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

Financial Statements

December 31, 2006 and 2005

(With Independent Auditors' Report Thereon)

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

Independent Auditors' Report

Division of Retirement and Benefits and
Members of the Alaska Retirement Management Board
State of Alaska Deferred Compensation Plan:

We have audited the accompanying statements of fiduciary net assets of the State of Alaska Deferred Compensation Plan (Plan), a Component Unit of the State of Alaska, as of December 31, 2006 and 2005, and the related statements of changes in fiduciary net assets for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net assets of the State of Alaska Deferred Compensation Plan as of December 31, 2006 and 2005, and the changes in fiduciary net assets for the years then ended in conformity with U.S. generally accepted accounting principles.

The accompanying required supplementary information of management's discussion and analysis on pages 2 to 5 is not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

November 1, 2007

The objective of Management's Discussion and Analysis is to help readers of the Deferred Compensation Plan (the Plan) financial statements better understand the Plan's financial position and operating activities for the years ended December 31, 2006 and 2005. This discussion should be read in conjunction with the financial statements and notes to the financial statements.

The Plan

The Plan is a defined contribution plan and was created by State of Alaska (State) Statutes issued May 31, 1974, and was restated effective January 1, 2002, and most recently amended effective March 1, 2006. It is a deferred compensation plan under Section 457 of the Internal Revenue Code and is available to all permanent employees, long–term nonpermanent employees, elected officials of the State and with the March 1, 2006 amendment members of State boards and commissions. Participants in the Plan authorize the State to reduce their current salary or compensation so that they can receive the amount deferred at a later date. The deferred compensation is not available to participants until termination, retirement, death, or an unforeseeable emergency, within the definition allowed by the applicable Internal Revenue Code. As of December 31, 2006 and 2005, the Plan had approximately 8,500 and 8,300 participants, respectively.

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

Financial Highlights

- The net assets held in trust for benefits at December 31, 2006 and 2005, are $524.3 million and $476.9 million, respectively. The net assets represent employee contributions and net investment income.
- The net assets of the Plan at December 31, 2006 increased by $47.4 million, or approximately 10%, from the prior year. The net assets of the Plan at December 31, 2005 increased by $22.7 million, or approximately 5%, from the prior year.
- The Plan incurred a net investment gain of $52.9 million in the 2006 calendar year, compared to a $25.7 million investment gain in the 2005 calendar year.

Overview of the Financial Statements

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

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

Statements of Fiduciary Net Assets – presents information on the Plan's assets and liabilities and the resulting net assets held in trust for pension and insurance benefits. This statement reflects the Plan's investments at fair market value, along with cash and short–term investments and receivables at December 31, 2006 and 2005.

Statement of Changes in Fiduciary Net Assets – presents information showing how the Plan's net assets held in trust for benefits changed during the years ended December 31, 2006 and 2005. It reflects contributions by employees along with net investment income (or losses) during the period from individual participant directed investing activities. Deductions for participant withdrawals, benefit payments, and administrative expenses are also presented.

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

Investments

The Plan is participant directed, which means that the Plan's participants decide in which options to invest. Of total Plan Fiduciary Net Assets of $524.3 million at December 31, 2006, 99.6% of which, or $521.9 million, are specifically allocated to individual participant accounts. Of total Plan Fiduciary Net Assets of $476.9 million at December 31, 2005, 99.5% of which, or $474.6 million, are specifically allocated to individual participant accounts.

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

As of December 31, 2006, the following funds are available to participants for investment.

Collective Investment Funds

Equity Fund – this fund invests in diversified common stocks of high–quality growth companies for long–term capital growth, with income a secondary consideration. This investment option is only available to participants whose contributions were originally invested with the Hartford Life Insurance Company, and have since remained with Hartford.

Bond Fund – this fund invests in investment grade corporate and government bonds and other debt securities. This investment option is only available to participants whose contributions were originally invested with the Hartford Life Insurance Company, and have since remained with Hartford.

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

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

(Continued)

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

S&P 500 Index Fund – this fund buys and holds virtually all of the stocks in the S&P 500 Index. The fund is designed to hold the same stocks in the same proportions as in the index itself.

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

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

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

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

Interest Income Fund

Interest Income Fund – this fund invests primarily in synthetic investment contracts, including underlying securities which support such contracts issued by U.S. and Canadian insurance companies, U.S. banks and U.S. branches of foreign banks and meet high quality and credit standards.

Participant Directed Investments at December 31 Year End (000's Omitted)

		2006	2005
S&P 500 Index Fund	$	143,346	133,396
Interest Income Fund		132,133	128,472
International Equity Fund		66,328	42,652
Small Cap Stock Trust		62,615	61,079
Global Balanced Fund		44,446	36,959
Tactical Asset Allocation Fund		29,275	28,381
Government/Credit Bond Fund		25,750	25,537
Intermediate Bond Fund		10,470	9,193
Citizens Core Growth Fund		5,206	6,866
Equity Fund		2,192	1,949
Bond Fund		128	126

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

	2006 1–Year actual	2005 1–Year actual
International Equity Fund	26.10%	10.81%
Small Cap Stock Trust	12.74	8.94
Citizens Core Growth Fund	(1.26)	10.41
S&P 500 Index Fund	15.88	4.95
Global Balanced Fund	11.29	7.51
Tactical Asset Allocation Fund	9.92	6.39
Government\Credit Bond Fund	3.83	2.34
Intermediate Bond Fund	3.79	1.71
Interest Income Fund	4.60	4.31

The Equity Fund and Bond Fund have both been closed to participant use since 1986. Because of the closed nature of the funds, a rate of return on a fully comparable basis is not provided. However, both funds closely mirror funds generally of the same asset composition description that are actively available.

Contributions and Distributions

The Plan had contributions of $35.8 million in the 2006 calendar year compared to $34.2 million in the 2005 calendar year. Increased contributions between the two years were attributable to increased employee participation in the Plan and increased maximum contribution limits.

The Plan had benefits paid to participants and purchases of annuity contracts of $40.6 million for the 2006 calendar year compared to $36.6 million for the 2005 calendar year.

Fiduciary Responsibilities

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

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

Request for Information

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

Alaska Division of Retirement & Benefits
Alaska Deferred Compensation Plan
PO Box 110203
Juneau, Alaska 99811–0203

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

Statements of Fiduciary Net Assets

December 31, 2006 and 2005

(In thousands)

		2006	2005
Current assets:			
Participant contributions receivable	$	1,950	1,880
Investments:			
Collective investment funds, at fair value:			
Participant-directed		389,756	346,138
Money market fund		483	456
		390,239	346,594
Interest income fund:			
Synthetic investment contracts, at fair value		124,044	123,204
Cash and cash equivalents, at fair value		8,089	5,268
		132,133	128,472
Total investments		522,372	475,066
Total assets		524,322	476,946
Commitments and contingencies			
Net assets held in trust for individuals, organizations, and other governments	$	524,322	476,946

See accompanying notes to financial statements.

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

Statements of Changes in Fiduciary Net Assets

Years ended December 31, 2006 and 2005

(In thousands)

		2006	2005
Additions:			
Participant contributions	$	35,764	34,249
Investment income:			
Net appreciation in fair value of investments		47,214	20,548
Interest income		5,687	5,167
Net investment income		52,901	25,715
Total additions		88,665	59,964
Deductions:			
Benefits paid to participants and purchases of annuity contracts		40,552	36,581
Administrative expenses		737	706
Total deductions		41,289	37,287
Net increase in net assets held in trust for individuals, organizations, and other governments		47,376	22,677
Net assets, beginning of year		476,946	454,269
Net assets, end of year	$	524,322	476,946

See accompanying notes to financial statements.

(1) Description

The following brief description of the State of Alaska Deferred Compensation Plan (Plan), a defined contribution plan, is provided for general information purposes only. Participants should refer to the Plan document for more complete information.

(a) General

The Plan was created by State of Alaska (State) Statutes issued May 31, 1974, and was most recently amended effective March 1, 2006. It is a deferred compensation plan under Section 457 of the Internal Revenue Code and is available to all permanent and long–term non–permanent employees or elected officials of the State and with the March 1, 2006 amendment, members of State boards and commissions. Participants in the Plan authorize the State to reduce their current salary or compensation so that they can receive the amount deferred at a later date. The deferred compensation is not available to participants until termination, retirement, death, or an unforeseeable emergency, within the definition allowed by the applicable Internal Revenue Code. As of December 31, 2006 and 2005, the Plan had approximately 8,500 and 8,300 participants, respectively.

As a result of the passage of The Small Business Job Protection Act of 1996 (SBJPA), all amounts deferred, including amounts deferred before the effective date of the new law, under an eligible 457 plan must be held in a trust for the exclusive benefit of employees and beneficiaries. This new law repealed the requirement that a Section 457 plan sponsored by a government be solely the property of the employer, subject only to the claims of the employer's general creditors. The trust requirement generally applies to assets and income held by a plan on and after the date of enactment of the SBJPA. For any plan in existence on the date of enactment of the SBJPA, a trust need not be established before January 1, 2000.

As to the State of Alaska Deferred Compensation Plan, the Plan Document was amended effective January 1, 1997 to recognize and establish the Trust requirement for the Plan. The formal trust documents were completed by December 31, 1998.

The plan was completely restated effective January 1, 2002 for compliance with the Economic Growth and Tax Relief Reconciliation Act of 2001 and most recently amended March 1, 2006.

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

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(b) Contributions

Participants of the Plan contribute a minimum of $50 a month ($600 per year). Under the current law, during 2007 the maximum amount that can be deferred in a year is $15,500 for participants under age 50 and $20,500 for participants over age 50. However, for each of the participant's last three calendar years ending prior to normal retirement age, a "catch–up limitation" applies which allows larger contributions (up to $31,000 in 2007). Participants vest automatically in all of their contributions and earnings on those contributions.

(c) Participant Accounts

Participant accounts are self–directed with respect to investment options. At December 31, 2006 and 2005, participants had the following investment options:

Collective Investment Funds

Equity Fund – this fund invests in diversified common stocks of high–quality growth companies for long–term capital growth, with income a secondary consideration. This investment option is only available to participants whose contributions were originally invested with the Hartford Life Insurance Company, and have since remained with Hartford.

Bond Fund – this fund invests in investment grade corporate and government bonds and other debt securities. This investment option is only available to participants whose contributions were originally invested with the Hartford Life Insurance Company, and have since remained with Hartford.

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

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

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

S&P 500 Index Fund – this fund buys and holds virtually all of the stocks in the S&P 500 Index. The fund is designed to hold the same stocks in the same proportions as in the index itself.

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

Alaska Long-Term Balanced Trust. The Alaska Long-Term Balanced Trust was added to the Deferred Compensation Plan on August 15, 2007.

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

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

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

Interest Income Fund

Interest Income Fund – this fund invests primarily in synthetic investment contracts, including underlying securities which support such contracts issued by U.S. and Canadian insurance companies, U.S. banks and U.S. branches of foreign banks and meet high quality and credit standards.

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

A recordkeeping/administrative fee is deducted monthly from each participant's account, applied pro rata to all the funds the member participates in. This fee is for all costs incurred by the recordkeeper and by the State. The investment management fees are netted out of the funds' performance.

(d) Payment of Benefits

Participants are eligible to withdraw their account balance upon termination in the form of a lump sum, one of various annuities, or a periodic payment option, unless the participant elects to defer commencement of benefits. The deferred benefit commencement date can be no later than April 1 of the year after the participant would have turned age 70–1/2. Payment of benefits to a participant commences sixty days after termination or the deferred benefit commencement date, as applicable.

Participants may request a hardship withdrawal for an unforeseeable emergency, within the definition allowed by the applicable Internal Revenue Code. Hardship withdrawals are received as lump sum distributions and must be approved by the plan administrator.

The Plan purchases annuity contracts from an insurance company. The annuity contracts are excluded from Plan assets.

(e) Income Taxes

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

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(f) Termination, Partial Termination, or Complete Discontinuance of Contributions

Although the State has established the Plan with the bona fide intention and expectation that it will continue the Plan indefinitely, the State may in its sole and absolute discretion terminate the Plan in whole or in part at any time without liability whatsoever for such termination. If the Plan shall be terminated, the participants in the Plan will be deemed to have withdrawn from the Plan as of the date of such termination. Deferred compensation shall thereupon cease. Upon Plan termination, each participant or beneficiary shall be given the opportunity to elect a benefit commencement date and form of payment.

(2) Summary of Significant Accounting Policies

(a) Accounting Basis

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

(b) Valuation of Collective Investment Funds

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

(c) Valuation of Synthetic Investment Contracts

The Plan's investments in fully benefit responsive synthetic investment contracts (note 5) are stated at fair value as they are affected by the market factors and credit standing.

(d) Contributions Receivable

Contributions applicable to wages earned through the Plan's year–end are accrued. These contributions are considered fully collectible and, accordingly, no allowance for doubtful accounts is considered necessary.

(3) Collective Investment Funds

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

	Units owned	Unit value	Balance (In thousands)
2006:			
Equity funds:			
International Equity Fund	2,711,697	24.46	$ 66,328*
Small CAP Stock Trust	1,462,287	42.82	62,615*
S & P 500 Index Fund	3,257,113	44.01	143,346*
Citizens Core Growth Fund	297,805	17.48	5,206
Equity Fund, actively managed	120,542	18.19	2,192
			279,687
Bond and debt securities funds:			
Government/Credit Bond Fund	1,099,815	23.413	25,750
Intermediate Bond Fund	531,609	19.695	10,470
Bond Fund, actively managed	17,061	7.521	128
			36,348
Bond and equity funds:			
Tactical Asset Allocation Fund	2,423,444	12.08	29,275*
Global Balanced Fund	1,341,974	33.12	44,446*
			73,721
Money market fund – nonparticipant directed	30,607	15.767	483
Total collective investment funds			$ 390,239

* Represents five percent or greater of plan assets at December 31.

	Units owned	Unit value		Balance
				(In thousands)
2005:				
Equity funds:				
International Equity Fund	1,986,580	21.47	$	42,652*
Small CAP Stock Trust	1,608,186	37.98		61,079*
S & P 500 Index Fund	3,512,265	37.98		133,396*
Citizens Core Growth Fund	385,285	17.82		6,866
Equity Fund, actively managed	121,891	15.99		1,949
				245,942
Bond and debt securities funds:				
Government/Credit Bond Fund	1,132,527	22.55		25,537*
Intermediate Bond Fund	484,431	18.98		9,193
Bond Fund, actively managed	17,317	7.25		126
				34,856
Bond and equity funds:				
Tactical Asset Allocation Fund	2,582,484	10.99		28,381*
Global Balanced Fund	1,241,922	29.76		36,959*
				65,340
Money market fund – nonparticipant directed	30,224	15.08		456
Total collective investment funds			$	346,594

* Represents five percent or greater of plan assets at December 31.

(4) Changes in Fiduciary Net Assets

During the years ended December 31, 2006 and 2005 the following changes in fiduciary net assets by fund took place (in thousands):

		Participant directed				
	Equity Fund	Bond Fund	International Equity Fund	Small CAP Stock Trust	Citizens Core Growth Fund	S&P 500 Index Fund
2006:						
Additions:						
Participant contributions	$ —	—	4,809	4,558	1,045	9,535
Investment income:						
Net appreciation in fair value of investments	266	4	12,184	7,436	(73)	20,035
Interest income	—	—	—	—	—	—
Net investment income	266	4	12,184	7,436	(73)	20,035
Total additions	266	4	16,993	11,994	972	29,570
Deductions:						
Benefits paid to participants and purchases of annuity contracts	—	—	2,996	4,733	440	9,313
Administrative expenses:						
Actual fees paid	—	—	—	—	—	—
Fees deducted from participant accounts	—	—	80	95	9	202
Total deductions	—	—	3,076	4,828	449	9,515
Net increase (decrease) prior to interfund transfers	266	4	13,917	7,166	523	20,055
Interfund transfers	(23)	(2)	9,759	(5,630)	(2,183)	(10,105)
Net increase (decrease) in net assets held in trust for individuals, organizations, and other governments	243	2	23,676	1,536	(1,660)	9,950
Net assets, beginning of year	1,949	126	42,652	61,079	6,866	133,396
Net assets, end of year	$ 2,192	128	66,328	62,615	5,206	143,346

Participant directed					Nonparticipant directed		
Tactical Asset Allocation Fund	Global Balanced Fund	Government/ Credit Bond Fund	Intermediate Bond Fund	Interest Income Fund	Money Market Fund	Participant contributions receivable	Total
2,610	4,161	1,867	821	6,288	—	70	35,764
2,641	4,292	926	365	(862)	—	—	47,214
—	—	—	—	5,661	26	—	5,687
2,641	4,292	926	365	4,799	26	—	52,901
5,251	8,453	2,793	1,186	11,087	26	70	88,665
1,877	3,313	1,953	769	15,158	—	—	40,552
—	—	—	—	—	737	—	737
42	61	38	14	197	(738)	—	—
1,919	3,374	1,991	783	15,355	(1)	—	41,289
3,332	5,079	802	403	(4,268)	27	70	47,376
(2,438)	2,408	(589)	874	7,929	—	—	—
894	7,487	213	1,277	3,661	27	70	47,376
28,381	36,959	25,537	9,193	128,472	456	1,880	476,946
29,275	44,446	25,750	10,470	132,133	483	1,950	524,322

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	Participant directed					
	Equity Fund	Bond Fund	International Equity Fund	Small CAP Stock Trust	Citizens Core Growth Fund	S&P 500 Index Fund
2005:						
Additions:						
Participant contributions	$ —	—	3,496	3,957	852	9,877
Investment income:						
Net appreciation in fair value of investments	158	2	3,747	4,840	494	6,435
Interest income						
Net investment income	158	2	3,747	4,840	494	6,435
Total additions	158	2	7,243	8,797	1,346	16,312
Deductions:						
Benefits paid to participants and purchases of annuity contracts	—	—	1,748	2,751	260	8,638
Administrative expenses:						
Actual fees paid	—	—	—	—	—	—
Fees deducted from participant accounts	—	—	54	84	7	197
Total deductions	—	—	1,802	2,835	267	8,835
Net increase (decrease) prior to interfund transfers	158	2	5,441	5,962	1,079	7,477
Interfund transfers	(37)	(19)	2,144	(2,194)	2,551	(9,379)
Net increase (decrease) in net assets held in trust for individuals, organizations, and other governments	121	(17)	7,585	3,768	3,630	(1,902)
Net assets, beginning of year	1,828	143	35,067	57,311	3,236	135,298
Net assets, end of year	$ 1,949	126	42,652	61,079	6,866	133,396

Participant directed					Nonparticipant directed		
Tactical Asset Allocation Fund	Global Balanced Fund	Government/ Credit Bond Fund	Intermediate Bond Fund	Interest Income Fund	Money Market Fund	Participant contributions receivable	Total
2,727	3,521	2,350	813	6,450	—	206	34,249
1,639	2,492	585	156	—	—	—	20,548
				5,152	15	—	5,167
1,639	2,492	585	156	5,152	15	—	25,715
4,366	6,013	2,935	969	11,602	15	206	59,964
2,142	2,007	2,673	1,025	15,337	—	—	36,581
—	—	—	—	—	706	—	706
39	49	40	14	194	(678)	—	—
2,181	2,056	2,713	1,039	15,531	28	—	37,287
2,185	3,957	222	(70)	(3,929)	(13)	206	22,677
1,822	1,961	(1,480)	(719)	5,350	—	—	—
4,007	5,918	(1,258)	(789)	1,421	(13)	206	22,677
24,374	31,041	26,795	9,982	127,051	469	1,674	454,269
28,381	36,959	25,537	9,193	128,472	456	1,880	476,946

(5) Synthetic Investment Contracts

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

(a) IXIS Financial Products Inc.

In 1999, the Plan's investment manager entered into an investment contract, on behalf of the Plan, with IXIS Financial Products Inc. This financial institution provides a wrap contract that covers a separately managed structured payout synthetic investment portfolio. The account is credited with earnings and investment deposits, less administrative expenses charged by the financial institution and investment withdrawals. The contract is included in the Plan's financial statements at contract value. It is fully benefit responsive. There are no reserves against contract value for the credit risk of the contract issuer or otherwise. The contract value of the investment contract at December 31, 2005 and December 31, 2006 was $19,907 and $18,097, respectively as reported by IXIS Financial Products Inc, and the market value of the portfolio at December 31, 2005 and December 31, 2006 was $19,541 and $17,787 respectively. The average crediting rates for 2005 and 2006 were approximately four percent. The crediting interest rates are based on the approximate rate of interest that will amortize differences between book and market value over the portfolio's average duration. As of December 31, 2006 the last maturity payment date was September 20, 2011.

(b) Union Bank Switzerland

In 2000, the Plan's investment manager entered into an investment contract, on behalf of the Plan, with Union Bank Switzerland. This financial institution provides a wrap contract that covers a separately managed constant duration synthetic investment portfolio. The account is credited with earnings and investment deposits, less administrative expenses charged by the financial institution and investment withdrawals. The contract is included in the Plan's financial statements at contract value. It is fully benefit responsive. There are no reserves against contract value for the credit risk of the contract issuer or otherwise. The contract value of the investment contract at December 31, 2005 and 2006 was $21,784 and $26,255, respectively as reported by Union Bank Switzerland and the market value of the portfolio at December 31, 2005 and 2006 was $22,110 and $26,444 respectively. The average crediting rates for 2005 and 2006 were approximately five percent. The crediting interest rates are based on the approximate rate of interest that will amortize differences between book and market value over the portfolio's average duration.

(c) State Street Bank

In 2000, the Plan's investment manager entered into an investment contract, on behalf of the Plan, with State Street Bank. This financial institution provides a wrap contract that covers a separately managed constant duration synthetic investment portfolio. The account is credited with earnings and investment deposits, less administrative expenses charged by the financial institution and investment withdrawals. The contract is included in the Plan's financial statements at contract value. It is fully benefit responsive. There are no reserves against contract value for the credit risk of the contract issuer or otherwise. The contract value of the investment contract at December 31, 2005 and December 31, 2006 was $21,789 and $26,260, respectively as reported by State Street Bank, and the market value of the portfolio at December 31, 2005 and 2006 was $22,115 and $26,449 respectively. The average crediting rates for 2005 and 2006 were approximately five percent. The crediting interest rates are based on the approximate rate of interest that will amortize differences between book and market value over the portfolio's average duration.

(d) Rabobank Nederland

In 2003, the Plan's investment manager entered into an investment contract, on behalf of the Plan, with Rabobank Nederland. This financial institution provides a wrap contract that covers a separately managed structured payout synthetic investment portfolio. The account is credited with earnings and investment deposits, less administrative expenses charged by the financial institution and investment withdrawals. The contract is included in the Plan's financial statements at contract value. It is fully benefit responsive. There are no reserves against contract value for the credit risk of the contract issuer or otherwise. The contract value of the investment contract at December 31, 2005 and December 31, 2006 was $19,907 and $18,097, respectively as reported by Rabobank Nederland, and the market value of the portfolio at December 31, 2005 and December 31, 2006 was $19,541 and $17,787 respectively. The average yield and crediting interest rates for 2005 and 2006 were approximately four percent. The crediting interest rate is based on the approximate rate of interest that will amortize differences between book and market value over the portfolio's average duration. As of December 31, 2006 the last scheduled maturity payment date was September 20, 2011.

(e) Bank of America

In 2003, the Plan's investment manager entered into an investment contract, on behalf of the Plan, with Bank of America. This financial institution provides a wrap contract that covers a separately managed structured payout synthetic investment portfolio. The account is credited with earnings and investment deposits, less administrative expenses charged by the financial institution and investment withdrawals. The contract is included in the Plan's financial statements at contract value. It is fully benefit responsive. There are no reserves against contract value for the credit risk of the contract issuer or otherwise. The contract value of the investment contract at December 31, 2005 and 2006 was $19,907 and $18,097, respectively as reported by Bank of America, and the market value of the portfolio at December 31, 2005 and 2006 was $19,541 and $17,787 respectively. The average yield and crediting interest rates for 2005 and 2006 were approximately four percent. The crediting interest rate is based on the approximate rate of interest that will amortize differences between book and market value over the portfolio's average duration. As of December 31, 2006 the last scheduled maturity payment date was September 20, 2011.

(f) Pacific Life Insurance Co.

In 2004, the Plan's investment manager entered into an investment contract, on behalf of the Plan, with Pacific Life Insurance Co. This financial institution provides a wrap contract that covers a separately managed structured payout synthetic investment portfolio. The account is credited with earnings and investment deposits, less administrative expenses charged by the financial institution and investment withdrawals. The contract is included in the Plan's financial statements at contract value. It is fully benefit responsive. There are no reserves against contract value for the credit risk of the contract issuer or otherwise. The contract value of the investment contract at December 31, 2005 and December 31, 2006 was $19,910 and $18,100, respectively as reported by Pacific Life Insurance Co, and the market value of the portfolio at December 31, 2005 and December 31, 2006 was $19,544 and $17,790 respectively. The average crediting rate for 2005 and 2006 was approximately four percent. The crediting interest rates are based on the approximate rate of interest that will amortize differences between book and market value over the portfolio's average duration. As of December 31, 2006 the last maturity payment date was September 20, 2011.

(6) Deposit and Investment Risk

(a) Interest Rate Risk

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

Collective Investment and Money Market Funds

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

The Board does not have a policy to limit interest rate risk for the Collective Investment Funds or the commingled money market portfolio. These investments with their related weighted average maturities at December 31, 2006, are as follows:

	Fair value (In thousands)	Weighted average maturity
Government/Credit Bond Fund	$ 25,750	7.58 years
Intermediate Bond Fund	10,470	3.89 years
Bond Fund	128	4.56 years
Money Market Fund	483	43 days

Interest Income Fund

The Board contracts with an external investment manager who is given the authority to invest in synthetic investment contracts and a Reserve (cash and cash equivalents in the Interest Income Fund). This external manager also manages the securities underlying the synthetic investment contracts.

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

For constant duration synthetic investment contracts, duration cannot exceed the longer of six years or the duration of the Lehman Brothers Aggregate Bond Index plus one–half year. The aggregate duration of the constant duration synthetic investment contracts was 4.84 years at December 31, 2006. The duration of the Lehman Brother's Aggregate Bond Index was 4.46 years at December 31, 2006.

For structured payout synthetic investment contracts, duration cannot exceed seven years in the aggregate. The aggregate duration of the structured payout synthetic investment contracts was 1.91 years at December 31, 2006.

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

The Board does not have a policy to limit interest rate risk for the Reserve. The balance in the Reserve is invested in the custodian's Short–term Investment Fund which has a weighted average maturity of thirty-one days at December 31, 2006.

(b) Credit Risk

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

The Board does not have a policy to limit credit risk for the Plan's Collective Investment Funds and the commingled money market portfolio. These investments are not rated.

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

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

Synthetic Investment contract issuers must have an investment grade rating,

Supranational Agency and Foreign Government entity investments must have a minimum rating of A or equivalent,

Corporate debt securities must have a minimum rating of BBB or equivalent, Asset–backed securities must have a minimum rating of AAA or equivalent,

Mortgage–backed securities are allowed if issued by Federal National Mortgage Association, Federal Home Loan Mortgage Corporation or Government National Mortgage Association,

Sequential class or type 1 or 2 planned amortization class collateralized mortgage obligations are allowed only if securitized by Agency mortgage–backed securities listed above,

The ratings assigned to issuers of money market instruments must have the highest rating of any nationally recognized statistical rating organization. This limitation does not apply to the investment funds maintained by the custodian.

At December 31, 2006, the investments underlying the synthetic investment contracts and the Reserve consisted of securities with credit quality ratings issued by a nationally recognized statistical rating organization as follows (using the Standard and Poor's rating scale):

Synthetic investment contracts	Rating	Fair value (In thousands)
Short-Term Investment Fund	Not rated	$ 2,211
U.S. Agency Securities	AAA	3,712
Mortgage–backed Securities	AAA	3,770
Mortgage-Backed Securities	Not rated	32,343
Corporate Bonds	AAA	1,166
Corporate Bonds	AA	9,086
Corporate Bonds	A	20,104
Corporate Bonds	BBB	7,588
Yankee:		
Corporate Bonds	AA	861
Corporate Bonds	AA	2,410
Corporate Bonds	BBB	928
Government	AAA	438
Government	AA	1,641
Government	A	148
Government	BBB	163
Asset Backed Securities	AAA	27,928
Investments with no credit exposure		9,547
Total		$ 124,044
Reserve – Short-Term Investment Fund	Not rated	$ 8,089

(c) *Concentration of Credit Risk*

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

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

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

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

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

Investment type	Issuer	All issuers
U.S. Treasury and Agencies	100%	100%
Mortgage-backed securities and collateralized Mortgage Obligations secured by Mortgage-backed securities limited to sequential class or PAC1 and II Collateralized Mortgage Obligations	50	50
Asset-backed Securities	5	50
Domestic and Foreign Corporate Debt Securities	5	50
Supranational Agency and Foreign Government entity securities	5	50
Money Market Instruments – Non Gov/Agency	5	100
Custodian Short-term Investment Fund	100	100

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

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

At December 31, 2006, the Plan had no exposure to a single issuer in excess of 5% of total invested assets.

(d) Foreign Currency Risk

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

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

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

(7) Risk and Uncertainty

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