption.

(n) Spouse's age – wives are assumed to be four years younger than husbands.

(o) Dependent children – benefits to dependent children have been valued assuming members who are not single have one dependent child.

(p) New entrants – growth projections are made for active TRS population under three scenarios:

Pessimistic:	0% per year
Median:	1% per year
Optimistic:	2% per year

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

(r) Post-retirement pension – 50% and 75% of assumed inflation is valued for the automatic Post-Retirement Pension Adjustment (PRPA) as specified in the statute.

(s) Part-time status – part-time employees are assumed to earn 0.550 years of credited service per year.

(t) Expenses – expenses are covered in the investment return assumption.

STATE OF ALASKA
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Notes to Required Supplementary Information
(Unaudited)

June 30, 2003 and 2002
(000's omitted)

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

All significant accounting policies, benefit provisions and actuarial assumptions are the same for the required supplementary information and the financial statements except as follows:

- Effective June 30, 1994, there was a change in the asset valuation method. The revised asset valuation method smoothes the difference between expected investment return and actual return during a given year by spreading the results over five years by recognizing 20% of the investment gain or loss in each of the current and preceding four years.

- Effective June 30, 1996, the investment return was increased from 8% to 8.25% per year. Disability assumptions were revised based on actual experience in 1991-1995. In addition, the amortization period for funding surpluses was changed from five years to a rolling twenty-five year period.

- Effective June 30, 2000, the following changes were made:

  - There was a change in the economic actuarial assumption. The total inflation assumption was changed from 4% to 3.5% annually. This affected the economic assumptions, including salary scale and health cost trend.

  - The retirement assumptions were revised based on actual experience in 1997-1999.

  - The turnover assumptions were revised based on actual withdrawal experience in 1997-1999.

  - The cost of living allowance was increased from 62% to 65% participation.

  - For the June 30, 2000 actuarial valuation, data as of June 30, 1999 was projected one year using standard actuarial techniques. The active population count was assumed to increase by 1.81% (quadratic extrapolation over the most recent 3 valuation dates). Actual CPI data was used to estimate new PRPA benefits for participants retired as of June 30, 1999.

  - The mortality basis was changed from the 1984 Unisex Pension Mortality Table to the 1994 Group Annuity Mortality Basic Table for males and females, 1994 base year.

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Notes to Required Supplementary Information
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June 30, 2003 and 2002
(000's omitted)

- ➢ The health cost trend assumptions were changed from an ultimate rate of 5.5% per annum to the following:

Fiscal Year	
01	7.5%
02	6.5%
03	5.5%
04-08	5.0%
09-13	4.5%
Thereafter	4.0%

- Effective June 30, 2002, the following changes were made:

  - ➢ The actuarial cost method was changed from a rolling twenty-five year period to a twenty-five year fixed period level percentage of pay.

  - ➢ Part-time employees are assumed to earn 0.550 years of credited service per year.

  - ➢ The health cost trend assumptions were changed for fiscal years 2003 and later from an ultimate rate of 12.0% for fiscal years 2003-2005 decreasing in yearly 0.5% increments to 5.0% beginning in 2017 and all subsequent fiscal years.

  - ➢ The asset valuation method was changed to recognize 20% of the investment gains and losses in each of the current and preceding four years and will be phased in over the next five years.

(3) ENHANCED ACTUARIAL PROJECTION SYSTEM

The Plan's actuary, at the request of the Teachers' Retirement Board, uses an enhanced actuarial projection system to determine annual employer contribution rates. Although the same actuarial cost method is used by the Plan's actuary, the enhanced system projects population growth patterns and their associated liabilities twenty-five years into the future.

The purpose of the enhanced actuarial projection system is to level out contribution rates in order to provide employers with a more stable long-term contribution pattern.

The Plan's utilization of the enhanced actuarial projection system resulted in 1998 and 2000 employer contributions being less than the annual required contribution and 1999 and 2001-2003 employer contributions being more than the annual required contribution.

(4) APPROVED FUTURE CONTRIBUTION RATES

Due primarily to declines in the market value of Plan assets, the June 30, 2002 actuarial valuation report for the Plan reported a funding ratio of 68.2%. As a result of the decline in the funding ratio, a rate increase to 35.57% for Fiscal Year 2005 was recommended by the consulting actuary. The TRS board members voted for a rate of 16% for Fiscal Year 2005.

Schedule 1

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

Schedule of Administrative and Investment Expenses

Year ended June 30, 2003
with comparative totals for 2002
(000's omitted)

	Administrative expenses	Investment expenses	Totals 2003	Totals 2002
Personal services:				
Wages	$ 894	436	1,330	1,201
Benefits	511	92	603	418
Total personal services	1,405	528	1,933	1,619
Travel:				
Transportation	31	28	59	58
Per diem	33	23	56	55
Moving	-	3	3	2
Honorarium	20	11	31	25
Total travel	84	65	149	140
Contractual services:				
Management and consulting	163	6,726	6,889	7,663
Accounting and auditing	14	460	474	385
Other professional services	179	46	225	379
Advertising and printing	36	101	137	110
Data processing	131	12	143	102
Communications	101	19	120	99
Rentals/leases	124	31	155	78
Legal	-	33	33	45
Medical specialists	5	-	5	24
Repairs and maintenance	3	-	3	2
Transportation	1	1	2	2
Other services	25	10	35	32
Total contractual services	782	7,439	8,221	8,921
Other:				
Equipment	104	10	114	45
Supplies	20	16	36	117
Total other	124	26	150	162
Total administrative and investment expenses	**$2,395**	**8,058**	**10,453**	**10,842**

See accompanying independent auditors' report.

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

Years ended June 30, 2003 and 2002
(000's omitted)

Firm	Services	2003	2002
State Street Corporation	Custodian banking services	$ 422	460
Systems Central Services Inc.	Data processing consultants	114	72
Mercer Human Resource Consulting	Actuarial services	160	140
Milliman USA	Actuarial auditing services	27	-
KPMG LLP	Auditing services	14	21
State of Alaska, Department of Law	Legal services	53	29
Wohlforth, Vassar, Johnson and Brecht	TRS Board legal services	8	19
		$ 798	**741**

See accompanying independent auditors' report.

MERCER

Human Resource Consulting

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March 13, 2003

State of Alaska
Teachers' Retirement Board
Department of Administration
Division of Retirement & Benefits
P.O. Box 110203
Juneau, AK 99811-0203

Dear Members of the Board:

Actuarial Certification

The annual actuarial valuation required for the State of Alaska Teachers' Retirement System has been prepared as of June 30, 2002 by Mercer Human Resource Consulting. The purposes of the report include:

(1) a review of experience under the Plan for the year ended June 30, 2002;

(2) a determination of the appropriate contribution rate for all employers in the System;

(3) the provision of reporting and disclosure information for financial statements, governmental agencies, and other interested parties.

The following schedules that we have prepared are included in this report:

(1) Summary of actuarial assumptions and methods

(2) Schedule of active member valuation data

(3) Schedule of benefit recipients added to and removed from rolls

(4) Solvency test

(5) Analysis of financial experience

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Human Resource Consulting

Teachers' Retirement Board
March 13, 2003
Page 2

In preparing this valuation, we have employed generally accepted actuarial methods and assumptions, in conjunction with employee data provided to us by the System's staff and financial information provided by the audited report from KPMG LLP, to determine a sound value for the System liability. This data has not been audited, but it has been reviewed and found to be consistent, both internally and with prior years' data. The actuarial assumptions are based on the results of an experience study presented to the Board in October 2000 and adopted in December 2000. Actuarial methods, medical cost trend, and assumed blended medical premiums were reviewed and revised in January 2003.

The contribution requirements are determined as a percentage of payroll, and reflect the cost of benefits accruing in FY03 and a fixed 25-year amortization of the initial unfunded accrued liability and subsequent gains/losses. The amortization period is set by the Board. Contribution levels are recommended by the Actuary and adopted by the Board each year. Over time, the contribution rate is expected to remain relatively constant as a percentage of payroll. The ratio of assets to liabilities decreased from 95.0% to 68.2% during the year primarily due to continuing poor equity market performance and a change in the asset valuation method. Over the years, progress has been made toward achieving the funding objectives of the System.

A summary of the actuarial assumptions and methods is presented in Section 2.3 of this report. The assumptions, when applied in combination, fairly represent past and anticipated future experience of the System.

Future contribution requirements may differ from those determined in the valuation because of:

(1) differences between actual experience and anticipated experience based on the assumptions;

(2) changes in actuarial assumptions or methods;

(3) changes in statutory provisions; or

(4) differences between the contribution rates determined by the valuation and those adopted by the Board.

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Human Resource Consulting

Teachers' Retirement Board
March 13, 2003
Page 3

The undersigned are members of the American Academy of Actuaries and the Society of Actuaries and are fully qualified to provide actuarial services to the State of Alaska.

We believe that the assumptions and methods used for funding purposes and for the disclosures presented in this report satisfy the parameter requirements set forth in the Government Accounting Standards Board (GASB) Statement Nos. 25 and 27.

We believe that this report conforms with the requirements of the Alaska statutes, and where applicable, other federal and accounting laws, regulations and rules, as well as generally accepted actuarial principles and practices.

It is our understanding that most of the information presented in the Required Supplementary Information in the Financial Section and in the supporting schedules in the Actuarial and Statistical Sections of this annual financial report was taken from the State of Alaska Teachers' Retirement System Actuarial Valuation Report as of June 30, 2002, that was prepared by Mercer Human Resource Consulting.

Sincerely,

Brian R. McGee, FSA, MAAA

James W. Jacobson, ASA, MAAA

Teachers' Retirement System
Summary of Actuarial Assumptions and Methods

The demographic and economic assumptions used in this valuation were recommended by Mercer Human Resource Consulting at the Fall 2000 TRS Board Meeting and adopted by the Board in December 2000. These assumptions were result of an experience study performed in the Fall of 2000. The funding method used in this valuation was adopted June 30, 1985 and last reviewed by the Board in January 2003. The asset smoothing method used to determine valuation assets was changed effective June 30, 2002.

A. Valuation of Liabilities

Actuarial Method — Projected Unit Credit. Liabilities and contributions shown in the report are computed using the Projected Unit Credit method of funding. The initial unfunded accrued liability and future gains/losses are amortized over a 25-year fixed period level percentage of pay.

The objective under this method is to fund each participant's benefits under the plan as they accrue. Thus, each participant's total pension projected to retirement with salary scale is broken down into units, each associated with a year of past or future service. The principle underlying the method is that each unit is funded in the year for which it is credited. Typically, when the method is introduced there will be an initial liability for benefits credited for service prior to the date, and to the extent that this liability is not covered by Assets of the Plan there is an Unfunded Liability to be funded over a chosen period in accordance with an amortization schedule.

An Accrued Liability is calculated at the valuation date as the present value of benefits credited with respect to service to that date.

The Unfunded Liability at the valuation date is the excess of the Accrued Liability over the Assets of the Plan. The level annual payment to be made over a stipulated number of years to amortize the Unfunded Liability is the Past Service Cost.

The Normal Cost is the present value of those benefits which are expected to be credited with respect to service during the year beginning on the valuation date.

Under this method, differences between the actual experience and that assumed in the determination of costs and liabilities will emerge as adjustments in the Unfunded Liability, subject to amortization.

B. Actuarial Assumptions

1.	Investment Return	8.25% per year, compounded annually, net of expenses.
2.	Salary Scale	Inflation - 3.5% per year Merit (first 5 years of employment) - 1.5% per year Productivity - 0.5% per year
3.	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.

Teachers' Retirement System
Summary of Actuarial Assumptions and Methods

4.	Health Cost Trend	FY03 - FY05 - 12.0% FY06 - 11.5% FY07 - 11.0% FY08 - 10.5% FY09 - 10.0% FY10 - 9.5% FY11 - 9.0%	FY12 - 8.5% FY13 - 8.0% FY14 - 7.5% FY15 - 7.0% FY16 - 6.0% FY17 and later 5.0%

5. Mortality — 1994 Group Annuity Mortality Basic Table for males and females, 1994 Base Year. All deaths are assumed to result from non-occupational causes.

6. Total Turnover — Select and ultimate rates based upon the 1997-99 actual withdrawal experience (See Table 1.)

7. Disability — Incidence rates based upon the 1991-95 actual experience, in accordance with Table 2. Post-disability mortality in accordance with rates published by the Pension Benefit Guaranty Corporation to reflect mortality of those receiving disability benefits under Social Security.

8. Retirement — Retirement rates based upon the 1997-99 actual experience in accordance with Table 3.

9. Spouse's Age — Wives are assumed to be four years younger than husbands.

10. Dependent Children — Benefits to dependent children have been valued assuming members who are not single have one dependent child.

11. Contribution Refunds — 100% of those terminating after age 35 who are vested will leave their contributions in the fund and thereby retain their deferred vested benefit. All others who terminate are assumed to have their contributions refunded.

12. C.O.L.A. — Of those benefit recipients who are eligible for the C.O.L.A., 65% are assumed to remain in Alaska and receive the C.O.L.A.

13. New Entrants — Growth projections are made for the active TRS population under three scenarios:

Pessimistic:	0% per year
Median:	1% per year
Optimistic:	2% per year

14. 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.

Teachers' Retirement System
Summary of Actuarial Assumptions and Methods

15.	Post-Retirement Pension Adjustment	50% and 75% of assumed inflation is valued for the automatic Post-Retirement Pension Adjustment (PRPA) as specified in the statute.
16.	Expenses	Expenses are covered in the investment return assumption.
17.	Part-Time Status	Part-time employees are assumed to earn 0.550 years of credited service per year.

C. Valuation of Assets

Effective June 30, 2002, the asset valuation method recognizes 20% of the investment gain or loss in each of the current and preceding four years. This method will be phased in over the next five years. All assets are valued at market value. Assets are accounted for on an accrued basis and are taken directly from audited financial statements provided by KPMG LLP. Valuation assets cannot be outside a range of 80% to 120% of the market value of assets.

D. Valuation of Medical Benefits

Medical benefits for retirees are provided by the payment of premiums from the fund. A pre-65 cost and lower post-65 cost (due to Medicare) are assumed such that the total rate for all retirees equals the present premium rate assumption. These medical premiums are then increased with the health inflation assumption. The actuarial cost method used for funding retirement benefits is also used to fund health benefits.

For FY03, the pre-65 monthly premium is $907.18 and the post-65 premium is $345.59, based on an assumed total blended premium of $694.00. The assumed total blended premium for FY03 is the average of the 2002 and 2003 calendar year actual blended premium. For the time period January 1, 2003 to December 31, 2003, the actual blended premium as provided by the State of Alaska, Division of Retirement and Benefits, is $720.00.

Teachers' Retirement System
Summary of Actuarial Assumptions and Methods

Table 1
Total Turnover Assumptions

Select Rates of Turnover During the First 8 Years of Employment

Year of Employment	Rate
1	.10
2	.10
3	.09
4	.09
5	.08
6	.07
7	.06
8	.05

Ultimate Rates of Turnover After the First 8 Years of Employment

Ages	Rate
20+	.04

Teachers' Retirement System
Summary of Actuarial Assumptions and Methods

Table 2
Disability Rates
Annual Rates Per 1,000 Employees

Age	Rate
20	.28
21	.28
22	.29
23	.29
24	.30
25	.30
26	.30
27	.31
28	.32
29	.33
30	.34
31	.34
32	.35
33	.36
34	.37
35	.38
36	.40
37	.41
38	.43
39	.44
40	.46
41	.48
42	.51
43	.54
44	.59
45	.65
46	.70
47	.76
48	.83
49	.89
50	.96
51	1.04
52	1.14
53	1.27
54	1.42
55	1.60
56	1.84
57	2.14
58	2.44
59	2.88
60	3.37
61	3.90
62	4.52
63	5.22
64	5.96

Teachers' Retirement System
Summary of Actuarial Assumptions and Methods

Table 3
Retirement Rates

Age at Retirement	Retirement Rate
50	.05
51	.05
52	.05
53	.05
54	.05
55	.15
56	.13
57	.10
58	.10
59	.10
60	.10
61	.10
62	.10
63	.17
64	.17
65	.50
66 & up	1.00

Teachers retiring at ages under 50 are assumed to retire immediately upon attaining 21 years of service.

Teachers' Retirement System
Schedule of Active Member Valuation Data

Valuation Date	Number	Annual Payroll (000s)	Annual Average Pay	Average Increase/ (Decrease) In Average Pay	Number of Participating Employers
June 30, 2002	9,690	$509,437	$52,373	4.0%	57
June 30, 2001	9,815	496,188	50,544	1.8%	60
June 30, 1999	9,396	466,414	49,640	(2.1)%	61
June 30, 1998	9,262	469,433	50,684	(0.4)%	61
June 30, 1997	9,164	466,455	50,901	1.3%	61
June 30, 1996	9,259	465,182	50,241	(0.5)%	61
June 30, 1995	9,452	477,205	50,487	0.6%	61
June 30, 1994	9,489	476,098	50,174	3.2%	61
June 30, 1993	9,459	459,746	48,604	0.2%	61
June 30, 1992	9,238	448,186	48,515	2.2%	62

Teachers' Retirement System
Schedule of Retirants and Beneficiaries Added to and Removed from Rolls

Year Ended	Added to Rolls		Removed from Rolls		Rolls - End of Year		Percent Increase in Annual Allowances	Average Annual Allowance
	No.*	Annual Allowances*	No.*	Annual Allowances*	No.	Annual Allowances		
June 30, 2002	589	$24,789,896	118	$4,966,397	7,804	$237,094,545	9.12%	$30,381
June 30, 2001	1,057	39,213,327	210	7,790,727	7,333	217,271,046	16.91%	29,629
June 30, 1999	598	19,014,567	91	2,893,521	6,486	185,848,446	9.50%	28,654
June 30, 1998	674	24,479,595	38	1,380,155	5,979	169,727,400	15.75%	28,387
June 30, 1997	583	29,988,351(1)	43	2,211,834(1)	5,343	146,627,960	23.37%	27,443
June 30, 1996	376	8,410,895	32	441,353	4,803	118,851,443	7.19%	24,745
June 30, 1995	368	10,386,432	43	94,443	4,459	110,881,901	10.23%	24,867
June 30, 1994	280	8,923,551	37	616,360	4,134	100,589,912	9.00%	24,332
June 30, 1993	344	6,874,777	55	1,044,709	3,891	92,282,721	6.74%	23,717
June 30, 1992	120	5,799,044	62	1,436,106	3,602	86,452,653	5.31%	24,001

* Numbers are estimated, and include other internal transfers.

[1]Includes additional benefits to current retirees from a one time retroactive ad hoc Post-Retirement Pension Adjustments.

Teachers' Retirement System Solvency Test

Valuation Date	Aggregate Accrued Liability For: (1) Active Member Contributions (000s)	(2) Inactive Members (000s)	(3) Active Members (Employer-Financed Portion) (000s)	Valuation Assets (000s)	Portion of Accrued Liabilities Covered by Assets (1)	(2)	(3)
June 30, 2002[1][2][3]	$523,142	$3,755,882	$1,132,618	$3,689,036	100%	84.3%	0.0%
June 30, 2001	$533,752	$3,213,431	$855,964	$4,372,229	100%	100%	73.0%
June 30, 2000[1][2]	490,176	2,872,250	836,442	4,184,015	100%	100%	98.2%
June 30, 1999	469,068	2,571,345	680,541	3,815,633	100%	100%	100.0%
June 30, 1998	449,383	2,344,263	735,111	3,446,070	100%	100%	88.8%
June 30, 1997	483,735	2,095,843	780,491	3,120,044	100%	100%	69.2%
June 30, 1996[2]	451,249	1,689,636	799,552	2,858,756	100%	100%	89.8%
June 30, 1995	437,089	1,531,406	944,972	2,647,392	100%	100%	71.8%
June 30, 1994[1][2]	398,990	1,419,506	942,913	2,472,957	100%	100%	69.4%
June 30, 1993	370,667	1,223,220	835,569	2,261,082	100%	100%	79.8%

[1] Change in Asset Valuation Method. [2] Change of Assumptions [3] Change in Methods.

Teachers' Retirement System
Analysis of Financial Experience

Change in Employer Contribution Rate Due to Gains and Losses in Accrued Liabilities During the Last Five Fiscal Years Resulting From Differences Between Assumed Experience and Actual Experience

Type of Gain or Loss	Change in Employer Contribution Rate During Fiscal Year 2002	2001	2000	1999	1998
Health Experience	3.85%	-	-	-	-
Salary Experience	(0.11)%	(1.68)%	-	(0.64)%	(0.84)%
Investment Experience	15.03%	1.35%	(3.35)%	(3.73)%	(2.70)%
Demographic Experience	4.21%	2.66%	(0.91)%	0.80%	0.54%
(Gain) or Loss During Year from Experience	22.98%	2.33%	(4.26)%	(3.57)%	(3.00)%
Non-recurring changes					
Asset Valuation Method	0.03%	-	(1.38)%	-	-
Past Service Amortization Change	(9.08)%	-	-	-	-
Assumption Changes	6.84%	-	6.68%	-	-
System Benefit Changes	-	0.17%	-	-	-
Administrative System Changes	-	3.49%	-	-	-
Ad hoc PRPA	0.36%	0.16%	0.16%	0.11%	0.55%
Composite (Gain) or Loss During Year	21.13%	6.15%	1.20%	(3.46)%	(2.45)%
Beginning Total Employer Contribution Rate	14.44%	8.29%	7.09%	10.55%	13.00%
Ending Total Employer Contribution Rate	35.57%	14.44%	8.29%	7.09%	10.55%
Board Adopted Employer Contribution Rate	16.00%	12.00%	11.00%	11.00%	12.00%
Fiscal Year above rate is applied	FY05	FY04	FY03	FY02	FY01

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Summary of Plan Provisions

(1) Effective Date

July 1, 1955, with amendments through July 1, 2002. Chapter 97, 1990 Session Laws of Alaska, created a two-tier retirement system. Members who were first hired under the TRS before July 1, 1990, are eligible for different benefits than members hired after June 30, 1990.

(2) Administration of Plan

The Commissioner of Administration is responsible for administering the system. The Teachers' Retirement Board prescribes policies and regulations and performs other activities necessary to carry out the provisions of the system. The Alaska State Pension Investment Board, Department of Revenue, Treasury Division is responsible for investing TRS funds. The Attorney General represents the system in legal proceedings.

(3) Membership

Membership in the Alaska TRS is mandatory for the following employees:

- certificated full-time and part-time elementary and secondary teachers, certificated school nurses, and certificated employees in positions requiring teaching certificates;
- positions requiring a teaching certificate as a condition of employment in the Department of Education and Early Development;
- University of Alaska full-time and part-time teachers, and full-time administrative employees in positions requiring academic standing if approved by the TRS administrator;
- certain full-time or part-time teachers of Alaska Native language or culture who have elected to be covered under the TRS;
- members on approved sabbatical leave under AS 14.20.310;
- certain State legislators who have elected to be covered under the TRS; and
- a teacher who has filed for worker's compensation benefits due to an on the job assault and who, as a result of the physical injury, is placed on leave without pay.

Employees participating in the University of Alaska's Optional Retirement Plan or other retirement plans funded by the State are not covered by the TRS.

Employees who work half-time in the TRS and Public Employees' Retirement System (PERS) simultaneously are eligible for half-time TRS and PERS credit.

(4) Credited Service

TRS members receive a year of membership credit if they work a minimum of 172 days during the school year (July 1 through June 30 of the following year). Fractional credit is determined based on the number of days worked. Part-time members receive membership credit for each day in proportion to full-time service. Credit is granted for all Alaskan public school service.

Members may claim other types of service, including:

- Outside teaching service in out-of-state schools or Alaska private schools (not more than ten years may be claimed);
- Military service (not more than five years of military service or ten years of combined outside and military service may be claimed);
- Alaska Bureau of Indian Affairs (BIA) service;

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Summary of Plan Provisions

- Retroactive Alaskan service that was not creditable at the time it occurred, but later became creditable because of legislative change;

- Unused sick leave credit after members retire; and

- Leave of absence without pay.

Except for retroactive Alaska service that occurred before July 1, 1955, and unused sick leave, contributions are required for all claimed service.

Members receiving TRS disability benefits continue to earn TRS credit while disabled.

(5) Employer Contributions

TRS employers contribute the amounts required, in addition to employees' contributions, to fund the benefits of the system.

(6) Member Contributions

Mandatory Contributions: Members are required to contribute 8.65% of their base salaries. Members' contributions are deducted from gross salaries before federal income taxes are withheld.

Contributions for Claimed Service: Member contributions are also required for most of the claimed service described in (4) above.

1% Supplemental Contributions: Members who joined the system before July 1, 1982, and elected to participate in the supplemental contributions provision, are required to contribute an additional 1% of their salaries. Supplemental contributions are deducted from gross salaries before federal income taxes are withheld. Under the supplemental provision, an eligible spouse or dependent child will receive a survivor's allowance or spouse's pension if the member dies (see (11) below).

Interest: Member's contributions earn 4.5% interest, compounded annually on June 30.

Refund Contributions: Terminated members may receive refunds of their member contribution accounts, which includes their mandatory contributions, indebtedness payments, and interest earned. Terminated members' accounts may be attached to satisfy claims under Alaska Statute 09.38.065, federal income tax levies, and valid Qualified Domestic Relations Orders.

Reinstatement of Contributions: Refunded accounts and the corresponding TRS service may be reinstated upon reemployment in the TRS. Accounts attached to satisfy claims under Alaska Statute 09.38.065 or a federal tax levy may be reinstated at any time. Interest accrues on refunds until paid in full or members retire.

(7) Retirement Benefits

Eligibility:

(a) Members, including deferred vested members, are eligible for normal retirement at age 60[1], or early retirement at age 55, if they have at least:

(i) eight years of paid-up membership service;

(ii) 15 years of paid-up creditable service, the last five years of which are membership service, and they were first hired under the TRS before July 1, 1975;

(iii) five years of paid-up membership service and three years of paid-up Alaska Bureau of Indian Affairs service;

(iv) 12 years of combined part-time and full-time paid-up membership service;

[1] Members participating before July 1, 1990 are eligible for normal retirement at age 55 or early retirement at age 50.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Summary of Plan Provisions

(v) two years of paid-up membership service if they are vested in the Public Employees' Retirement System (PERS); or

(vi) one year of paid-up membership service if they are retired from the PERS.

(b) Members may retire at any age when they have:

(i) 25 years of paid-up creditable service, the last five years of which are membership service;

(ii) 20 years of paid-up membership service;

(iii) 20 years of combined paid-up membership and Alaska Bureau of Indian Affairs service, the last five years of which are membership service; or

(iv) 20 years of combined paid-up part-time and full-time membership service.

Benefit Type: Lifetime benefits are paid to members. Eligible members may receive normal, unreduced benefits when they (1) reach normal retirement age and complete the service required; or (2) satisfy the minimum service requirements to retire at any age under (b) above. Members may receive early, actuarially reduced benefits when they reach early retirement age and complete the service required.

Members may select joint and survivor options. Under those options and early retirement, benefits are actuarially adjusted so that members receive the actuarial equivalents of their normal benefit amounts.

Benefit Calculation: Retirement benefits are calculated by multiplying the average base salary (ABS) times the total TRS service times the percentage multiplier. The ABS is determined by averaging the salaries earned during the three highest school years. Members must earn at least 115 days of credit in a school year to include it in the ABS calculation. The TRS pays a minimum benefit of $25.00 per month for each year of service when the calculated benefit is less.

The percentage multipliers are 2% for the first 20 years and 2.5% for all remaining service. Service before July 1, 1990, is calculated at 2%.

Indebtedness: Members who terminate and refund their TRS contributions are not eligible to retire unless they return to TRS employment and pay back their refunds, plus interest, or accrue additional service which qualifies them for retirement. TRS refunds must be paid in full if the corresponding service is to count toward the minimum service requirements for retirement. Refunded TRS service is included in total service for the purpose of calculating retirement benefits. However, when refunds are not completely paid before retirement, benefits are actuarially reduced for life.

(8) Reemployment of Retired Members

Retirees who return to work in a permanent full-time or part-time TRS position after a Normal Retirement have two options available, the Standard Option or the Waiver Option.

Under the Standard Option, retirement benefits are suspended while retired members are reemployed under the TRS. During reemployment, members earn additional TRS service and contributions are withheld from their wages.

If an Alaska school district has established that there is a shortage of teachers in a particular discipline or specialty and has passed a resolution to that effect, a retiree returning to work in a permanent full-time or part-time TRS position with that school district may exercise the Waiver Option. The Waiver Option allows a retiree who retired under a

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Summary of Plan Provisions

Normal Retirement to reemploy with a TRS employer and continue to receive a retirement benefit by signing a waiver of participation in the TRS. The Waiver Option became effective July 1, 2001 and applies to reemployment periods after that date.

The Waiver Option is not available to members who retired early or under the Retirement Incentive Program (RIP).

Members retired under the RIP who return to employment under the TRS, Public Employees' Retirement System (PERS), Judicial Retirement System (JRS) or the University of Alaska's Optional Retirement Plan will:

(a) forfeit the three years of incentive credits that they received;

(b) owe the TRS 110% of the benefits that they received under the RIP, which may include costs for health insurance, excluding amounts that they paid to participate; and

(c) be charged 7% interest from the date that they are reemployed until their indebtedness is paid in full or they retire again. If the indebtedness is not completely paid, future benefits will be actuarially reduced for life.

(9) Postemployment Healthcare Benefits

When pension benefits begin, major medical benefits are provided by the TRS to (1) all employees first hired before July 1, 1990, and (2) members who have twenty-five years of membership service, are disabled or age sixty or older, regardless of their initial hire dates. Employees first hired after June 30, 1990, may receive major medical benefits prior to age sixty by paying premiums.

(10) Disability Benefits

Monthly disability benefits are paid to permanently disabled members until they die, recover or become eligible for normal retirement. To be eligible, members must have at least five years of paid-up membership service.

Disability benefits are equal to 50% of the member's base salary at the time of disability. The benefit is increased by 10% of the base salary for each minor child, up to a maximum of 40%. Members continue to earn TRS service until eligible for normal retirement.

Members are appointed to normal retirement on the first of the month after they become eligible.

(11) Death Benefits

Monthly death benefits may be paid to a spouse or dependent children upon the death of a member. If monthly benefits are not payable under the supplemental contributions provision or occupational and nonoccupational death provisions, the designated beneficiary receives the lump sum benefit described below.

<u>Occupational Death:</u> When an active member dies from occupational causes, a monthly survivor's pension may be paid to the spouse, unless benefits are payable under the supplemental contributions provision (below). The pension equals 40% of the member's base salary on the date of death or disability, if earlier. If there is no spouse, the pension may be paid to the member's dependent children. On the member's normal retirement date, the benefit converts to a normal retirement benefit. The normal benefit is based on the member's average base salary on the date of death and service, including service accumulated from the date of the member's death to the normal retirement date.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Summary of Plan Provisions

Nonoccupational Death: When a vested member dies from nonoccupational causes, the surviving spouse may elect to receive a monthly 50% joint and survivor benefit or a lump sum benefit, unless benefits are payable under the supplemental contributions provision (below). The monthly benefit is calculated on the member's average base salary and TRS service accrued at the time of death.

Lump Sum Benefit: Upon the death of an active member who has less than one year of service or an inactive member who is not vested, the designated beneficiary receives the member's contribution account, which includes mandatory contributions, indebtedness payments, and interest earned. Any supplemental contributions will also be refunded. If the member has more than one year of TRS service, the beneficiary also receives $1,000 and $100 for each year of TRS service, up to a maximum of $3,000. An additional $500 may be payable if the member is survived by dependent children.

Supplemental Contributions Provision: Members are eligible for supplemental coverage if they joined the TRS before July 1, 1982, elected to participate in the supplemental provision, and made the required contributions. A survivor's allowance or spouse's pension (below) may be payable if the member made supplemental contributions for at least one year and dies while in membership service or while disabled under the TRS. In addition, the allowance and pension may be payable if the member dies while retired or in deferred vested status if supplemental contributions were made for at least five years.

(a) Survivor's Allowance: If the member is survived by dependent children, the surviving spouse and dependent children are entitled to a survivor's allowance. The allowance for the spouse is equal to 35% of the member's base salary at the time of death or disability, plus 10% for each dependent child up to a maximum of 40%. The allowance terminates and a spouse's pension becomes payable when there is no longer an eligible dependent child.

(b) Spouse's Pension: The spouse's pension is equal to 50% of the retirement benefit that the deceased member was receiving or would have received if retired at the time of death. The spouse's pension begins on the first of the month after the member's death or termination of the survivor's allowance.

Death After Retirement: If a joint and survivor option was selected at retirement, the eligible spouse receives continuing, lifetime monthly benefits after the member dies. A survivor's allowance or spouse's pension may be payable if the member participated in the supplemental contributions provision. If a joint and survivor option was not selected and benefits are not payable under the supplemental contributions provision, the designated beneficiary receives the member's contribution account, less any benefits already paid.

(12) Post Retirement Pension Adjustments

Post retirement pension adjustments (PRPAs) are granted annually to eligible benefit recipients when the consumer price index (CPI) increases during the preceding calendar year. PRPAs are calculated by multiplying the recipient's base benefit, including past PRPAs, times:

(a) 75% of the CPI increase in the preceding calendar year or 9%, whichever is less, if the recipient is at least age 65 or on TRS disability; or

(b) 50% of the CPI increase in the preceding calendar year or 6%, whichever is less, if the recipient is at least age 60, or under age 60 if the recipient has been receiving benefits for at least eight years.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Summary of Plan Provisions

Ad hoc PRPAs, up to a maximum of 4%, may be granted to eligible recipients who were first hired before July 1, 1990, if the CPI increases and the financial condition of the fund will permit an increase. In a year where an Ad Hoc PRPA is granted, eligible recipients will receive the higher of the two calculations.

(13) Alaska Cost of Living Allowance

Eligible benefit recipients who reside in Alaska receive an Alaska cost of living allowance (COLA) equal to 10% of their base benefits. The following benefit recipients are eligible:

(a) members who were first hired under the TRS before July 1, 1990, and their survivors;

(b) members who were first hired under the TRS after June 30, 1990, and their survivors if they are at least age 65; and

(c) all disabled members.

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Alaska State Pension Investment Board

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Message from the Chair

I am pleased to present the 2003 Annual Report of Investments for the period ending June 30, 2003 to you, the participants and beneficiaries of this retirement trust fund.

The difficult economic and stock market environment experienced in fiscal 2001 and 2002 continued through much of fiscal 2003. The stock market reached a low in October 2002, rallied and then tested the low in March 2003. Fortunately, the market rebounded strongly in the June quarter and ended the year with a fractional gain. For the twelve months, U.S. stocks registered a slight gain of 0.25% as measured by the Standard & Poors' 500 Stock Index. Small cap stocks, as measured by the Russell 2000 Stock Index (comprised of the smallest 2000 of the top 3000 companies ranked by market capitalization), lost -1.6% for the 12 months. International stocks, as measured by the MSCI EAFE Index, declined –6.5%. As was the case throughout the bear market, the real bright spots were high quality investment grade bonds and real estate. The Lehman Aggregate Index, a measure of the investment grade bond market, benefited from the decline in interest rates and returned a handsome +10.4% while various measures of the real estate market produced returns in excess of +7.6%.TRS experienced an overall positive return of 3.7% for the 12 months ended June 30, 2003. While this was below our long-term targets, it is refreshing to see evidence suggesting that the worst market environment in modern financial market history may well have ended and the economy begun a gradual recovery.

The System's domestic equity investments experienced mixed results. The System's large company component continued to outperform the S&P 500 by posting a gain of 0.35%. The smaller company component of the domestic portfolio registered a loss of 5.4% and underperformed the Russell 2000 stock index. The Russell 2000 fell 1.64% for the year. The System's international equity composite declined –5.8%. While negative, this result was better than the MSCI EAFE Index loss of –6.5%.

On a positive note, the System's domestic bond portfolio slightly outperformed its benchmark index (positive +10.7% for the portfolio and 10.4% for the index) the decision to maintain significant bond exposure contributed importantly to minimizing losses. TRS's real estate portfolio also helped overall results by posting a positive +8.97% return. For the second year in succession, the biggest bright spot was the performance of the System's international bond portfolio. The portfolio enjoyed a +24.5% return much of which was attributable to the weakness in the value of the U.S. dollar during the fiscal year. In total, the TRS return during FY03 of 3.7% was slightly below its target return of 4.6%. The primary explanatory factor was a slight over target allocation to equities. A secondary factor was the underperformance of the U.S. small cap equity composite relative to its market benchmark.

It is critical to remember that the System's assets are invested for the long-term. Our objective is to produce a very competitive long-term return that meets the System's funding requirements at an acceptable risk level. We, therefore, are encouraged to observe that the 11 ¾ year cumulative annualized return (the longest period available) of +8.2% compares favorably with the System's policy target index return of +8.1% and is very close to the System's actuarial earnings assumption.

The trustees work hard to achieve an asset mix that provides the highest expected return for a given level of risk. Working closely with our dedicated staff in the Department of Revenue and our investment advisors and consultants, we established an investment mix that we believe will provide enhanced returns while maintaining a prudent level of risk. The asset allocation plan adopted by the trustees for FY03 called for an investment distribution as follows: 36% in domestic equities, 15% in international equities, 31% in domestic fixed income, 3% in international fixed income, 6% in private equity and 9% in real estate. This asset allocation is reviewed annually and has been slightly modified for the new fiscal year. It, however, is designed to provide competitive returns at a reasonable level of risk. Fiscal 2003 results were within the range of shorter-term returns envisioned as possible.

ASPIB represents over 60,000 participants and beneficiaries. The trustees strongly believe that you should be kept well informed about the performance of your retirement funds, and about what we as fiduciaries are doing on your behalf. To this end, we are proud of the ASPIB web site, which can be accessed at www.revenue.state.ak.us/treasury/aspib/index.htm. We continue to encourage member participation at our meetings, and welcome your letters and comments.

On behalf of all the trustees, thank you for giving us the opportunity to serve as your fiduciaries.

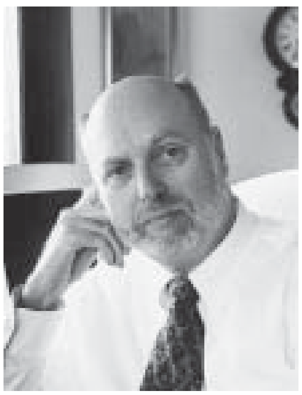
Gail Schubert, Acting Chair

ALASKA STATE PENSION INVESTMENT BOARD (as of June 30, 2003)

Gail R. Schubert, Acting Chair

Appointed by the Governor

Gail R. Schubert, Acting Chair, was first appointed to the board by Governor Hickel, and reappointed by Governor Knowles. She is currently Executive Vice President and General Counsel to Bering Straits Native Corporation, President of its two 8(a) subsidiaries, and of counsel to the law firm of Foster, Pepper Rubini & Reeves LLC in Anchorage. From 2002 to 2003, Mrs. Schubert was General Counsel to Southcentral Foundation, and from 1995 to 2002, she was a member of Foster Pepper. From 1992 to 1995, Mrs. Schubert practiced law at Birch, Horton, Bittner & Cherot, and from 1982 to 1992, Mrs. Schubert practiced law in New York City at the firms of Rogers & Wells; Fried and Frank, Harris, Shriver & Jacobson; and at the Federal Reserve Bank of New York. Mrs. Schubert attended the School of Law at Cornell University; the Johnson School of Management (MBA) at Cornell; and Stanford University. She serves as Chair of the Boards of the Alaska Native Heritage Center and Akeela Treatment Services, Inc., and on the boards of the Bering Straits Native Corporation, the Alaska Federation of Natives, Khoanic Broadcast Corporation, the Alaska Native Justice Center, and is a member of the Anchorage Downtown Rotary. Mrs. Schubert's term expires December 31, 2003.



William "Riley" Snell, Vice Chair

Appointed by the Governor

William (Riley) Snell, Vice Chair, was appointed to the board by Governor Knowles. Mr. Snell has held numerous positions in State government. He served as the Executive Director of the Alaska Industrial Development and Expert Authority (AIDEA) from July 1992 until November of 1996 overseeing banking and development programs. Four years prior to the Executive Director position, Riley served as Deputy Director-Development at AIDEA. From 1985 until July 1989 he served as Deputy Commissioner for the Central Region of the Department of Transportation and Public Facilities. Riley possesses over 27 years of experience in State Transportation and Public Facilities Development and Public Financing. Currently Riley is Vice President and General Manager of Cable and Entertainment for General Communications Inc. (GCI). His responsibilities at GCI include CATV product management as well as construction and maintenance of all outside plant facilities for the company. Mr. Snell's term expires December 31, 2003.

Merritt C. Olson, Secretary

TRS Representative

Merritt C. Olson was elected by the Teachers' Retirement System. He served as a member of the Teachers' Retirement System Board for 14 years, a portion of that time as Chair. He has been an Alaska resident since 1953 and resides in Anchorage. Appointed by Governor Egan to serve on the committee that organized the Student Loan Fund, he also served as a member of AARP's State Legislative Committee. Now a retired secondary mathematics teacher from the Anchorage schools and adjunct instructor of psychology at Alaska Methodist University and the University of Alaska, Anchorage, Mr. Olson earned his Ph.D. from Rutgers University and was a Fulbright Scholar in 1957-58. He is Past President of NEA-Alaska/Retired and served on the NEA-Retired (national) Advisory Council for six years. Mr. Olson's term expires December 31, 2003.

Wilson L. Condon

PERS Representative

Wilson L. Condon was elected by the Public Employees' Retirement System. He is currently Chief of the Oil, Gas & Mining Section at the Department of Law. Previously, Mr. Condon was Commissioner of the Alaska Department of Revenue from 1995-2002. Prior to serving as commissioner, he was a partner in a private law firm from 1983-1995 and acted as lead counsel for the state in a series of oil and gas royalty and tax cases. He served as Attorney General from 1980 - 1982 and as Deputy Attorney General from 1975 - 1980. He holds an A.B. Political Science degree and a J.D. degree from Stanford University. Mr. Condon's term expires December 31, 2006.

William Corbus
Statutory Representative

William Corbus was appointed Revenue Commissioner in December 2002. He oversees an agency that has very diverse responsibilities, including tax collection, investing state funds, child support enforcement and distributing permanent fund dividends. Bill Corbus is the retired president of Alaska Electric Light and Power, the electric company that serves the Juneau area, where he has lived since 1970. He served as a Lt. J.G. in the U.S. Naval Reserve, including one year as an advisor to the Vietnamese Navy in 1962-63. Mr. Corbus then worked for Stone & Webster in New York City providing public utility security analysis, financial planning, and accounting. As Revenue Commissioner, he also sits on nine boards, including the Board of Trustees of the Alaska Permanent Fund Corporation. Mr. Corbus holds a B.S. in industrial engineering from Stanford University and an MBA from the Amos Tuck Graduate School of Business Administration at Dartmouth College.

Jeffrey E. Sinz
Appointed by the Governor

Jeffrey E. Sinz was appointed to the board in 1998 by Governor Knowles. Mr. Sinz is currently employed as Director of Finance for the Kenai Peninsula Borough. He has over twenty years experience in public sector finance, including thirteen years with the Municipality of Anchorage. While at the Municipality, he served as Municipal Accounting Officer, Director of Finance for the Anchorage Telephone Utility, Finance Manager for the Solid Waste Services Utility, and a Senior Budget Analyst for the municipal general government. He also worked as a financial planner and supervisor with the Alaska Railroad Corporation and as a financial administrator with a Wisconsin public school district. Jeff also serves as vice president of the Alaska Municipal League Investment Pool Board of Directors. He has an MBA in Management from the University of Alaska Anchorage and a BBA in Finance from the University of Wisconsin Eau Claire. His term expires December 31, 2004.

James “Pat” Wellington
PERS Representative

James “Pat” Wellington was elected by the Public Employees’ Retirement System. Mr. Wellington was born in Ketchikan, Alaska and graduated from Douglas High School. He served two years in the U.S. Army and started his law enforcement career with the Seward Police Department in late 1955. He served as Deputy U.S. Marshal, Alaska State Troopers, Chief of Police of Juneau, Deputy Commissioner and Commissioner of the Department of Public Safety, and retired in 1977 as Director of the Alaska State Troopers. Mr. Wellington is also the Chairman of the Public Employees’ Retirement Board. He resides in Anchorage. Mr. Wellington’s term expires December 31, 2004.

Dorothy Wells
TRS Representative

Dorothy Wells was elected by the Teachers’ Retirement System. A resident of Alaska for 37 years, Ms. Wells is a retired teacher who taught business education at Eielson Air Force Base, and business classes for the University of Alaska night school program at Eielson. She obtained her B.S. degree from the University of Minnesota/Minneapolis and did graduate work both there and at the University of Alaska/ Fairbanks. Mrs. Wells served on the Teachers’ Retirement Board for 20 years, and is active with NEA-Alaska/Retired. Her term expires December 31, 2005.

Department of Revenue
Treasury Division
Staff

Commissioner
William Corbus

Deputy Commissioner
Tomas Boutin

Chief Investment Officer
Gary Bader

Comptroller
Betty Martin, CPA

ASPIB Liaison Officer
Judy Hall

Investment Officers
Bob G. Mitchell, Marketable Debt
Stephen R. Sikes
Philip Bartlett
Michael T. Oliver, CFA, Alternatives
Maria E. Tsu, CFA

Cash Management
Michelle M. Prebula, MBA, CPA, CCM

External Money Managers and Consultants

Investment Consultants
Callan Associates Inc.
San Francisco, CA
The Townsend Group
Denver, CO

Domestic Fixed Income
BlackRock Financial Management, Inc.
New York, NY

Domestic Equity Large Capitalization
Capital Guardian Trust Co.
Los Angeles, CA
Dresdner RCM Global Investors
San Francisco, CA
McKinley Capital Management, Inc.
Anchorage, AK
Tukman Capital Management, Inc.
San Francisco, CA

Domestic Equity Small Capitalization
Capital Guardian Trust Co.
San Francisco, CA
John McStay Investment Counsel
Dallas, TX
Trust Company of the West
New York, NY

Domestic Equity Index Fund
State Street Global Advisors
Boston, MA

Domestic Enhanced Index
Invesco Capital Management, Inc.
New York, NY

Emerging Markets
Capital Guardian Trust Co.
Los Angeles, CA
J.P. Morgan Fleming Asset Management, Inc.
New York, NY

Global Equity
Lazard Freres Asset Management
New York, NY

International Equity—EAFE
Bank of Ireland Asset Management (US) Ltd.
Santa Monica, CA
Brandes Investment Partners, L.P.
San Diego, CA
Capital Guardian Trust Co.
Los Angeles, CA

External Money Managers and Consultants (con't)

International Fixed Income
Delaware International Advisers Ltd.
London, England

Private Equity
Abbott Capital Management, L.P.
New York, NY
Pathway Capital Management, LLC
Irvine, CA

Performance Measurement
Callan Associates Inc.
Denver, CO

Real Estate Management—Commingled Funds
Heitman Capital Management
Chicago, IL
J.P. Morgan Investment Management Inc.
New York, NY
Sentinel Real Estate Corporation
New York, NY
UBS Realty Investors, LLC
Hartfort, CT

Real Estate—Core Separate Accounts
PM Realty Advisors
Newport Beach, CA
Sentinel Real Estate Corporation
New York, NY
UBS Realty Investors, LLC
San Francisco, CA

Real Estate—Value Added Separate Accounts
Invesco Realty Advisors
Dallas, TX
Lowe Enterprises Investment Management Inc.
Los Angeles, CA

Supplemental Benefits System
Barclays Global Investors
San Francisco, CA
Capital Guardian Trust Company
Los Angeles, CA
Citizens Funds
Portsmouth, NH
State Street Global Advisors
Boston, MA
T. Rowe Price Investment Services
Baltimore, MD

Deferred Compensation
Barclays Global Investors
San Francisco, CA
Capital Guardian Trust Company
Los Angeles, CA
T. Rowe Price Investment Services
Baltimore, MD & Glen Allen, VA

Global Master Custodian
State Street Bank & Trust Co.
Boston, MA

Investment Advisory Council
Shlomo Benartzi
Los Angeles, CA
Jerrold Mitchell
Wayland, MA
Timothy O'Brien
Denver, CO

Independent Auditors
KPMG LLP
Anchorage, AK

Legal Counsel
Wohlforth, Vassar, Johnson & Brecht
Anchorage, AK

Teachers' Retirement System
Investment Report

The Investment Report was prepared by the State of Alaska, Department of Revenue, Treasury Division.

The basis of presentation for the data reported in the investment section is in accordance with the Association for Investment Management and Research (AIMR) Performance Presentation Standards.

INVESTMENTS

The State of Alaska Teachers Retirement System's investment goals are the long term return and sustainability of the pension funds under management. Near-term market fluctuations are integrated into the overall outlook of the fund guidelines. Annually the Alaska State Pension Investment Board (ASPIB) sets its asset allocation strategy in order to reflect changes in the market place while still retaining an optimal risk/return level within the set constraints and objectives of the Investment Board.

During the 2003 Fiscal Year[1], ASPIB's asset allocation was composed of 40.24% domestic equities, 16.6% international equities, 29.6% domestic fixed income, 3.72% international fixed income, 6.94% real estate and 2.9% alternative investments.

For the 2003 Fiscal Year, TRS investments generated a 3.68% rate of return. The TRS annualized rate of return was negative 2.51% over the last three years and 2.48% over the last five years.

INVESTMENT OVERVIEW

The diversification of the TRS investment portfolio continued to protect the overall returns from the bear markets which began in the spring of 2000. For the Fiscal Year, the U.S. equity portfolio fell -0.97% and the international equity portfolio dropped -5.83% (as compared to the 2002 Fiscal Year losses of –16.8% and –8.3%, respectively). Positive performance was provided in the U.S fixed-income market, which generated a 10.69% return up from 8.2% the previous year.

ASPIB continued the systematic increase in TRS investments in real estate and private equity. The real estate portfolio earned 8.97% for the 2003 Fiscal Year versus 5.2% in Fiscal Year 2002. The TRS investments in private equities lost 14.75%, as compared to a 17.1% loss in 2002. Over the past five years, TRS real estate investments have earned an average of 10.5% per year.

DOMESTIC ECONOMY

The U.S. economy grew slowly during the 2003 Fiscal Year as it climbed out of the recession, which began during the last quarter of the 2001 Fiscal Year. The continued effects of September 11th as well as market ripples from the collapse and scandals of Enron, WorldCom, and Arthur Anderson were felt throughout the markets. Built atop these events were the military actions in Afghanistan and Iraq.

By historical standards, the U.S. recession was extremely mild and short-lived. The economy actually expanded by 3.9% during the 2003 Fiscal Year, compared with 3.3% in 2002 and 2.3% in 2001. Although the net change in the consumer confidence index was negative, there was a steep climb and leveling out of the curve during the third and fourth quarters as the Iraq war drew to an official end. Retail sales maintained historical patterns although the index fell 2.5% from the previous year.

Lower and lower mortgage rates spurred consumers to purchase new houses. Sales of new homes totaled 1,028,417 up from the 2002 Fiscal Year number of 914,580. Sales of existing homes hit a five year high with the sale of 5.713 million units, a 4.7% increase from 5.457 million units in 2002. Finally this change in interest rates spurred the largest growth in mortgage refinancing seen in a lifetime, with a 227% increase in the number of

[1] July 1st, 2002 – June 30th, 2003

Teachers' Retirement System
Investment Report

refinancing in June, 2003 as compared to June, 2002.

Inflationary concerns were within acceptable constraints in the 2003 Fiscal Year as The Consumer Price Index (CPI) rose only 2.1% compared to 1.1% in the 2002 Fiscal Year. The Producer Price Index (PPI) rose 2.9% in the 2003 Fiscal Year while it dropped 2.1% in the 2002 Fiscal Year.

EQUITIES

The domestic market rose, following the resolution of the Iraq war, in the third and fourth quarters of the 2003 Fiscal Year. With a net return of -0.97% these year-end gains were not quite enough to bring the equity returns into the black and TRS felt a third year of negative domestic equity returns. The International Equity pool felt a similar fluctuation as it ended with a -5.83% return, which was higher than the index return of -6.46%.

The annualized domestic equity return for the five year period fell to a negative 1.43% versus 3.1% in the 2002 Fiscal Year. While the international equity return for the five year period fell to a negative 0.13%.

Small-cap managers underperformed large-cap managers over year as a whole, while small-cap managers had a very strong fourth quarter with 23.67% returns.

FIXED INCOME MARKET

The domestic fixed-income portfolio represented approximately 29.6% of the total assets of TRS as of June 30, 2003. The fixed-income portfolio uses a core-oriented strategy investing in U.S. Treasury securities, U.S. government agency securities, investment-grade corporate bonds, and mortgage-backed securities. The benchmark for the TRS bond portfolio is the Lehman Brothers Aggregate Bond Index.

As the domestic economy continued to slowly build interest rates remained at all time lows, which translated into good news for bond investors. The 10-Year U.S. Treasury yield dropped from 4.82% to 3.53% during the 2003 Fiscal Year, reaching a low of 3.10% in mid June of 2003. The 30-year U.S. Treasury yield dropped from 5.50% to 4.57%. Corporate fixed-income markets were well monitored, as ratings agencies maintained conservative ratings methodologies.

Over the 2003 Fiscal Year, the TRS domestic bond portfolio gained 10.69%, up from 8.2% the year before. The Lehman Brothers Aggregate Bond Index returned 10.40%, versus 8.6% during 2002 Fiscal Year.

The international fixed-income portfolio, which represented just about 3.72% of the total assets of TRS, returned 24.48% over the 2003 Fiscal Year, well above the 17.90% posted by the Salomon Brothers Non U.S. Government Index.

REAL ESTATE

At the end of the 2003 Fiscal Year, TRS had 6.93% of its portfolio invested in real estate, just shy of its target of 9% (+/- 2%). At fiscal year end, the real estate portfolio totaled $767 million. The total return for real estate, net of fees, was 8.97% compared to 5.2% for the 2002 Fiscal Year. The three and five year total returns were 8.15% and 9.06%, respectively.

ASPIB's early defensive strategy benefited the portfolio in the 2003 Fiscal Year. The delay in the recovery of the economy and the real estate market has increased the value of that position. Although there have not been large capital gains, the defensive strategy has helped ASPIB maintain a very competitive position in relationship to other real estate portfolios. ASPIB's real estate portfolio is made up of 31% apartment, 31% office, 23% industrial, 14% retail and 1% hotel.

Teachers' Retirement System
Investment Report

PRIVATE EQUITY

During the 2003 Fiscal Year the Private Equity component of the TRS portfolio showed a net return of -14.75% with three and five year annualized returns of -10.60% and -.081%, respectively.

ASPIB's managers have committed $29.7 Million during the 2003 Calendar Year, as compared to the $195 million targeted for the 2003 Calendar year. The slow pace of new commitments represents the relative dearth of fund raising activity among many of the high quality General Partner groups.

IPO activity has declined, with only seven in the first half of the 2003 calendar year, as compared to 422 in 2000, 90 in 2001 and 85 in 2002.

Although the rise in the public equity markets seen late in the Fiscal Year, as noted above, did strengthen the overall outlook of the markets, it did not help to build the private equity markets which remains anemic compared to the internet boom of late-1999/early-2000.

Teachers' Retirement System
Schedule of Investment Results
Fiscal Years Ended June 30

	1999	2000	2001	2002	2003	Annualized 3 Year	Annualized 5 Year
Total Fund							
TRS	10.67%	10.15%	(5.35%)	(5.49%)	3.68%	(2.51%)	2.48%
Actuarial Earnings Rate	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%
U.S. Common Stock Returns							
TRS Domestic Equities	16.56%	10.41%	(12.20%)	(16.85%)	(0.97%)	(10.25%)	(1.43%)
S&P 500	22.76%	7.24%	(14.83%)	(17.99%)	0.25%	(11.20%)	(1.61%)
International Stock Returns							
TRS International Equities	14.75%	20.59%	(16.92%)	(8.24%)	(5.11%)	(10.23%)	0.02%
Morgan Stanley Capital International EAFE	7.62%	18.11%	(23.83%)	(9.49%)	(6.46%)	(13.52%)	(4.00%)
Domestic Fixed Income							
TRS	2.28%	4.56%	11.93%	8.16%	10.70%	10.25%	7.46%
*Lehman Brothers Aggregate Index**	2.69%	1.69%	11.22%	8.63%	10.40%	10.08%	7.46%
International Fixed Income							
TRS	5.27%	(3.27%)	(5.68%)	22.56%	24.48%	12.90%	7.94%
Salomon Non-U.S. Government	4.87%	2.42%	(7.43%)	15.73%	17.90%	8.10%	6.29%
Real Estate Equity							
TRS	10.56%	8.43%	11.37%	5.24%	8.97%	8.16%	9.06%
NCREIF	11.24%	11.61%	11.15%	5.60%	7.64%	8.21%	9.79%

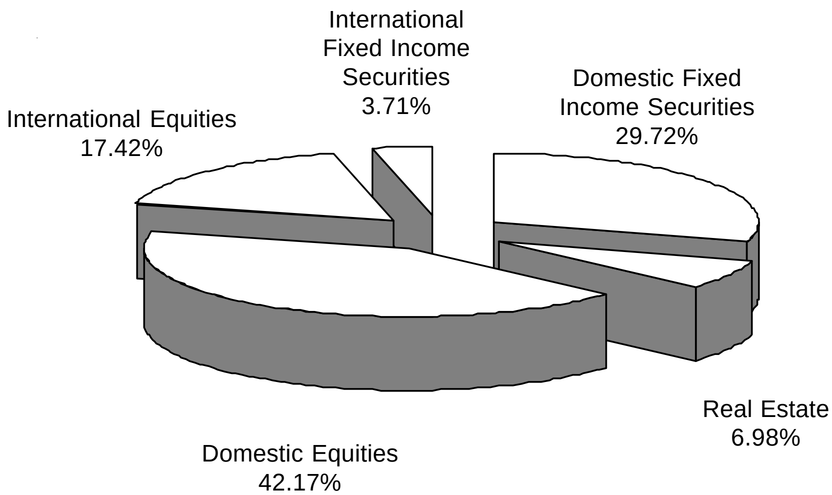
S&P 500 = Standard & Poor's Domestic Equity Stock Index
EAFE = Europe, Australia, and Far East Stock Index
NCREIF = National Council of Real Estate Investment Fiduciaries Index

The calculation of investment results were prepared using a time-weighted rate of return based on the market rate of return in accordance with the Association for Investment Management and Research (AIMR) Performance Presentation Standards.

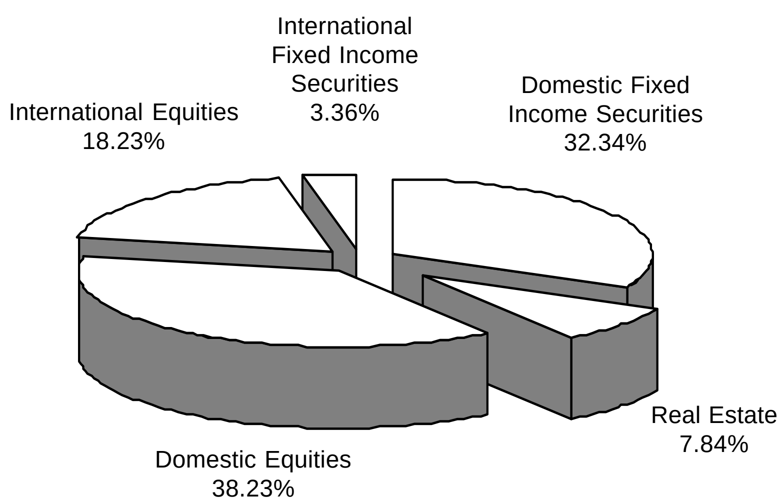
**Lehman Brothers Government/Corporate Index prior to 3/31/2000.*

Teachers' Retirement System Trust Fund
Actual Asset Allocation

June 30, 2003



June 30, 2002



Alaska State Pension Investment Board
Top Ten Holdings by Asset Type
June 30, 2003

Invested assets under the fiduciary responsibility of the Alaska State Pension Investment Board (ASPIB) have been commingled in various investment pools to minimize costs and maximize returns. Treasury Division has created nine different mutual fund-like pools to accomplish the investment asset allocation policies of the ASPIB. Using investment pools increases investment efficiency in three ways. First, combining individual funds' cash inflows and outflows to offset each other reduces the amount of cash on hand needed to support daily operations. Treasury can thus increase the return on funds not needed for daily cash operations. Second, pooling investments significantly reduces accounting, budgeting and administrative costs. Finally, the ASPIB can achieve economies of scale by making available investment options that could not otherwise be practically provided for smaller retirement funds. Following are the ten largest bond holdings and the ten largest equity holdings by market value.

	Rank	Fair Value	Par Values/ Shares	Security	Coupon	Due	Credit Rating
Bonds	1	133,105,425	128,140,000	Federal National Mtg. Assn.	6.000%	12/31/2099	Aaa
	2	99,795,000	100,000,000	U.S. Treasury Bill	0.000%	9/25/2003	Aaa
	3	61,603,236	59,700,000	Federal Home Loan Mtg. Corp.	5.500%	12/31/2099	Aaa
	4	57,980,322	49,266,548	U.S. Treasury Note	4.250%	1/15/2010	Aaa
	5	45,120,250	43,700,000	Federal National Mtg. Assn.	5.000%	12/31/2029	Aaa
	6	44,881,471	42,974,273	Federal National Mtg. Assn.	6.500%	5/1/2029	Aaa
	7	40,922,294	36,335,000	U.S. Treasury Bond	5.375%	2/15/2031	Aaa
	8	38,608,666	28,900,000	U.S. Treasury Bond	10.375%	11/15/2012	Aaa
	9	38,076,754	26,150,000	U.S. Treasury Bond	12.000%	8/15/2013	Aaa
	10	37,349,624	25,530,000	U.S. Treasury Bond	8.125%	8/15/2021	Aaa
Equities	1	125,092,338	3,663,026	Pfizer Inc.			
	2	104,630,376	3,648,200	General Electric Co.			
	3	93,630,672	3,656,020	Microsoft Corporation			
	4	93,240,891	1,737,300	Wal Mart Stores, Inc.			
	5	76,113,328	2,119,558	Exxon Mobil Corporation			
	6	74,006,079	1,729,114	Citigroup Inc.			
	7	68,693,184	1,362,960	Wells Fargo Company			
	8	64,217,601	1,163,784	American Intl Group Inc.			
	9	63,574,500	770,600	International Business Machines			
	10	63,016,476	934,408	Federal National Mtg. Assn.			

Additional investment information on the various pools and investments may be obtained from the Department of Revenue, Treasury Division, P.O. Box 110405, Juneau, Alaska 99811-0405.

Teachers' Retirement System
Schedule of Investment Management Fees
Year Ended June 30, 2003

	Fair Value of Pooled Assets Under Management of all Retirement Funds in Pool as of June 30, 2003	Fees
External Management Fees		
Domestic Fixed Income		
BlackRock Financial Management, Inc.	$1,169,059,304	$ 504,959
International Fixed Income		
Delaware International Advisers, Ltd.	410,977,477	207,746
Domestic Equity		
Capital Guardian Trust Co.	808,784,270	346,303
John McStay Investment Counsel	265,076,051	563,143
Trust Company of the West	192,351,674	422,794
State Street Global Advisors	1,204,552,187	83,500
Invesco Capital Management, Inc.	532,009,749	251,383
Lazard Freres Asset Management	408,950,062	475,311
McKinley Capital Management, Inc.	212,491,222	231,693
Dresdner RCM Global Investors	456,482,259	402,082
Tukman Capital Management, Inc.	369,261,976	615,134
Total Domestic Equity	4,449,959,450	3,391,343
Private Equity		
Pathway Capital Management, LLC	30,241,060	99,379
Abbott Capital Management, L.P.	290,780,031	317,054
Total Private Equity	321,021,091	416,433
International Equity		
Bank of Ireland Asset Management Ltd.	375,067,645	392,784
Brandes Investment Partners, L.P.	569,331,965	670,950
Lazard Freres Asset Management	410,796,235	467,313
Capital Guardian Trust Co.	365,995,645	283,971
Total International Equity	1,721,191,490	1,815,018
Emerging Markets Equity		
J.P. Morgan Fleming Asset Management	51,736,666	97,862
Capital Guardian Trust Co.	62,924,237	118,788
Total Emerging Markets Equity	114,660,903	216,650
Total External Management Fees	$8,186,869,715	6,552,149

Teachers' Retirement System
Schedule of Investment Management Fees (con't)
Year Ended June 30, 2003

	Fair Value of Pooled Assets Under Management of all Retirement Funds in Pool as of June 30, 2003 (con't)	Fees (con't)
External Management Fees (con't)		
Other Management Fees		
Custodian		
State Street Corporation		338,319
Investment Advisory		
Callan Associates Inc.		49,728
The Townsend Group		41,545
Total		91,273
Investment Performance Measurement		
Callan Associates Inc.		55,479
Total Other Management Fees		485,071
Total Management Fees		$ 7,037,220

Teachers' Retirement System
Investment Summary Schedule
June 30, 2003

	Teachers' Asset Allocation Policy	Teachers' Asset Allocation Range	Market Value	% of Asset Class	% of Total Assets
Participation in Pools Owning Fixed Income Securities					
Domestic					
Short-Term Fixed Income Pool			$ 562,637	0.05%	0.02%
Retirement Fixed Income Pool			688,460,269	64.39%	19.13%
External Domestic Fixed Income Pool			380,442,778	35.56%	10.57%
Total Domestic Fixed Income	31%	28-34%	1,069,465,684	**100.00%**	29.72%
International					
International Fixed Income Pool	3%	2-4%	133,608,738	**100.00%**	3.71%
Total Fixed Income Securities	**34%**	**30-38%**	**1,203,074,422**		**33.43%**
Participation in Pools Owning Domestic Equities					
Small cap[1] and Alternative Investments					
Domestic Equity Pool			298,926,625	19.69%	8.31%
Private Equity Pool			15,371,163	1.01%	0.43%
Total Small Cap Domestic Equities and Alternative Investments	8%	6-10%	314,297,788	20.70%	8.74%
Large cap and Alternative Investments					
Domestic Equity Pool-active			581,405,682	38.30%	16.14%
Domestic Equity Pool-passive			563,408,630	37.12%	15.65%
Private Equity Pool			58,867,714	3.88%	1.64%
Total Large Cap Domestic Equities and Alternative Investments	32%	29-35%	1,203,682,026	79.30%	33.43%
Total Domestic Equities	**40%**	**35-45%**	**1,517,979,814**	**100.00%**	**42.17%**
Participation in Pools Owning International Equities					
International Equity Pool			556,055,258	88.71%	15.45%
Emerging Markets Equity Pool			40,133,330	6.40%	1.12%
Private Equity Pool			30,656,727	4.89%	0.85%
Total International Equities	**17%**	**14-20%**	**626,845,315**	**100.00%**	**17.42%**
Participation in Real Estate					
Mortgages, net of allowances			73,850	0.03%	0.00%
Real Estate Pool			251,138,858	99.97%	6.98%
Total Real Estate	**9%**	**6-12%**	**251,212,708**	**100.00%**	**6.98%**
Total Invested Assets	**100%**		**$ 3,599,112,259**		**100.00%**

[1] Includes only securities held by those managers with small cap mandates. Does not include small cap holdings which may be held in other managers' portfolios.

Teachers' Retirement System
Credit Risk of Investments
Pension Trust Funds
(Expressed in Thousands)
June 30, 2003

	Category 1	Category 2	Category 3	Fair Value
Marketable debt securities				
Domestic fixed income	$ 1,068,903			1,068,903
International fixed income	133,609			133,609
Equity securities				
Domestic equities	1,443,741			1,443,741
International equities	556,055			556,055
Emerging market equities		40,133		40,133
	$ 3,202,308	**40,133**	**-**	3,242,441
Not Categorized				
Private equities				104,896
Real estate equities				251,213
Total investments not categorized				356,109
Total investments				**3,598,550**

The Governmental Accounting Standards Board (GASB) Statement No. 3 requires disclosure regarding custodial credit risk to indicate the chance of loss in the event a financial institution or third party holding the System's securities fails. Those investments represented by specific, indentifiable securities are classified into three categories of credit risk: Category 1 — Insured or registered, or securities held by the State or its custodian in the State's name; Category 2 — Uninsured or unregistered, with securities held by the counterparty's trust department (if a bank) or agent in the State's name; and Category 3 — Uninsured and unregistered, with securities held by the counterparty, or by its trust department (if a bank) or agent, but not in the State's name. Category 1 is the highest level of safekeeping securities as defined by GASB.

The System's investments other than mortgage-related assets are represented by participation in investment pools rather than specific, identifiable securities. Although pooled investments represent the System's share of ownership in the pool rather than ownership of specific securities, all of the underlying securities in the pools are considered to be Category 1 as defined by GASB Statement No. 3, except: (A) investments in the mutual fund-like Emerging Markets Equity Pool which are considered to be Category 2, and (B) shares in the Private equity pool and the Real estate equity pool which, like the System's mortgage-related assets, are not transferable financial instruments and therefore cannot be categorized with regard to custodial credit risk.

Alaska State Pension Investment Board
Recaptured Commission Fees Received in FY 2003

	Domestic Equity	International Equity	Total
PERS	$ 395,758	149,403	545,161
TRS	194,552	73,085	267,637
Judicial	3,675	1,363	5,038
Military	612	166	778
Total	**$ 594,597**	**224,017**	**818,614**

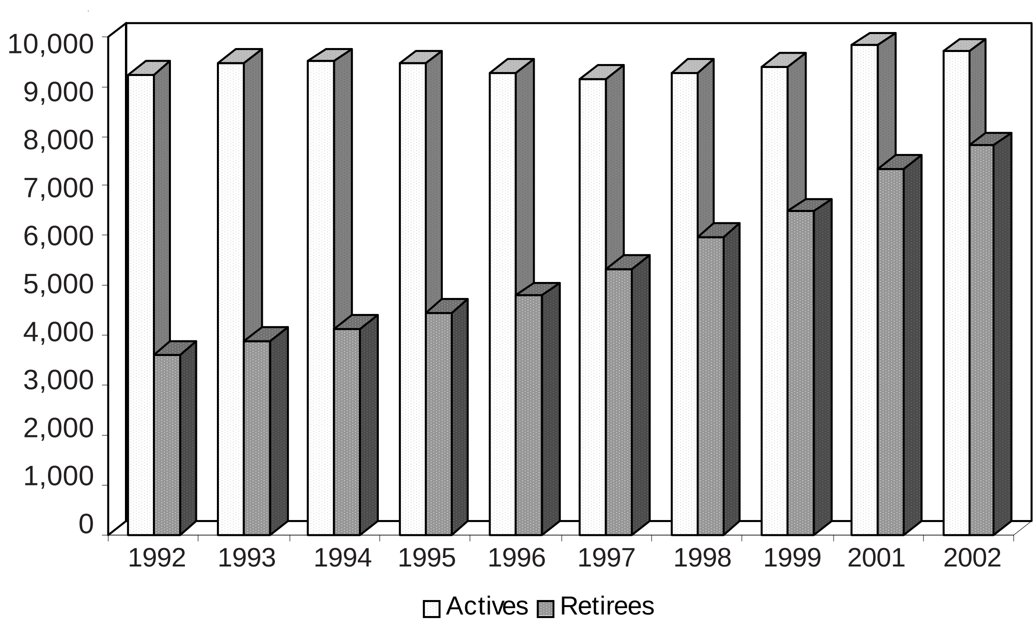
The Alaska State Pension Investment Board (ASPIB) entered into a commission recapture program in late June 1995 with three large block brokerage firms. A commission recapture program is a form of directed brokerage that allows the plan sponsor to “recapture” a portion of commission dollars paid to broker-dealer firms for executing trades. In June 1995, the large capitalization domestic equity managers were asked to participate in the program targeting 20% of their trading value. The equity managers were asked to consider best execution first and foremost, but encouraged to participate in the commission recapture program when possible. In July 1996, ASPIB raised the level of elective participation for the large capitalization domestic equity managers from 20% to 30% of total trading activity. At that time ASPIB also requested that small capitalization managers participate in the commission recapture program when the opportunity was available to them.

In January 1998, the Alaska State Pension Investment Board (ASPIB) augmented its commission recapture program to include external managers that conduct international equity trades. As a result, a portion of the commission recapture payments received since January have resulted from international equity trades.

Teachers' Retirement System System Membership by Status					
Year ended June 30	**Active**	**Retirees & Beneficiaries**	**Vested Terminations**	**Nonvested Terminations w/Balance**	**Total**
1992	9,238	3,602	710	1,057	14,607
1993	9,459	3,891	823	1,013	15,186
1994	9,489	4,134	930	1,090	15,643
1995	9,452	4,459	859	1,140	15,910
1996	9,259	4,803	1,116	1,195	16,373
1997	9,164	5,343	1,279	1,310	17,096
1998	9,262	5,979	1,064	1,285	17,590
1999	9,396	6,486	1,150	1,297	18,329
2001	9,815	7,333	767	2,207	20,122
2002	9,690	7,804	783	2,447	20,724

Data not available for FY 2000 due to transition to a new computer system.

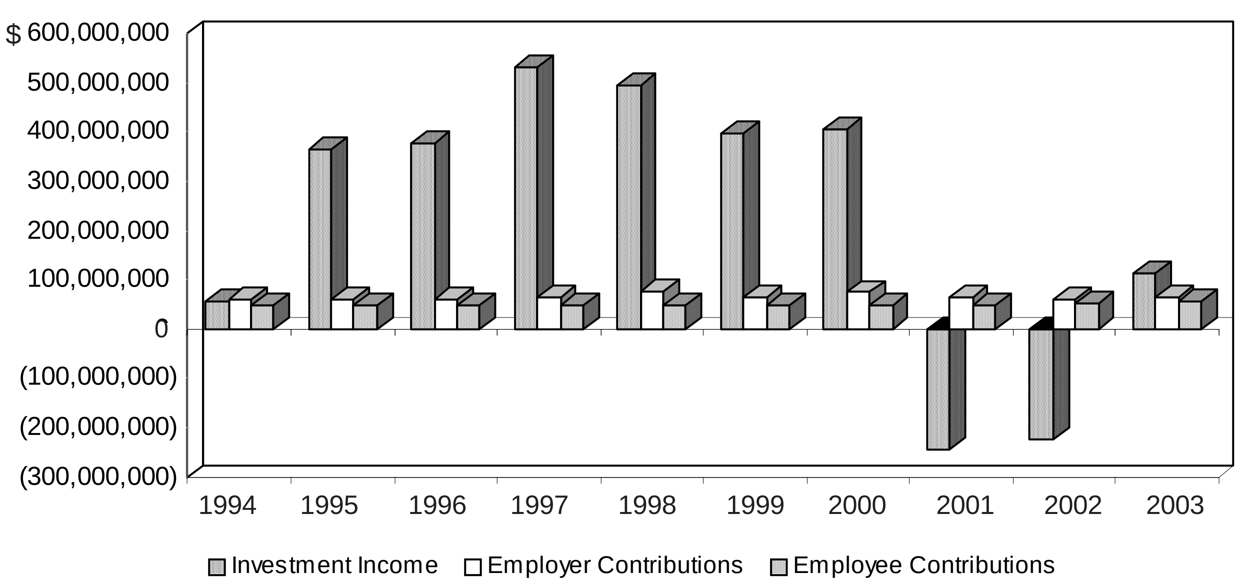
TEACHERS' RETIREMENT SYSTEM
10-YEAR COMPARISON OF ACTIVE AND RETIRED MEMBERS



Data not available for FY 2000 due to transition to a new computer system.

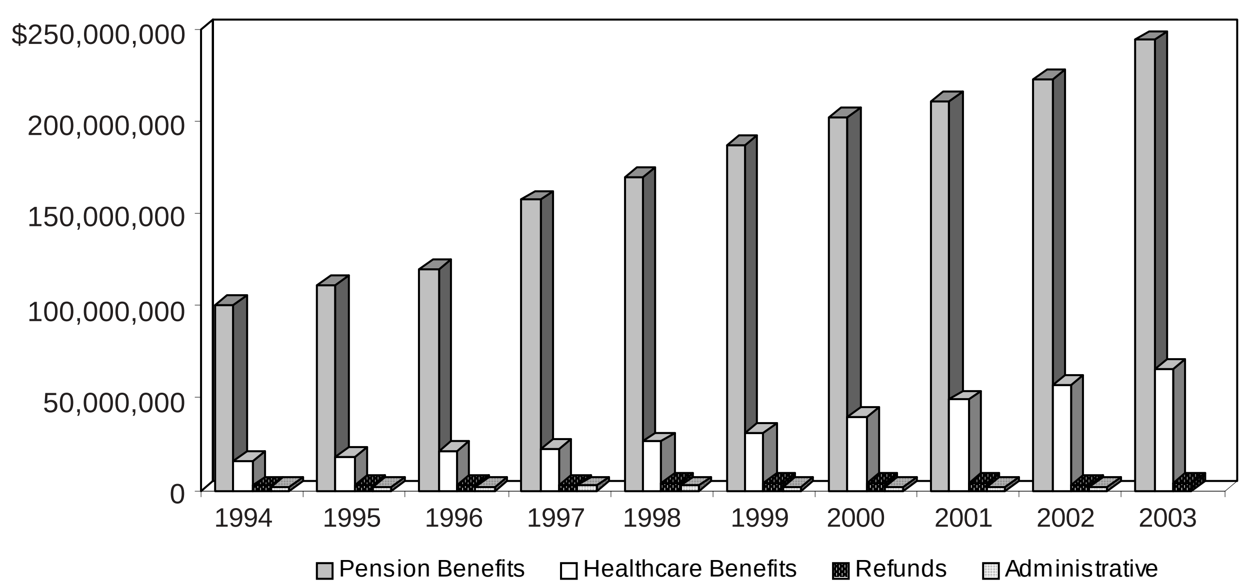
Teachers' Retirement System Revenues by Source (000's omitted)					
Year ended June 30	**Plan Member Contributions**	**Employer Contributions**	**Investment Income (Loss)**	**Other**	**Total**
1994	$ 47,904	$ 60,490	$ 57,683	$(30)	$ 166,047
1995	47,477	60,018	363,645	(6)	471,134
1996	47,980	61,162	379,312	27	488,481
1997	49,581	66,347	530,568	-	646,496
1998	50,056	77,782	496,990	10	624,838
1999	48,302	66,266	397,499	1	512,068
2000	48,505	74,714	406,609	-	529,828
2001	48,725	64,141	(245,363)	(4)	(132,501)
2002	51,074	61,402	(225,234)	4	(112,754)
2003	55,789	62,856	111,575	14	230,234

TEACHERS' RETIREMENT SYSTEM
10-YEAR COMPARISON OF REVENUES BY SOURCE

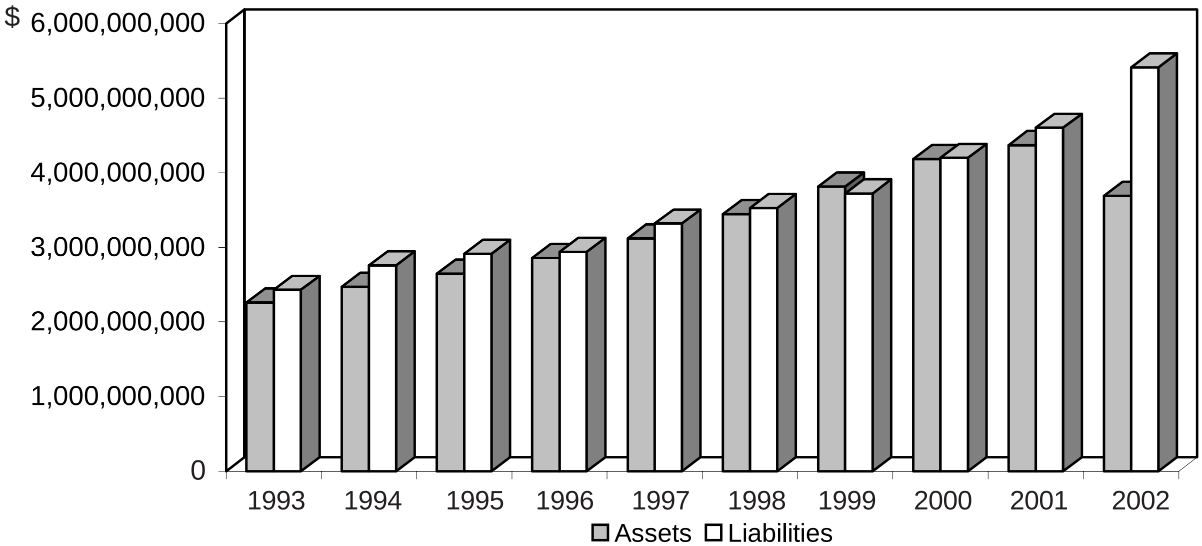


Teachers' Retirement System Expenses by Type (000's omitted)					
Year ended June 30	**Pension Benefits**	**Healthcare Benefits**	**Refunds of Contributions**	**Administrative Expenses**	**Total**
1994	$100,767	$15,725	$ 2,258	$ 2,081	$120,831
1995	111,498	18,264	2,819	1,821	134,402
1996	119,949	21,655	2,629	2,055	146,288
1997	157,567	22,653	2,626	2,223	185,069
1998	169,831	26,123	3,489	2,231	201,674
1999	187,085	30,987	3,490	1,722	223,284
2000	202,927	40,183	4,118	1,717	248,945
2001	210,945	48,928	3,742	1,938	265,553
2002	222,897	56,946	3,120	2,095	285,058
2003	244,518	65,898	3,840	2,395	316,651

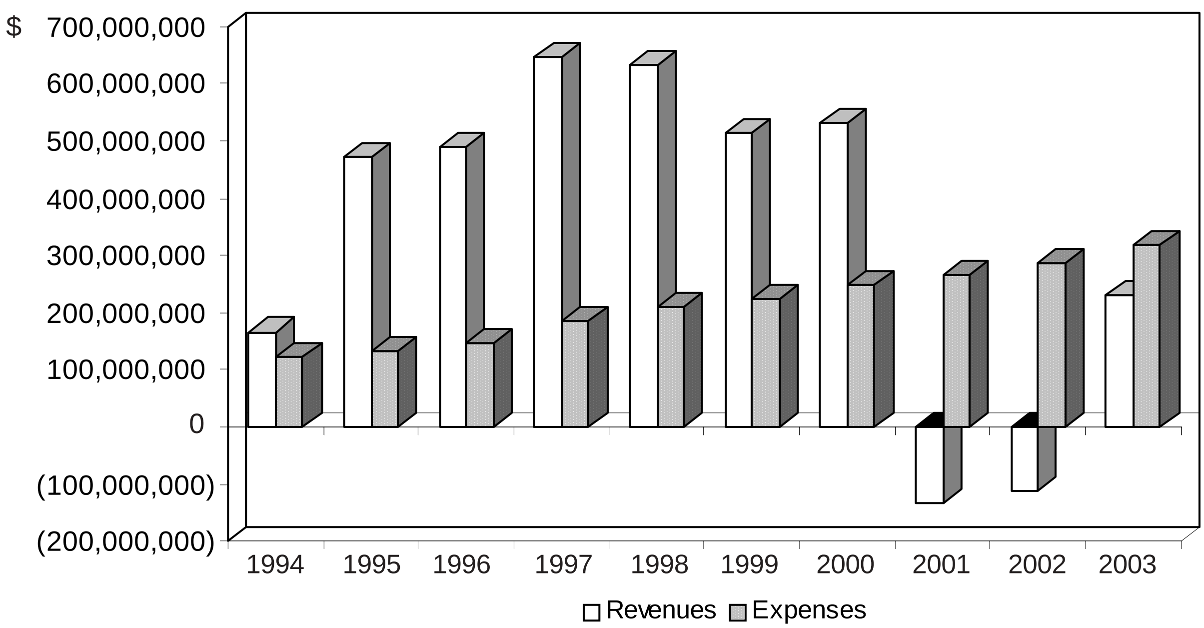
TEACHERS' RETIREMENT SYSTEM
10-YEAR COMPARISON OF EXPENSES BY TYPE



TEACHERS' RETIREMENT SYSTEM
10-YEAR COMPARISON OF VALUATION ASSETS AND ACCRUED LIABILITIES



TEACHERS' RETIREMENT SYSTEM
10-YEAR COMPARISON OF REVENUES AND EXPENSES

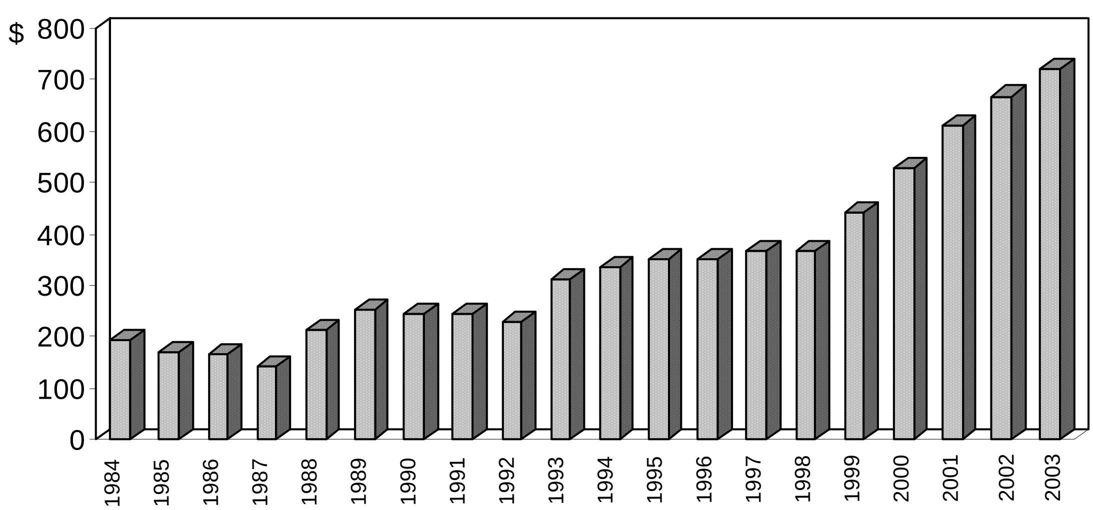


Teachers' Retirement System
Schedule of Benefit Expenses by Type
(000's omitted)

Year Ended June 30	Service	Disability	Survivor	Dependent[1]	COLA[2]	PRPA[3]	Healthcare	Total
1994	$ 76,735	$2,579	$2,260	$ -	$4,991	$14,202	$15,725	$116,492
1995	85,933	2,546	2,513	-	5,642	14,864	18,264	129,762
1996	93,089	2,798	2,618	-	6,082	15,362	21,655	141,604
1997[1]	147,259	3,943	6,322	43	-	-	22,653	180,220
1998	160,409	3,693	5,691	38	-	-	26,123	195,954
1999	176,830	3,775	6,384	96	-	-	30,987	218,072
2000	191,138	4,601	7,059	129	-	-	40,183	243,110
2001	201,338	3,410	5,784	413	-	-	48,928	259,873
2002	213,106	2,979	6,320	492	-	-	56,946	279,843
2003	234,253	2,872	6,901	492	-	-	65,898	310,416

(1) Due to the implementation of a new computer system, COLA and PRPAs can now be combined with the appropriate base benefit and dependent benefits can be separated from survivor and disability benefits.
(2) Cost-of-Living in Alaska (COLA)
(3) Post-Retirement Pension Adjustment (PRPA)

TEACHERS' RETIREMENT SYSTEM
20-YEAR COMPARISON OF RETIREE MONTHLY HEALTH INSURANCE PREMIUMS



Teachers' Retirement System
Schedule of Benefit Recipients by Type of Benefit and Option Selected
June 30, 2002

Amount of Monthly Benefit	Number of Recipients	Type of Benefit 1	Type of Benefit 2	Type of Benefit 3	Option Selected Opt. 1	Opt. 2	Opt. 3	Opt. 4
$ 1 - $ 300	89	72	17	0	49	19	17	4
301 - 600	252	193	59	0	154	42	44	12
601 - 900	439	343	96	0	275	81	64	19
901 - 1200	469	372	97	0	306	86	67	10
1201 - 1500	492	416	76	0	319	88	73	12
1501 - 1800	484	407	74	3	333	56	84	11
1801 - 2100	603	553	42	8	396	94	101	12
2101 - 2400	797	751	25	21	491	127	163	16
2401 - 2700	834	800	11	23	513	132	172	17
2701 - 3000	750	728	10	12	501	87	144	18
3001 - 3300	691	679	5	7	451	67	162	11
3301 - 3600	544	532	3	9	337	63	137	7
3601 - 3900	428	424	2	2	269	42	111	6
3901 - 4200	285	285	0	0	177	29	74	5
over 4200	647	646	1	0	399	60	172	16
Totals	7,804	7,201	518	85	4,970	1,073	1,585	176

Type of Benefit

1 - Normal retirement	Option 1 - Whole Life Annuity
2 - Survivor payment	Option 2 - 75% Joint and Contingent Annuity
3 - Disability	Option 3 - 50% Joint and Contingent Annuity
	Option 4 - 66 2/3% Joint and Survivor Annuity

Teachers' Retirement System
Schedule of Average Benefit Payments
New Benefit Recipients

	Years of Credited Service 0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30+
Period 7/1/95 - 6/30/96:							
Average Monthly Benefit	$ 952	$ 836	$1,145	$1,731	$2,389	$3,138	$3,317
Number of Recipients	15	24	40	31	115	86	30
Period 7/1/96 - 6/30/97:							
Average Monthly Benefit	$ 996	$ 828	$1,042	$1,692	$2,493	$3,353	$3,812
Number of Recipients	19	42	71	77	151	153	52
Period 7/1/97 - 6/30/98:							
Average Monthly Benefit	$1,051	$ 850	$1,095	$1,842	$2,590	$3,443	$4,280
Number of Recipients	26	51	80	105	240	154	57
Period 7/1/98 - 6/30/99:							
Average Monthly Benefit	$1,230	$ 820	$1,152	$1,691	$2,510	$3,285	$3,756
Number of Recipients	23	43	67	81	176	153	55
Period 7/1/99 - 6/30/01:							
Average Monthly Benefit	$1,514	$1,021	$1,488	$1,935	$2,435	$2,551	$2,864
Number of Recipients	2	33	101	237	374	201	109
Period 7/1/01 - 6/30/02:							
Average Monthly Benefit	$ 532	$ 795	$1,168	$1,706	$2,455	$3,126	$3,915
Number of Recipients	4	36	62	78	180	137	92

"Average Monthly Benefit" includes post-retirement pension adjustments and cost-of-living increases.

Teachers' Retirement System
Participating Employers

Alaska Department of Education
Alaska Gateway School District
Alaska, University of
Alaska State Legislature
Aleutian Region School District
Aleutians East Borough School District
Anchorage School District
Annette Island School District

Bering Strait School District
Bristol Bay Borough School District

Chatham School District
Chugach School District
Copper River School District
Cordova City School District
Craig City School District

Delta-Greely School District
Denali Borough School District
Dillingham City School District

Fairbanks North Star Borough School District

Galena City School District

Haines Borough School District
Hoonah City School District
Hydaburg City School District

Iditarod Area School District

Juneau School District, City and Borough of

Kake City School District
Kashunamiut School District
Kenai Peninsula Borough School District
Ketchikan Gateway Borough School District
Klawock City School District
Kodiak Island Borough School District
Kuspuk School District

Lake and Peninsula Borough School District
Lower Kuskokwim School District
Lower Yukon School District

Matanuska-Susitna Borough School District

Nenana City School District
Nome City School District
North Slope Borough School District
Northwest Arctic Borough School District

Pelican City School District
Petersburg City School District
Pribilof School District

Saint Mary's School District
Sitka Borough School District
Skagway City School District
Southeast Island School District
Southeast Regional Resource Center
Southwest Region School District
Special Education Service Agency

Tanana School District

Unalaska City School District

Valdez City School District

Wrangell Public School District

Yakutat School District
Yukon Flats School District
Yukon-Koyukuk School District
Yupiit School District

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