



**STATE OF ALASKA**  
**JUDICIAL RETIREMENT SYSTEM**  
(A Component Unit of the State of Alaska)

Financial Statements and Supplemental Schedules

June 30, 2011 and 2010

(With Independent Auditors' Report Thereon)

**STATE OF ALASKA**  
**JUDICIAL RETIREMENT SYSTEM**  
(A Component Unit of the State of Alaska)

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

## **Independent Auditors' Report**

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

We have audited the accompanying statements of plan net assets of the State of Alaska Judicial Retirement System (the Plan), (a component unit of the State of Alaska), as of June 30, 2011 and 2010, 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 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 plan net assets of the State of Alaska Judicial Retirement System as of June 30, 2011 and 2010, 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.

Management's discussion and analysis and schedules of funding progress and employer contributions from Employers and State of Alaska are not a required part of the financial statements, but are supplementary information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.



Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules presented on pages 44 – 45 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such supplemental schedules are the responsibility of the management of the Plan. This information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

KPMG LLP

October 20, 2011

**STATE OF ALASKA**  
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Management's Discussion and Analysis

June 30, 2011 and 2010

This section presents management's discussion and analysis (MD&A) of the Judicial Retirement System's (the Plan) financial condition and performance for the years ended June 30, 2011 and 2010. This section is presented as a narrative overview and analysis. Please read the MD&A in conjunction with the financial statements, notes to financial statements, required supplementary information, notes to required supplementary information, and supplemental schedules to better understand the financial condition and performance of the Plan during the fiscal years ended June 30, 2011 and 2010. Information for fiscal year 2009 is presented for comparative purposes.

**Financial Highlights**

The Plan financial highlights as of June 30, 2011 were as follows:

- The Plan's net assets held in trust for pension and postemployment healthcare benefits increased by \$19.0 million during fiscal year 2011.
- The Plan member and employer contributions increased by \$1.4 million during fiscal year 2011.
- State of Alaska directly appropriations totaled \$788.9 thousand during fiscal year 2011.
- The Plan's net investment income increased \$12.0 million to \$23.1 million during fiscal year 2011.
- The Plan's pension benefit expenditures totaled \$9.2 million during fiscal year 2011.
- The Plan's postemployment healthcare benefit expenditures totaled \$751.2 thousand in fiscal year 2011.

**Overview of the Financial Statements**

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

*Statement of Plan Net Assets* – This statement presents information regarding the Plan's assets, liabilities, and resulting net assets held in trust for pension and postemployment healthcare benefits. This statement reflects the Plan's investments at fair market value, along with cash and short-term investments, receivables, and other assets less liabilities at June 30, 2011 and 2010.

*Statement of Changes in Plan Net Assets* – This statement presents how the Plan's net assets held in trust for pension and postemployment healthcare benefits changed during the fiscal years ended June 30, 2011 and 2010. This statement presents contributions, State of Alaska appropriations, and investment income (loss) during the period. Deductions for pension and postemployment healthcare benefits, refunds, and operating deductions are also presented.

The above statements represent resources available for investment and payment of benefits as of June 30, 2011 and 2010, and the sources and uses of those funds during fiscal years 2011 and 2010.

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

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

*Supplemental Schedules* – Supplemental schedules include detailed information on administrative and investment deductions incurred by the Plan and payments to consultants (other than investment advisors) for professional services.

**Condensed Financial Information**

Description	Plan Net Assets				
	2011	2010	Increase (decrease)		2009
			Amount	Percentage	
<b>Assets:</b>					
Cash and cash equivalents	\$ 1,310,561	1,481,026	(170,465)	(11.5)%	952,190
Due from State of Alaska General Fund	—	11,900	(11,900)	(100.0)	—
Due from Retiree Health Fund	—	21,619	(21,619)	(100.0)	12,609
Contributions receivable	205,229	150,163	55,066	36.7	286,793
Other receivables	26,552	14,094	12,458	88.4	6,547
Investments, at fair value	129,664,136	110,556,116	19,108,020	17.3	104,035,387
Other assets	8,499	8,513	(14)	(0.2)	8,499
<b>Total assets</b>	<b>131,214,977</b>	<b>112,243,431</b>	<b>18,971,546</b>	<b>16.9</b>	<b>105,302,025</b>
<b>Liabilities:</b>					
Accrued expenses	79,909	74,306	5,603	7.5	44,915
Claims payable	133,000	123,000	10,000	8.1	—
Due to Retiree Health Fund	—	8,572	(8,572)	(100.0)	—
Due to State of Alaska General Fund	19,450	9,555	9,895	103.6	68,033
<b>Total liabilities</b>	<b>232,359</b>	<b>215,433</b>	<b>16,926</b>	<b>7.9</b>	<b>112,948</b>
<b>Net assets</b>	<b>\$ 130,982,618</b>	<b>112,027,998</b>	<b>18,954,620</b>	<b>16.9%</b>	<b>105,189,077</b>

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<b>Changes in Plan Net Assets</b>					
<b>Description</b>	<b>2011</b>	<b>2010</b>	<b>Increase (decrease)</b>		<b>2009</b>
			<b>Amount</b>	<b>Percentage</b>	
Net assets, beginning of year	\$ 112,027,998	105,189,077	6,838,921	6.5%	133,811,720
Additions (reductions):					
Contributions	5,079,345	3,629,368	1,449,977	40.0	6,958,477
Appropriation – State of Alaska	788,937	1,550,000	(761,063)	(49.1)	—
Net investment income (loss)	23,083,369	11,041,370	12,041,999	109.1	(27,352,403)
Other	41,189	35,546	5,643	15.9	28,166
Total additions (reductions)	<u>28,992,840</u>	<u>16,256,284</u>	<u>12,736,556</u>	<u>78.3</u>	<u>(20,365,760)</u>
Deductions:					
Pension and postemployment healthcare benefits	9,928,400	9,345,838	582,562	6.2	8,137,653
Administrative	109,820	71,525	38,295	53.5	119,230
Total deductions	<u>10,038,220</u>	<u>9,417,363</u>	<u>620,857</u>	<u>6.6</u>	<u>8,256,883</u>
Increase (decrease) in net assets	<u>18,954,620</u>	<u>6,838,921</u>	<u>12,115,699</u>	<u>177.2</u>	<u>(28,622,643)</u>
Net assets, end of year	<u>\$ 130,982,618</u>	<u>112,027,998</u>	<u>18,954,620</u>	<u>16.9%</u>	<u>105,189,077</u>

**Financial Analysis of the Plan**

The statements of plan net assets as of June 30, 2011 and 2010 show net assets held in trust for pension and postemployment healthcare benefits of \$130,982,618 and \$112,027,998, respectively. The entire balance 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 an increase of \$18,954,620 or 16.9% and an increase of \$6,838,921 or 6.5% from fiscal years 2010 and 2009. Over the long term, plan members and employer contributions, as well as investment income earned, are expected to sufficiently fund the pension benefit and postemployment healthcare costs of the Plan.

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Management's Discussion and Analysis

June 30, 2011 and 2010

The investment of pension funds is a long-term undertaking. On an annual basis, the Alaska Retirement Management Board (Board) reviews and adopts an asset allocation strategy to ensure the asset mix will remain at an optimal risk/return level given the Plan's constraints and objectives.

**Plan Asset Allocation**

During fiscal years 2011 and 2010, the Board adopted the following asset allocations:

	<b>2011</b>	
	<b>Pension &amp; Healthcare Trust</b>	
	<b>Allocation</b>	<b>Range</b>
Broad domestic equity	29.0%	± 6%
Global equity ex-U.S.	23.0	± 4
Fixed income	19.0	± 3
Real assets	16.0	± 8
Private equity	7.0	± 5
Absolute return	5.0	± 4
Cash equivalents	1.0	-1/+5
Total	<u>100.0%</u>	
Expected five-year median return	8.07%	
Standard deviation	13.46	

  

	<b>2010</b>	
	<b>Pension &amp; Healthcare Trust</b>	
	<b>Allocation</b>	<b>Range</b>
Broad domestic equity	30.0%	± 6%
Global equity ex-U.S.	22.0	± 4
Fixed income	20.0	± 3
Real assets	16.0	± 8
Private equity	7.0	± 5
Absolute return	5.0	± 4
Cash equivalents	—	+ 6
Total	<u>100.0%</u>	
Expected five-year median return	9.04%	
Standard deviation	12.85	

For fiscal years 2011 and 2010, the Plan's investments generated a 21.25% and an 11.92% rate of return, respectively. The Plan's annualized rate of return was 2.56% over the last three years and 4.03% over the last five years.



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**Actuarial Valuations and Funding Progress**

The overall objective of pension and postemployment healthcare funds is to accumulate sufficient funds to meet all expected future obligations to members. The employer contribution requirements are actuarially determined as a percentage of eligible salaries, and reflect the cost of benefits accruing in the fiscal year following the valuation date and a 25-year fixed amortization of the unfunded accrued liability. The amortization period and employer contribution levels are typically recommended by the actuary and adopted by the administrator biennially. Barring legislative changes, the employer contribution rate is expected to remain constant as a percentage of payroll. The ratio of assets to liabilities decreased from 80.60% to 72.90% from the actuarial rollforward year ended June 30, 2009 to the actuarial valuation year ended June 30, 2010. The June 30, 2010 actuarial valuation reflects an unfunded liability of \$50,133,911.

A summary of the actuarial assumptions and methods is presented in the notes to the required supplementary information. The assumptions, when applied in combination, fairly represent past and anticipated future experience of the Plan.

	<b>Valuation or rollforward year</b>	
	<b>2010</b>	<b>2009</b>
Valuation assets	\$ 134,694,195	126,226,892
Accrued liabilities	184,828,106	156,679,506
Unfunded liability	50,133,911	30,452,614
Funding ratio	72.90%	80.60%

**Contributions, Investment Income, and Transfer**

The additions required to fund retirement benefits are accumulated through a combination of employer and plan members' contributions and investment income (loss) as follows:

	<b>Additions (reductions)</b>				
	<b>2011</b>	<b>2010</b>	<b>Increase (decrease)</b>		<b>2009</b>
			<b>Amount</b>	<b>Percentage</b>	
Plan members contributions	\$ 703,662	652,581	51,081	7.8%	609,812
Employer contributions	4,375,683	2,976,787	1,398,896	47.0	6,348,665
Net investment income (loss)	23,083,369	11,041,370	12,041,999	109.1	(27,352,403)
Appropriation – State of Alaska	788,937	1,550,000	(761,063)	(49.1)	—
Other income	41,189	35,546	5,643	15.9	28,166
Total	\$ 28,992,840	16,256,284	12,736,556	(78.3)%	(20,365,760)

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The Plan's employer contributions increased from \$2,976,787 during fiscal year 2010 to \$4,375,683 during fiscal year 2011, an increase of \$1,398,896 or 47.0%. Employer contributions decreased from \$6,348,665 during fiscal year 2009 to \$2,976,787 during fiscal year 2010, a decrease of \$(3,371,878) or (53.1)%. The fiscal year 2011 increase is due to increased salary levels effective July 1, 2011, in addition to the Alaska court system paying the full employer contribution rate as opposed to just the normal cost portion of the rate. The fiscal year 2010 decrease was due to a change in how the Judicial Retirement System (JRS) was funded. Beginning in fiscal year 2010 the Alaska Court System, sole employer of the JRS participants, paid only the normal cost portion of the JRS employer contribution rate and the State of Alaska funded the past service cost through a direct appropriation.

The actuarially determined contribution rate decreased from 58.70% in fiscal year 2010 to 36.20% in fiscal year 2011, a decrease of 22.50% of eligible compensation. This decrease was the result of the Alaska State Legislature appropriating \$49 million in fiscal year 2008 in order to reduce the unfunded liability.

The Plan's net investment income in fiscal year 2011 increased by \$12,041,999 or 109.1% from amounts recorded in fiscal year 2010 and net investment income increased by \$38,393,773 or 140.4% from amounts recorded in fiscal year 2009. Over the long term, investment income is a major component of additions to plan assets. During fiscal year 2011 and 2010, the Plan continued to experience positive returns on investments.

The Plan's investment rate of returns at June 30 are as follows:

	<b>Fiscal year ended</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
System returns	21.25%	11.92%	(20.45)%
Domestic equities	33.34	15.42	(25.80)
International equities	28.25	11.75	(29.22)
Fixed income	5.56	11.25	2.99
Private equity	20.18	18.89	—
Absolute return	5.70	6.55	(12.48)
Real assets	14.80	0.48	(30.06)
Cash equivalents	0.47	—	—

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**Benefits and Other Deductions**

The primary deduction of the Plan is the payment of pension and postemployment healthcare benefits. These benefit payments and the cost of administering the Plan comprise the costs of operation.

	<b>Deductions</b>				
	<b>2011</b>	<b>2010</b>	<b>Increase (decrease)</b>		<b>2009</b>
			<b>Amount</b>	<b>Percentage</b>	
Pension	\$ 9,177,235	8,314,505	862,730	10.4%	7,375,193
Postemployment healthcare	751,165	1,031,333	(280,168)	(27.2)	762,460
Administrative	109,820	71,525	38,295	53.5	119,230
Total	<u>\$ 10,038,220</u>	<u>9,417,363</u>	<u>620,857</u>	<u>6.6%</u>	<u>8,256,883</u>

The Plan's pension benefit in 2011 and 2010 increased \$862,730 and \$939,312 or 10.4% and 12.7% from fiscal years 2010 and 2009, respectively. Pension benefits are directly tied to active JRS member's salary increases. Active JRS members received a salary increase in both fiscal years 2011 and 2010, therefore, pension benefit expense increased as well.

The Plan's postemployment healthcare benefit in 2011 and 2010 decreased \$(280,168) or (27.21)% and increased \$268,873 or 35.3% from fiscal years 2010 and 2009, respectively. The decrease in healthcare costs in fiscal year 2011 is attributable in part to greater discounts with the Plans preferred providers of healthcare.

The increase in administrative deductions is related to an increase in actuarial expenses, custodian banking service fees, and legal fees.

**Funding**

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

- The actuarially determined contribution rate is calculated by the Plan's consulting actuary and approved by the administrator. Contributions are determined on an annual basis either through the actuarial valuation or the actuarial valuation rollforward process.
- Plan member contributions are set by Alaska Statute 22.25.011.

The Board works with an external consultant to determine the proper asset allocation strategy.

**Legislation**

During fiscal year 2011, the Twenty-seventh Alaska State Legislature enacted one law that affects the Plan:

- House Bill 108 appropriates \$2,331,725 from the general fund to the Department of Administration for deposit in the Plan's defined benefit pension fund and retiree healthcare trust as partial payment of the participating employers' contributions for the fiscal year ending June 30, 2012.

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June 30, 2011 and 2010

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

Fiscal year 2011 was another strong recovery year in terms of investment returns. Net investment income reflected an increase of 109.1% between 2011 and 2010. The Board continues to diversify the portfolio of the Plan to maintain an optimal risk/return ratio. Actual investment returns greater than the assumed investment return will have a positive impact on both the annual actuarially determined contribution amount and the Plan's funded level.

The employer contribution rate decreased significantly from fiscal year 2011 and 2010 due to the Alaska State Legislature appropriating \$49 million in fiscal year 2008 in order to reduce the unfunded liability.

The actuarial valuation as of June 30, 2010 reports a funding ratio of 72.9% and an unfunded liability of \$50.1 million. The June 30, 2009, actuarial rollforward for the Plan reported a funding ratio of 80.6% and an unfunded liability of \$30.5 million. The increase in the unfunded liability is attributable to an increase in JRS member's salaries, which directly impacts future pension benefit expense.

**Requests for Information**

This financial report is designed to provide a general overview of the Plan's financial condition for 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:

State of Alaska Judicial Retirement System  
Division of Retirement and Benefits, Accounting Section  
P.O. Box 110203  
Juneau, Alaska 99811-0203

**STATE OF ALASKA  
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Statements of Plan Net Assets

June 30, 2011 and 2010

	2011			2010		
	Pension	Alaska retiree healthcare trust	Total	Pension	Alaska retiree healthcare trust	Total
<b>Assets:</b>						
Cash and cash equivalents (notes 2, 3, and 4):						
Short-term fixed income pool	\$ 1,103,041	207,520	1,310,561	1,310,564	170,462	1,481,026
<b>Receivables:</b>						
Contributions	183,406	21,823	205,229	130,870	19,293	150,163
Other receivables	—	26,552	26,552	—	14,094	14,094
Due from State of Alaska General Fund (note 2)	—	—	—	—	11,900	11,900
Due from retiree health fund	—	—	—	—	21,619	21,619
<b>Total receivables</b>	<b>183,406</b>	<b>48,375</b>	<b>231,781</b>	<b>130,870</b>	<b>66,906</b>	<b>197,776</b>
<b>Investments (notes 2, 3, 4, and 5) at fair value:</b>						
<b>Fixed income securities:</b>						
Retirement fixed income pool	267,487	49,289	316,776	8,565,503	1,881,408	10,446,911
U.S. Treasury fixed pool	11,667,839	2,262,226	13,930,065	4,935,321	764,518	5,699,839
High yield fixed-income pool	2,755,523	507,738	3,263,261	2,356,885	405,054	2,761,939
International fixed income pool	2,552,596	470,338	3,022,934	1,442,991	246,269	1,689,260
Emerging markets debt pool	861,447	158,732	1,020,179	730,086	126,705	856,791
<b>Total fixed income securities</b>	<b>18,104,892</b>	<b>3,448,323</b>	<b>21,553,215</b>	<b>18,030,786</b>	<b>3,423,954</b>	<b>21,454,740</b>
Broad domestic equity	33,103,648	6,097,877	39,201,525	27,456,308	4,877,662	32,333,970
<b>Global equity ex-U.S.:</b>						
International equity pool	19,883,585	3,663,394	23,546,979	14,565,437	2,540,157	17,105,594
Emerging markets equity pool	6,648,670	1,225,096	7,873,766	5,456,905	1,014,379	6,471,284
<b>Total global equity ex-U.S.</b>	<b>26,532,255</b>	<b>4,888,490</b>	<b>31,420,745</b>	<b>20,022,342</b>	<b>3,554,536</b>	<b>23,576,878</b>
Private equity pool	10,118,420	1,864,308	11,982,728	9,274,772	1,611,587	10,886,359
Absolute return pool	4,872,968	897,884	5,770,852	4,808,496	838,267	5,646,763
<b>Real assets:</b>						
Real estate pool	8,829,162	1,627,710	10,456,872	7,991,713	1,426,965	9,418,678
Real estate investment trust pool	1,125,407	207,351	1,332,758	389,384	61,368	450,752
Energy pool	624,917	115,149	740,066	617,292	102,625	719,917
Farmland pool	3,514,935	647,674	4,162,609	3,432,165	597,872	4,030,037
Timber pool	1,294,600	238,553	1,533,153	1,187,070	208,756	1,395,826
Treasury inflation protected securities pool	1,274,729	234,884	1,509,613	537,129	105,067	642,196
<b>Total real assets</b>	<b>16,663,750</b>	<b>3,071,321</b>	<b>19,735,071</b>	<b>14,154,753</b>	<b>2,502,653</b>	<b>16,657,406</b>
<b>Total investments</b>	<b>109,395,933</b>	<b>20,268,203</b>	<b>129,664,136</b>	<b>93,747,457</b>	<b>16,808,659</b>	<b>110,556,116</b>
<b>Other assets</b>						
Other assets	—	8,499	8,499	14	8,499	8,513
<b>Total assets</b>	<b>110,682,380</b>	<b>20,532,597</b>	<b>131,214,977</b>	<b>95,188,905</b>	<b>17,054,526</b>	<b>112,243,431</b>
<b>Liabilities:</b>						
Accrued expenses	78,277	1,632	79,909	73,011	1,295	74,306
Claims payable (note 6)	—	133,000	133,000	—	123,000	123,000
Due to retiree health fund	—	—	—	—	8,572	8,572
Due to State of Alaska General Fund (note 2)	2,616	16,834	19,450	9,555	—	9,555
<b>Total liabilities</b>	<b>80,893</b>	<b>151,466</b>	<b>232,359</b>	<b>82,566</b>	<b>132,867</b>	<b>215,433</b>
<b>Commitments and contingencies (note 8)</b>						
Net assets held in trust for pension and postemployment healthcare benefits	\$ 110,601,487	20,381,131	130,982,618	95,106,339	16,921,659	112,027,998

See accompanying notes to financial statements.

**STATE OF ALASKA**  
**JUDICIAL RETIREMENT SYSTEM**  
(A Component Unit of the State of Alaska)  
Statements of Changes in Plan Net Assets  
Years ended June 30, 2011 and 2010

	<u>2011</u>			<u>2010</u>		
	<u>Pension</u>	<u>Alaska retiree healthcare trust</u>	<u>Total</u>	<u>Pension</u>	<u>Alaska retiree healthcare trust</u>	<u>Total</u>
Additions:						
Contributions:						
Employer	\$ 3,836,321	539,362	4,375,683	2,509,628	467,159	2,976,787
Plan members	685,542	18,120	703,662	636,381	16,200	652,581
Appropriation – State of Alaska	727,183	61,754	788,937	1,144,424	405,576	1,550,000
Total contributions	<u>5,249,046</u>	<u>619,236</u>	<u>5,868,282</u>	<u>4,290,433</u>	<u>888,935</u>	<u>5,179,368</u>
Other income	1,294	39,895	41,189	2	35,544	35,546
Investment income:						
Net appreciation in fair value (note 2)	17,420,363	3,150,647	20,571,010	7,798,530	1,406,350	9,204,880
Interest	585,088	109,072	694,160	790,666	145,913	936,579
Dividends	1,779,522	316,804	2,096,326	957,493	160,290	1,117,783
Total investment income	<u>19,784,973</u>	<u>3,576,523</u>	<u>23,361,496</u>	<u>9,546,689</u>	<u>1,712,553</u>	<u>11,259,242</u>
Less investment expense	<u>278,095</u>	<u>32</u>	<u>278,127</u>	<u>217,821</u>	<u>51</u>	<u>217,872</u>
Net investment income	<u>19,506,878</u>	<u>3,576,491</u>	<u>23,083,369</u>	<u>9,328,868</u>	<u>1,712,502</u>	<u>11,041,370</u>
Total additions	<u>24,757,218</u>	<u>4,235,622</u>	<u>28,992,840</u>	<u>13,619,303</u>	<u>2,636,981</u>	<u>16,256,284</u>
Deductions:						
Pension and postemployment healthcare benefits	9,177,235	751,165	9,928,400	8,314,505	1,031,333	9,345,838
Administrative	84,835	24,985	109,820	47,125	24,400	71,525
Total deductions	<u>9,262,070</u>	<u>776,150</u>	<u>10,038,220</u>	<u>8,361,630</u>	<u>1,055,733</u>	<u>9,417,363</u>
Net increase	15,495,148	3,459,472	18,954,620	5,257,673	1,581,248	6,838,921
Net assets held in trust for pension and postemployment healthcare benefits:						
Balance, beginning of year	<u>95,106,339</u>	<u>16,921,659</u>	<u>112,027,998</u>	<u>89,848,666</u>	<u>15,340,411</u>	<u>105,189,077</u>
Balance, end of year	<u>\$ 110,601,487</u>	<u>20,381,131</u>	<u>130,982,618</u>	<u>95,106,339</u>	<u>16,921,659</u>	<u>112,027,998</u>

See accompanying notes to financial statements.

**STATE OF ALASKA**  
**JUDICIAL RETIREMENT SYSTEM**  
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**(1) Description**

The following is a brief description of the State of Alaska Judicial Retirement System, Defined Benefit Retirement Pension and Postemployment Healthcare Plan (the Plan). The Plan is a component unit of the State of Alaska (the State). Participants should refer to the plan agreement for more complete information.

*General*

The Plan is a defined benefit, single-employer retirement system established and administered by the State to provide pension and postemployment healthcare benefits for eligible State justices and judges. 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 Comprehensive Annual Financial Report as a pension trust fund.

Inclusion in the Plan is a condition of employment for eligible State justices and judges. At June 30, plan membership consisted of:

	Valuation as of	
	2010	2008
Retirees and beneficiaries currently receiving benefits	99	90
Terminated plan members entitled to future benefits	4	5
Total current and future benefits	103	95
Active plan members:		
Vested	45	46
Nonvested	27	27
Total active plan members	72	73
Total members	175	168

*Pension Benefits*

Members with five or more paid-up years of credited service are entitled to annual pension benefits beginning at normal retirement age, sixty, or early retirement age, fifty-five. Members who are under age sixty and have twenty or more years of credited service may retire at any age and receive an actuarially reduced benefit.

The normal monthly pension benefit is based on the member's years of service and the current authorized salary for the position from which they retired. The pension benefit is equal to 5% for each year of service up to a maximum of 75% of the current salary for an active judge in the month the benefit is paid. In the event of salary increases for active judges, the monthly pension benefit for retired judges also increases.

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(1) **Description (cont.)**

***Postemployment Healthcare Benefits***

Major medical benefits are provided without cost to retired plan members.

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

***Death Benefits***

Upon the death of a member who has served for at least two years, the surviving spouse is entitled to receive monthly benefits equal to one-half of the monthly retirement pay the member would have been entitled to receive if retired at the time of death. If the member was not eligible to retire or would have been entitled to less than 60% of the monthly authorized salary, the spouse is entitled to monthly benefits equal to 30% of the authorized salary. The benefits continue until the surviving spouse dies.

If there is no eligible surviving spouse, the member's surviving dependent child(ren) are entitled to receive a benefit equal to 50% of the above survivor's benefit. Each child will receive an equal share of the benefit while they are dependent. If there is no surviving spouse or dependent child(ren), the member's beneficiary(ies) shall receive the difference between contributions made and interest accrued in the Plan less benefits paid by the Plan.

***Disability Benefits***

Members who are involuntarily retired for incapacity and have a minimum of two years of service at the time of retirement for incapacity are eligible for pension benefits.

***Contributions***

**Plan Members Contributions**

Plan members first appointed after June 30, 1978 contribute 7% of their compensation to the Plan. The plan member contributions are deducted before federal income tax is withheld. Contributions are not required after members have made contributions for 15 years. Plan member contributions earn interest at the rate of 4.5% per annum, compounded semiannually. Contributions are collected by the employer and remitted to the Plan. Members appointed before July 1, 1978 are not required to make contributions.



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June 30, 2011 and 2010

**(1) Description (cont.)**

**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 determined using the entry age normal actuarial cost method of funding. The Plan amortizes any funding surplus or unfunded accrued liability over a 25 year as a level percentage of expected payroll. However, in keeping with Governmental Accounting Standards Board (GASB) requirements, the net amortization period will not exceed 30 years. Employer contributions are accumulated in both the pension and the healthcare funds based on the approved contribution rate for the fiscal year.

***Refunds***

Plan member contributions may be voluntarily refunded to the justice or judge if office is vacated before the justice or judge is fully vested. A justice or judge shall have a vested right to accrued pay if the justice or judge has served five years or more. Plan member contributions may be involuntarily refunded to a garnishing agency. Members whose contributions have been refunded forfeit all retirement benefits, including postemployment healthcare benefits. Members are allowed to reinstate voluntarily refunded service by repaying the voluntarily refunded balance and accrued interest, as long as they have returned to active service. Members are allowed to reinstate refunded service due to involuntary refunds by repaying the involuntary refunded balance and accrued interest.

**(2) Summary of Significant Accounting Policies**

***Basis of Accounting***

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

***Use of Estimates***

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

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**(2) Summary of Significant Accounting Policies (cont.)**

***GASB Statements No. 25, No. 43 and No. 50***

The Plan follows the provisions of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* (GASB 25). GASB 25 establishes a financial reporting framework for defined benefit plans that distinguishes between two separate categories of information: (a) current financial information about plan assets and financial activities and (b) actuarially determined information, from a long-term perspective, about the funded status of the Plan and the progress being made in accumulating sufficient assets to pay benefits when due. The Plan follows the provisions of GASB Statement No. 50, *Pension Disclosure*, GASB 50 amended certain disclosure provisions of GASB 25 and expanded disclosures regarding pensions.

The Plan's defined benefit postemployment healthcare plan also follows the provisions of GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans* (GASB 43). GASB 43 establishes uniform financial reporting standards for Other Postemployment Benefit Plans (OPEB) and supersedes the interim guidance included in GASB Statement No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans*. The approach followed by GASB 43 is generally consistent with the approach adopted in GASB 25, with modifications to reflect differences between pension and OPEB plans.

***Investments***

Investments are reported under the Department of Revenue, Treasury Division (Treasury). Treasury financial statements are prepared using the accrual basis of accounting for investment income. Assets are reported at fair value. Investment purchases and sales are recorded on a trade-date basis. Net contributions (withdrawals) represent contributions from employers and employees, net of benefits paid to plan participants and administrative and investment management expenses. Contributions, benefits paid, and all expenses are recorded on a cash basis.

***Pooled Investments***

With the exception of the Short-Term Fixed Income Pool, ownership in the various pools 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 beginning of the day net asset value per share on the day of the transaction.

The Short-Term Fixed Income Pool maintains a share price of \$1. Each participant owns shares in the pool, the number of which fluctuates daily with contributions and withdrawals. Participant shares also change at the beginning of each month when income is paid. Securities expressed in terms of foreign currencies are translated into U.S. dollars at the prevailing exchange rates. Forward currency contracts are valued at the mid-point of representative quoted bid and ask prices.

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(2) **Summary of Significant Accounting Policies (cont.)**

*Valuation and Income Allocation*

**Fixed Income Pools**

With the exception of the Emerging Markets Debt Pool, fixed income securities are valued each business day using prices obtained from a pricing service when such prices are available; otherwise, such securities are valued at the most current sale price or based on a valuation provided by investment managers. Income in the pools is credited to the net asset value of the pool daily and allocated to pool participants daily on a pro rata basis. Treasury staff or the investment manager determine the allocation between permissible securities.

The Emerging Markets Debt Pool participates in one externally managed commingled investment fund alongside other institutional investors through ownership of equity shares, which are valued on the last business day of each month by the investment manager.

**Broad Domestic Equity, International Equity, and Real Estate Investment Trust (REIT) Pools**

Domestic equity, international equity, and REIT securities are valued each business day using prices obtained from a pricing service or prices quoted by one or more independent brokers. Income in the pools is credited to the net asset value of the pool daily and allocated to pool participants daily on a pro rata basis. Treasury staff or the external manager determines the allocation between permissible securities.

**Emerging Markets Equity, Private Equity, Absolute Return, Real Estate, Energy, Farmland, Farmland Water, and Timber Pools**

Income in these pools is credited to the net asset value of the pool daily and allocated to pool participants monthly on a pro rata basis.

Emerging markets securities are valued on the last business day of each month by the investment managers. The pool participates in three externally managed commingled investment funds alongside other institutional investors through ownership of equity shares. The commingled funds invest in the securities markets of developing countries.

Private equity investments are valued quarterly by the general partners and investment sponsors. Private equity oversight managers and Treasury staff employ a standard of reasonable care in verifying that the valuations reasonably reflect the underlying fair value of the investments. Underlying assets are comprised of venture capital, buyout, restructuring, and special situation investments through limited partnership agreements. Each manager independently determines the limited partnerships to invest in.

Absolute return investments are valued monthly by the general partners. The fund administrators are held to a standard of reasonable care in verifying that the valuations reasonably reflect the underlying fair value of the investments. Underlying assets are comprised of hedge fund investments through limited partnership agreements. Each manager independently determines the limited partnerships to invest in.

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**(2) Summary of Significant Accounting Policies (cont.)**

The energy related investments are valued quarterly by the general partner. The general partner is held to a standard of reasonable care in verifying that the valuations reasonably reflect the underlying fair value of the investments. Underlying assets are comprised of a limited partnership with an energy related venture capital operating company.

Real estate, farmland, farmland water property, and timber investments are valued quarterly by investment managers based on market conditions. Additionally, real estate, farmland, and timber investments are appraised annually by independent appraisers. Underlying assets in the pool comprise separate accounts, commingled accounts, and limited partnerships. Managers independently determine permissible investments.

***Contributions Receivable***

Contributions from plan members and the employer 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.

***Administrative Costs***

Administrative costs are paid from investment earnings.

***Due from (to) State of Alaska General Fund***

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

***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).

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**(3) Investments**

The Alaska Retirement Management Board (Board) is the investment oversight authority of the Plan's investments. As the fiduciary, the Board has the statutory authority to invest the assets under the Prudent Investor Rule. Fiduciary responsibility for the Board's Invested Assets is pursuant to Alaska Statutes 37.10.210-390.

Alaska Statute 37.10.071 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.

Treasury provides staff for the Board. Treasury has created a pooled environment by which it manages investments of the Board.

Actual investing is performed by investment officers in Treasury or by contracted external investment managers. The Board has developed investment guidelines, policies and procedures for Treasury staff and external investment managers to adhere to when managing investments. Specifically, the High Yield Fixed Income Pool, International Fixed Income Pool, Emerging Markets Debt Pool, Domestic Equity Pool, International Equity Pool, Emerging Markets Equity Pool, Private Equity Pool, Absolute Return Pool, Real Estate Pool, Energy Pool, Farmland Pool, Farmland Water Pool, and Timber Pool are managed by external management companies. Treasury manages the Alaska Retirement Fixed Income Pool, U.S. Treasury Fixed Income Pool, Real Estate Investment Trust Pool, Treasury Inflation Protected Securities Pool, and cash holdings of certain external managers in addition to acting as oversight manager for all externally managed investments.

The Short-Term Fixed Income Pool is a State pool managed by Treasury that holds investments on behalf of Board as well as other state funds.

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June 30, 2011 and 2010

**(4) Deposit and Investment Risk**

At June 30, 2011, the Plan's investments included the following:

	Fair value								
	Fixed income pools						TIPS	Other	Total
	Short term	Retirement	U.S. Treasury	High yield	International	Convertible			
Bridge loans	\$ —	—	—	4,741	—	—	—	—	4,741
Commercial paper	199,039	—	—	—	—	—	—	—	199,039
Convertible bonds	—	—	—	39,157	—	—	—	—	39,157
Corporate bonds	880,431	—	422,661	2,806,298	—	—	—	—	4,109,390
Deposits	—	—	—	—	13,748	—	—	—	13,748
Foreign corporate bonds	—	—	—	—	638,656	—	—	—	638,656
Foreign government bonds	—	—	—	—	2,213,300	—	—	—	2,213,300
Mortgage backed	40,875	165,926	639,545	—	—	—	—	—	846,346
Mutual funds	—	—	—	—	—	—	—	1,607,815	1,607,815
Other asset backed	883,342	—	2,652	—	—	—	—	—	885,994
Oversight sweep account (Imcs)	23,750	—	—	153,051	—	2,573	—	—	179,374
Short-term investment fund	—	—	—	—	26,478	—	—	165,210	191,688
Treasury bills	416,149	—	—	—	—	—	—	—	416,149
Treasury bonds	—	—	953,400	—	—	—	—	—	953,400
Treasury notes	—	—	11,422,583	—	85,830	—	—	—	11,508,413
Treasury TIP bonds	—	—	—	—	—	—	516,861	—	516,861
Treasury TIP notes	—	—	—	—	—	—	978,748	—	978,748
U.S. government agency discount notes	72,789	—	—	—	—	—	—	—	72,789
U.S. government agency	49,122	—	110,993	—	—	—	—	—	160,115
Yankees:									
Corporate	17,381	—	202,957	218,231	—	—	—	—	438,569
Government	—	—	11,862	—	—	—	—	—	11,862
Fixed income pool:									
Equity	—	—	—	3,740	—	—	—	—	3,740
Warrants	—	—	—	280	—	—	—	—	280
Emerging markets debt pool	—	—	—	—	—	—	—	1,020,179	1,020,179
Broad domestic equity pool:									
Convertible bonds	—	—	—	—	—	660,094	—	—	660,094
Deposits	—	—	—	—	—	—	195,915	—	195,915
Equity	—	—	—	—	—	84,226	34,427,955	—	34,512,181
Limited partnership	—	—	—	—	—	—	2,612,766	—	2,612,766
Mutual fund	—	—	—	—	—	—	484,294	—	484,294
Options	—	—	—	—	—	—	(234,848)	—	(234,848)
Rights	—	—	—	—	—	—	4	—	4
Treasury bills	—	—	—	—	—	—	36,826	—	36,826
International equity pool:									
Deposits	—	—	—	—	—	—	277,139	—	277,139
Equity	—	—	—	—	—	—	21,429,605	—	21,429,605
Rights	—	—	—	—	—	—	1,509	—	1,509
Emerging markets equity pool	—	—	—	—	—	—	7,873,766	—	7,873,766
Private equity pool:									
Limited partnerships	—	—	—	—	—	—	11,965,577	—	11,965,577
Absolute return pool:									
Limited partnerships	—	—	—	—	—	—	5,770,852	—	5,770,852
Real estate pool:									
Commingled funds	—	—	—	—	—	—	2,626,646	—	2,626,646
Limited partnerships	—	—	—	—	—	—	2,689,003	—	2,689,003
Real estate	—	—	—	—	—	—	5,141,223	—	5,141,223
Real estate investment trust pool equity	—	—	—	—	—	—	1,327,838	—	1,327,838
Energy pool:									
Limited partnerships	—	—	—	—	—	—	740,066	—	740,066
Farmland pool:									
Agricultural holdings	—	—	—	—	—	—	4,162,609	—	4,162,609
Timber pool:									
Timber holdings	—	—	—	—	—	—	1,533,153	—	1,533,153
Net other assets (liabilities)	1,176	1,359	(25,250)	37,763	44,922	4,096	10,168	83,892	158,126
Other pool ownership	(1,273,493)	149,491	188,662	—	—	—	3,836	931,504	—
Total invested assets	\$ 1,310,561	316,776	13,930,065	3,263,261	3,022,934	750,989	1,509,613	106,870,498	130,974,697

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**(4) Deposit and Investment Risk (cont.)**

***Interest Rate Risk***

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

**Short-Term Fixed Income Pool**

As a means of limiting its exposure to fair value losses arising from increasing interest rates, Treasury's investment policy limits individual fixed rate securities to fourteen months to maturity or fourteen months expected average life upon purchase. Floating rate securities are limited to 3 years to maturity or 3 years expected average life upon purchase. Treasury utilizes the actual maturity date for commercial paper and 12 month prepay speeds for other securities. At June 30, 2011, the expected average life of individual fixed rate securities ranged from 1 day to 1 year and the expected average life of floating rate securities ranged from 8 days to 14 years.

**Other Plan Fixed Income Pools**

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

Through the Board's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the Retirement Fixed Income portfolio to  $\pm 20\%$  of the Barclays Capital U.S. Aggregate Bond Index. The effective duration for the Barclays Capital U.S. Aggregate Bond Index at June 30, 2011 was 5.19 years.

Through the Board's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the Intermediate U.S. Treasury Fixed Income portfolio to  $\pm 20\%$  of the Barclays Capital U.S. Treasury Intermediate Index. The effective duration for the Barclays Capital U.S. Treasury Intermediate Index at June 30, 2011 was 3.94 years.

Through the Board's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the High Yield portfolio to  $\pm 20\%$  of the Merrill Lynch U.S. High Yield Master II Constrained Index. The effective duration for the Merrill Lynch U.S. High Yield Master II Constrained Index at June 30, 2011 was 4.52 years.

Through the Board's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the International Fixed Income portfolio to  $\pm 25\%$  of the Citigroup Non-USD World Government Bond Index. The effective duration for the Citigroup Non-USD World Government Bond Index at June 30, 2011 was 6.97 years.

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**(4) Deposit and Investment Risk (cont.)**

Through the Board's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the TIPS portfolio to  $\pm 20\%$  of the Barclays Capital U.S. Treasury Inflation-Protected (U.S. TIPS) Index, or a reasonable proxy thereof. The average life of the proxy index at June 30, 2011 was 5.31 years.

The Board does not have a policy to limit interest rate risk for the Emerging Debt or Convertible Bond portfolio.

At June 30, 2011, the effective duration of the Board's fixed income pools, by investment type, was as follows:

	<b>Effective duration (In years)</b>				
	<b>Retirement</b>	<b>U.S. Treasury</b>	<b>High yield</b>	<b>International</b>	<b>TIPS</b>
Corporate bonds	—	4.18	4.66	—	—
Convertible bonds	—	—	0.30	—	—
Equity	—	—	7.49	—	—
Foreign corporate bonds	—	—	—	1.30	—
Foreign government bonds	—	—	—	3.98	—
Mortgage backed	2.72	2.32	—	—	—
Other asset backed	—	1.98	—	—	—
U.S. Treasury bonds	—	7.61	—	—	9.49
U.S. Treasury notes	—	3.67	—	5.86	2.92
U.S. government agency	—	7.71	—	—	—
Yankees:					
Corporate	—	3.27	4.42	—	—
Government	—	(4.69)	—	—	—
Portfolio effective duration	1.43	3.86	4.37	3.40	5.18

***Credit Risk***

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

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



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**(4) Deposit and Investment Risk (cont.)**

Short-Term Fixed Income Pool investments are limited to instruments with a long-term credit rating of at least A3 or equivalent and instruments with a short-term credit rating of at least P1 or equivalent. Asset-backed and non-agency mortgage securities must be rated A3 or equivalent. The A3 rating is defined as the median rating of the following three rating agencies: Standard & Poor's Corporation (Standard & Poor's), Moody's, and Fitch. Asset-backed and non-agency mortgage securities may be purchased if rated by only one of these agencies if they are rated AAA.

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

**Retirement Fixed Income**

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

Corporate debt securities must be investment grade.

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

No more than 40% of the portfolio's assets may be invested in investment grade corporate debt.

No more than 15% of the portfolio's assets may be invested in BBB+ to BBB- rated debt by Standard and Poor's Corporation or the equivalent by Moody's or Fitch.

**U.S. Treasury Fixed Income**

No more than 10% of the portfolio's assets may be invested in securities that are not nominal, U.S. Treasury obligations or the internally managed short term or substantially similar portfolio at the time of purchase.

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

**High Yield Fixed Income**

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

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

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

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**(4) Deposit and Investment Risk (cont.)**

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

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

**International Fixed Income**

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

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

**Convertible Bonds**

Non-rated convertible securities are permitted provided the manager is able to assign an appropriate credit rating consistent with the criteria used by Standard and Poor's, Moody's, or Fitch. Non-rated securities are limited to 35% of the total market value of the portfolio.

The weighted average rating of the portfolio shall not fall below the Standard and Poor's equivalent of B.

Investments are limited to instruments with a credit rating above CCC- by Standard and Poor's and Caa3 by Moody's. However, the manager may continue to hold securities downgraded below CCC- by Standard and Poor's and Caa3 by Moody's if such an investment is considered appropriate given the Board's investment objective.

In case of a split rating by two or more of the rating agencies, the lower rating shall apply.

**TIPS**

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

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

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

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

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June 30, 2011 and 2010

**(4) Deposit and Investment Risk (cont.)**

**Broad Domestic Equity, International Equity, and Emerging Markets Debt**

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

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

The Board does not have a policy to limit the concentration of credit risk for the Emerging Markets Debt Pool.

At June 30, 2011, the Plan's investments consisted of securities with credit quality ratings issued by nationally recognized statistical rating organizations as follows (using Standard & Poor's rating scale):

Investment type	Rating	Fixed income pools						
		Short term	Retirement	U.S. Treasury	High yield	International	Convertible	TIPS
Bank loans	Not rated	—%	—%	—%	0.15%	—%	—%	—%
Commercial paper	A-1	6.95	—	—	—	—	—	—
Commercial paper	Not rated	0.75	—	—	—	—	—	—
Convertible bonds	AA	—	—	—	—	—	0.93	—
Convertible bonds	A	—	—	—	—	—	9.89	—
Convertible bonds	BBB	—	—	—	—	—	14.79	—
Convertible bonds	BB	—	—	—	—	—	19.72	—
Convertible bonds	B	—	—	—	0.76	—	13.80	—
Convertible bonds	CCC	—	—	—	—	—	5.73	—
Convertible bonds	Not rated	—	—	—	0.44	—	23.03	—
Corporate bonds	AAA	23.65	—	—	—	—	—	—
Corporate bonds	AA	1.45	—	0.70	—	—	—	—
Corporate bonds	A	3.20	—	1.39	—	—	—	—
Corporate bonds	BBB	—	—	0.95	3.51	—	—	—
Corporate bonds	BB	—	—	—	33.36	—	—	—
Corporate bonds	B	—	—	—	39.72	—	—	—
Corporate bonds	CCC	—	—	—	5.74	—	—	—
Corporate bonds	CC	—	—	—	0.17	—	—	—
Corporate bonds	Not rated	5.78	—	—	3.51	—	—	—
Equity	A	—	—	—	—	—	1.94	—
Equity	BBB	—	—	—	0.11	—	—	—
Equity	BB	—	—	—	—	—	6.16	—
Equity	CCC	—	—	—	—	—	3.11	—
Foreign corporate bonds	AAA	—	—	—	—	17.87	—	—
Foreign corporate bonds	A	—	—	—	—	2.52	—	—
Foreign corporate bonds	BBB	—	—	—	—	0.74	—	—
Foreign government bonds	AA	—	—	—	—	4.12	—	—
Foreign government bonds	A	—	—	—	—	18.74	—	—
Foreign government bonds	BBB	—	—	—	—	5.85	—	—
Foreign government bonds	Not rated	—	—	—	—	44.51	—	—

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**(4) Deposit and Investment Risk (cont.)**

Investment type	Rating	Fixed income pools						
		Short term	Retirement	U.S. Treasury	High yield	International	Convertible	TIPS
Mortgage backed	AAA	1.58%	37.74%	3.56%	—%	—%	—%	—%
Mortgage backed	AA	—	1.41	0.08	—	—	—	—
Mortgage backed	A	—	4.42	0.10	—	—	—	—
Mortgage backed	CCC	—	5.26	—	—	—	—	—
Mortgage backed	Not rated	—	3.55	0.85	—	—	—	—
Other asset backed	AAA	30.49	—	—	—	—	—	—
Other asset backed	A	0.07	—	—	—	—	—	—
Other asset backed	Not rated	3.62	—	0.02	—	—	—	—
Short-term investment	Not rated	—	—	—	4.69	0.88	0.34	—
U.S. government agency	AAA	1.90	—	—	—	—	—	—
U.S. government agency	Not rated	—	—	0.80	—	—	—	—
U.S. Treasury bills	AAA	16.10	—	—	—	—	—	—
U.S. Treasury bonds	AAA	—	—	6.84	—	—	—	34.24
U.S. Treasury notes	AAA	—	—	82.00	—	2.84	—	64.83
U.S. government agency discount notes	Not rated	2.82	—	—	—	—	—	—
Yankees:								
Government	Not rated	—	—	0.09	—	—	—	—
Corporate	AA	0.49	—	0.56	—	—	—	—
Corporate	A	0.11	—	0.50	—	—	—	—
Corporate	BBB	—	—	0.23	0.36	—	—	—
Corporate	BB	—	—	—	2.60	—	—	—
Corporate	B	—	—	—	3.22	—	—	—
Corporate	Not rated	0.07	—	0.16	0.50	—	—	—
No credit exposure		0.97	47.62	1.17	1.16	1.93	0.56	0.93
		100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

***Custodial Credit Risk – Deposits***

Custodial credit risk is the risk that deposits may not be returned in the event of a bank failure. The Board does not have a policy in relation to custodial credit risk for deposits; however, any uninvested U.S. cash held in accounts is fully insured by the Federal Deposit Insurance Corporation (FDIC) under Section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act effective December 31, 2010. This section of the act provides temporary unlimited deposit insurance coverage for noninterest-bearing transaction accounts through December 31, 2012 at all FDIC-insured depository institutions thereby limiting custodial credit risk.

At June 30, 2011, the Plan's invested assets had the following uncollateralized and uninsured deposits:

	<u>Amount</u>
Broad international equity pool	\$ 276,675
International fixed income pool	13,749

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June 30, 2011 and 2010

**(4) Deposit and Investment Risk (cont.)**

***Foreign Currency Risk***

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The Board's policy with regard to foreign currency risk in the International Fixed Income Pool is to restrict obligations to those issued in the currencies of these countries: Argentina, Australia, Brazil, Canada, Chile, China, Colombia, Czech Republic, Denmark, Egypt, Eurozone sovereign issuers in the aggregate, Hungary, India, Indonesia, Israel, Japan, Malaysia, Mexico, New Zealand, Norway, Peru, Poland, Russia, Singapore, South Africa, South Korea, Sweden, Switzerland, Thailand, Turkey, United Kingdom, and United States. The Board has no specific policy with regard to foreign currency risk relating to international or private equity. However, through its asset allocation policy, the Board limits total investments in international fixed income, global equity ex-U.S., and private equity to the following:

<u>Fixed income</u>	<u>Global equity ex-U.S.</u>	<u>Private equity pool</u>
22%	27%	12%

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**(4) Deposit and Investment Risk (cont.)**

At June 30, 2011, the Plan had exposure to foreign currency risk with the following deposits:

Currency	Amount	
	International fixed income pool	Broad international equity pool
Australian Dollar	\$ —	3,552
Brazilian Real	—	36
Canadian Dollar	—	2,102
Danish Krone	—	2,162
Euro Currency	367	209,471
Hong Kong Dollar	—	4,098
Hungarian Forint	2,166	—
Israeli Shekel	—	131
Japanese Yen	1,727	36,816
Mexican Peso	7,422	—
New Taiwan Dollar	—	7,375
New Zealand Dollar	—	100
Norwegian Krone	—	607
Pound Sterling	—	6,141
Singapore Dollar	—	370
South African Rand	1,782	—
Swedish Krona	—	2,198
Swiss Franc	—	1,516
Thailand Baht	285	—
	\$ 13,749	276,675

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**(4) Deposit and Investment Risk (cont.)**

At June 30, 2011, the Plan had exposure to foreign currency risk with the following investments:

Currency	Amount			
	International fixed income pool		Broad international equity pool	Private equity pool
	Foreign government	Corporate	Equity	Limited partnerships
Australian Dollar	\$ —	—	635,706	—
Brazilian Real	133,595	—	69,338	—
Canadian Dollar	—	—	730,577	—
Chilean Peso	16,767	—	—	—
Colombian Peso	60,714	—	—	—
Czech Koruna	17,217	—	9,295	—
Danish Krone	—	—	162,399	—
Euro Currency	738,385	98,550	6,444,647	1,377,578
Hong Kong Dollar	—	—	739,309	—
Hungarian Forint	72,868	—	—	—
Indian Rupee	—	—	36,382	—
Indonesian Rupiah	—	—	16,855	—
Israeli Shekel	—	—	20,571	—
Japanese Yen	317,596	540,105	4,387,720	—
Malaysian Ringgit	60,336	—	36,192	—
Mexican Peso	195,018	—	5,375	—
New Taiwan Dollar	—	—	73,045	—
New Zealand Dollar	—	—	102,519	—
Norwegian Krone	—	—	161,282	—
Peruvian Nouveau Sol	43,294	—	—	—
Polish Zloty	241,357	—	62,139	—
Pound Sterling	145,915	—	4,086,444	222,460
Singapore Dollar	—	—	227,110	—
South African Rand	82,114	—	36,975	—
South Korean Won	—	—	375,796	—
Swedish Krona	—	—	397,394	—
Swiss Franc	—	—	1,329,601	—
Thailand Baht	23,361	—	39,748	—
Turkish Lira	64,764	—	—	—
	<u>\$ 2,213,301</u>	<u>638,655</u>	<u>20,186,419</u>	<u>1,600,038</u>

At June 30, 2011, the Plan also had exposure to foreign currency risk in the Emerging Markets Equity Pool. This pool consists of investments in commingled funds; therefore, no disclosure of specific currencies is made.

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June 30, 2011 and 2010

**(4) Deposit and Investment Risk (cont.)**

***Concentration of Credit Risk***

Treasury's policy with regard to concentration of credit risk for the Short-Term Fixed Income Pool is to prohibit the purchase of more than 5% of the portfolio's assets in corporate bonds of any one company or affiliated group. This provision does not apply to securities backed by the full faith and credit of the U.S. government.

The Board's policy with regard to concentration of credit risk for the Retirement Fixed Income, U.S. Treasury Fixed Income, High Yield Fixed Income, International Fixed Income, and Convertible Bond Pools is to prohibit the purchase of more than 5% of the portfolio's assets in corporate bonds of any one company or affiliated group. The Board does not have a policy with regard to concentration of credit for the Emerging Debt or TIPS Pools.

At June 30, 2011, the Plan's invested assets did not have exposure to any one issuer greater than 5% of total invested assets.

**(5) Foreign Exchange, Derivative, and Counterparty Credit Risk**

The Plan is exposed to credit risk on investment derivative instruments that are in asset positions. The Board has no policy of requiring collateral or other security to support derivative instruments subject to credit risk. Additionally, the Board has no policy regarding entering into netting arrangements when it enters into derivative instrument transactions with a counterparty, nor does the Board have a policy for contingencies.

On June 30, 2011, the Plan had the following derivative instruments outstanding:

	<b>Changes in fair value</b>		<b>Fair value at June 30, 2011</b>		
	<b>Classification</b>	<b>Amount</b>	<b>Classification</b>	<b>Amount</b>	<b>Notional</b>
Equity options written	Investment revenue	\$ 18,584	Options	\$ (234,324)	(39,986)
FX forwards	Investment revenue	(14,188)	Long term instruments	(595)	113,450
Index futures long	Investment revenue	114,978	Futures	—	502
Index options written	Investment revenue	2,436	Options	(211)	(48)
Rights	Investment revenue	4,003	Common stock	184	863
Warrants	Investment revenue	(213)	Common stock	279	312
Grand total		<u>\$ 125,600</u>		<u>\$ (234,667)</u>	



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**(5) Foreign Exchange, Derivative, and Counterparty Credit Risk (cont.)**

The International Equity Pool includes foreign currency forward contracts to buy and sell specified amounts of foreign currencies at specified rates on specified future dates for the purpose of hedging existing security positions. The counterparties to the foreign currency forward contracts consist of a diversified group of financial institutions. Credit risk exposure exists to the extent of nonperformance by these counterparties; however, the risk of default is considered to be remote. The market risk is limited to the difference between contractual rates and forward rates at the balance sheet date.

At June 30, 2011, the Plan had the following counterparty credit and counterparty concentration risk associated with its investment derivative positions:

<u>Counterparty name</u>	<u>Percentage of net exposure</u>	<u>S&amp;P rating</u>	<u>Fitch rating</u>	<u>Moody's rating</u>
UBS AG	—%	A+	A+	Aa3

Maximum amount of loss Alaska ARMB (JRS) would face in case of default of all counterparties that is, aggregated (positive) fair value of OTC positions as of June 30, 2011

\$ 24,586

Effect of collateral reducing maximum exposure

—

Liabilities subject to netting arrangements reducing exposure

—

Resulting net exposure

\$ 24,586

**(6) Claims Payable**

The liability for claims incurred but not reported represents the estimated amounts necessary to settle all outstanding claims, incurred but not reported, as of the balance sheet date. The Plan's reserve estimates are based primarily on historical development patterns adjusted for current trends that would modify past experience. Claims are reevaluated periodically to consider the effects of inflation, claims settlement trends, and other economic factors. The process of establishing loss reserves is subject to uncertainties that are normal, recurring, and inherent in the healthcare business.

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**(6) Claims Payable (cont.)**

Changes in the balances of claims liabilities follow:

	<b>2011</b>	<b>2010</b>
Beginning of year:		
Due to State of Alaska General Fund for outstanding warrants	\$ —	48,103
Incurred but not reported	123,000	—
Total, beginning of year	123,000	48,103
Benefit deductions	751,165	1,031,333
Benefits paid	(724,331)	(956,436)
Total, end of year	\$ 149,834	123,000
End of year:		
Due to State of Alaska General Fund for outstanding warrants	\$ 16,834	—
Incurred but not reported	133,000	123,000
Total, end of year	\$ 149,834	123,000

**(7) Funded Status and Funding Progress – Pension and Postemployment Healthcare Benefit Plan**

The funded status as of June 30, 2010 of the defined benefit pension and postemployment healthcare benefit plan is as follows:

Actuarial valuation date	Actuarial Accrued Liability (AAL) – entry age	Actuarial value of assets	Funded ratio	Unfunded Actuarial Accrued Liability (UAAL)	Covered payroll	UAAL as a percentage of covered payroll
Pension	\$ 164,523,775	115,000,226	69.9%	\$ 49,523,549	11,845,548	418.1%
Postemployment healthcare	22,346,395	19,693,969	88.1	2,652,426	11,845,548	22.4

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

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June 30, 2011 and 2010

**(7) Funded Status and Funding Progress – Pension and Postemployment Healthcare Benefit Plan (cont.)**

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

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

Valuation date	June 30, 2010
Actuarial cost method	Entry age normal level percentage of pay for pension; level dollar for healthcare
Amortization method	– Level dollar closed
Equivalent single amortization period	21 years
Asset valuation method	5 year smoothed market
Actuarial assumptions:	
Investment rate of return	8.00% (includes inflation at 3.12%)
Projected salary increases	4.12%
Cost-of-living adjustment	4.12%

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June 30, 2011 and 2010

**(7) Funded Status and Funding Progress – Pension and Postemployment Healthcare Benefit Plan (cont.)**

Health cost trend:

<u>Fiscal year</u>	<u>Medical</u>	<u>Prescription drugs</u>
2011	6.9%	8.3%
2012	6.4	7.1
2013	5.9	5.9
2014	5.9	5.9
2015	5.9	5.9
2016	5.9	5.9
2017	5.9	5.9
2025	5.8	5.8
2050	5.7	5.7
2100	5.1	5.1

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

The Plan’s retiree healthcare benefits are being fully funded. Therefore, the 8.00% discount rate used for GASB 25 reporting is also applied herein for GASB 43 reporting.

Based on GASB accounting rules, the RDS the State receives under Medicare Part D has not been recognized for GASB 43 disclosure purposes.

Using the GASB 43 discount rate determined above and disregarding future Medicare Part D payments, the fiscal year 2013 employer ARC for accounting purposes is 8.10% of pay for healthcare benefits and 71.06% of pay for healthcare and pension benefits combined.

**(8) Commitments and Contingencies**

***Commitments***

The Board entered into an agreement through an external investment manager to provide capital funding for a domestic equity limited partnership. At June 30, 2011, the Plan’s share of the unfunded commitment totaled \$625,854. This commitment can be withdrawn annually in December with 90 days’ notice.

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**(8) Commitments and Contingencies (cont.)**

The Board entered into agreements through external investment managers to provide capital funding for limited partnerships as it continues to build the private equity portfolio. At June 30, 2011, the Plan's share of the unfunded commitments totaled \$7,271,273, to be paid through the year 2020.

The Board entered into an agreement through an external investment manager to provide capital funding for a limited partnership as it continues to build the energy investment portfolio. At June 30, 2011, the Plan's share of the unfunded commitment totaled \$605,306 to be paid through the year 2019.

The Board entered into agreements through external investment managers to provide capital funding for real estate investments as it continues to build the real estate portfolio. At June 30, 2011, the Plan's share of these unfunded commitments totaled \$1,017,757 to be paid through the year 2018.

***Contingencies***

The Division of Retirement and Benefits (the Division) is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Division's counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the Division.

**(9) Medicare Part D Retiree Drug Subsidy**

One of the provisions of Medicare Part D provides sponsors of pension healthcare plans the opportunity to receive a RDS payment if the sponsor's plan provides a prescription drug benefit that is actuarially equivalent to the Medicare Part D benefit. The RDS is equal to 28% of the amount of eligible prescription drug benefit costs of retirees who are eligible for, but not enrolled in, Medicare Part D, by virtue of continuing to be covered by the sponsor's plan. The Plan was approved for participation in the Medicare Part D program beginning calendar year 2006. The RDS for the six-month period ended June 30, 2011, cannot be reasonably estimated, and therefore is not recorded in the financial statements for the year ended June 30, 2011.

**REQUIRED SUPPLEMENTARY INFORMATION**

(Unaudited)

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Required Supplementary Information (Unaudited)  
Schedule of Funding Progress  
Pension Benefits  
June 30, 2011 and 2010

<b>Actuarial valuation year ended June 30</b>	<b>Actuarial accrued liabilities (AAL)</b>	<b>Actuarial value of plan assets</b>	<b>Funded ratio</b>	<b>Unfunded actuarial accrued liabilities (UAAL)</b>	<b>Covered payroll</b>	<b>UAAL as a percentage of covered payroll</b>
2002	\$ 63,970,331	56,704,841	88.6%	\$ 7,265,490	5,941,860	122.3%
2004	69,505,123	53,600,707	77.1	15,904,416	6,529,608	243.6
2006	111,819,972	77,310,716	69.1	34,509,256	7,130,592	484.0
2008	130,596,048	122,882,726	94.1	7,713,322	10,462,322	73.7
2010	164,523,775	115,000,226	69.9	49,523,549	11,845,548	418.1

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, 2011 and 2010

<b>Actuarial valuation year ended June 30</b>	<b>Actuarial accrued liabilities (AAL)</b>	<b>Actuarial value of plan assets</b>	<b>Funded ratio</b>	<b>Unfunded actuarial accrued liabilities (UAAL)</b>	<b>Covered payroll</b>	<b>UAAL as a percentage of covered payroll</b>
2002	\$ 7,873,284	6,979,068	88.6%	\$ 894,216	5,941,860	15.0%
2004	21,856,126	16,854,927	77.1	5,001,199	6,529,608	76.6
2006	17,794,213	2,399,387	13.5	15,394,826	7,130,592	215.9
2008	19,941,128	18,352,929	92.0	1,588,199	10,462,322	15.2
2010	22,346,395	19,693,969	88.1	2,652,426	11,845,548	22.4

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



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Required Supplementary Information (Unaudited)  
Schedule of Contributions from Employers and the State of Alaska  
Pension and Postemployment Healthcare Benefits  
June 30, 2011 and 2010

<b>Year ended June 30</b>	<b>Actuarial valuation year ended June 30</b>	<b>Pension annual required contribution</b>	<b>Postemployment healthcare annual required contribution</b>	<b>Total annual required contribution</b>	<b>Pension percentage contributed</b>	<b>Postemployment healthcare percentage contributed</b>
2005	2006	\$ 1,911,799	235,299	2,147,098	100.0%	100.0%
2006	2006	2,133,876	262,631	2,396,507	115.6	115.6
2007	2008	3,168,943	486,800	3,655,743	100.0	100.0
2008	2008	3,898,001	567,415	4,465,416	1,045.0	2,489.4
2009	2010	4,937,406	1,411,259	6,348,665	100.0	100.0
2010	2010	5,236,646	1,432,721	6,669,367	69.8	60.9

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

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Notes to Required Supplementary Information (Unaudited)

June 30, 2011

**(1) Description of Schedule of Funding Progress**

Each time a new benefit is added that 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 was prepared by Buck Consultants. The significant actuarial assumptions used in the valuation as of June 30, 2010 are as follows:

- (a) Actuarial cost method – Entry age actuarial cost method of funding. Any funding surplus or unfunded accrued liability is amortized over 25 years as a level percent of expected payroll. However, in keeping with Governmental Accounting Standards Board (GASB) requirements, the net amortization period will not exceed 30 years.
- (b) Valuation of assets – Recognizes 20% of the investment gain or loss in each of the current and preceding four years and phased in over the next five years. Assets are accounted for on an accrued basis and are taken directly from financial statement audited by KPMG LLP. All assets are valued at market value. Valuation assets are constrained to a range of 80% to 120% of the market value of assets.
- (c) Valuation of medical and prescription drug benefits – Base claims cost rates are incurred healthcare costs expressed as a rate per member per year. Ideally, claims cost rates should be derived for each significant component of cost that can be expected to require differing projection assumptions or methods, i.e., medical claims, prescription drug claims, administrative costs, etc. Separate analysis is limited by the availability and credibility of cost and enrollment data for each component of cost. This valuation reflects nonprescription claims separated by Medicare status, including eligibility for free Part A coverage. Prescription costs are analyzed separately as in prior valuations. Administrative costs are assumed in the final per capita claims cost rates used for valuation purposes, as described below. Analysis to date on Medicare Part A coverage is limited since Part A claim data is not available by individual, nor is this status incorporated into historical claim data.
- (d) Accounting impact of Medicare Part D – The State of Alaska’s prescription drug program is actuarially equivalent to the federal Medicare Part D program and that the State qualifies for the Medicare Part D subsidy.
- (e) Investment return – 8.00% per year, compounded annually, net of expenses for all funding calculations and pension disclosure; 8.00% for healthcare liabilities under GASB 43.

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**(2) Actuarial Assumptions and Methods (cont.)**

- (f) Pretermination mortality – 45% of the male rates and 55% of the females rates in the 1994 Group Annuity Mortality (GAM) Table, 1994 Base Year without margin project to 2013 with Projection Scale AA.
- (g) Posttermination mortality – 1994 Group Annuity Mortality (GAM) Table, 1994 Base Year without margin projected to 2013 with Projection Scale AA. Setback 1 year for females and 3 years for males.
- (h) Salary scale – 4.12% per year, compounded annually.
- (i) Total payroll growth – 3.62% per year.
- (j) Total inflation – Total inflation as measured by the Consumer Price Index for urban and clerical workers for Anchorage is assumed to increase 3.12% annually.
- (k) Cost-of-living adjustment – 4.12% per year. Retirement benefits are recalculated when the salary for the office held by the member at the time of retirement changes.
- (l) 401(a)(17) maximum compensation increase – 3.12%.
- (m) 415(b) maximum benefit increase – 3.12% per year.
- (n) Per capita claims cost – Sample claims cost rates adjusted to age 65 for fiscal year 2011 medical and prescription costs are shown below:

	<b>Medical</b>	<b>Prescription drugs</b>
Pre-Medicare	\$ 8,606	2,600
Medicare Parts A and B	1,563	2,600
Medicare Part B only	6,654	2,600
Medicare Part D	N/A	515

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**(2) Actuarial Assumptions and Methods (cont.)**

- (o) Health cost trend – The table below shows the rate used to project the cost from the shown fiscal year to the next fiscal year. For example, 6.9% is applied to the fiscal year 2011 medical claims costs to get the fiscal year 2012 medical claims costs.

<b>Fiscal year</b>	<b>Medical</b>	<b>Prescription drugs</b>
2011	6.9%	8.3%
2012	6.4	7.1
2013	5.9	5.9
2014	5.9	5.9
2015	5.9	5.9
2016	5.9	5.9
2017	5.9	5.9
2025	5.8	5.8
2050	5.7	5.7
2100	5.1	5.1

For the June 30, 2008 valuation, the Society of Actuaries' Healthcare Cost Trend Model was adopted. This model effectively begins estimating trend amounts beginning in 2012 and projects out to 2100. The model has been populated with assumptions that are specific to the State of Alaska.

- (p) Aging factors:

<b>Age</b>	<b>Medical</b>	<b>Prescription drugs</b>
0 – 44	2.0%	4.5%
45 – 54	2.5	3.5
55 – 64	3.5	3.0
65 – 73	4.0	1.5
74 – 83	1.5	0.5
84 +	0.5	—

- (q) Medical participation – Because medical benefits are provided at no cost to the retiree, 100% participation in the medical plans is assumed.

- (r) Turnover – Annual turnover is 3% if service is less than 10 years and 1% if service is greater than 10 years.

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**(2) Actuarial Assumptions and Methods (cont.)**

- (s) Retirement – 3% if vested and age is less than 59, 10% if vested and age is greater than 59, and 100% at age 70. Terminated vested members are expected to commence benefits at age 60.
- (t) Disability – Postdisability mortality in accordance with the RP-2000 Disabled Retiree Mortality Table.
- (u) Maximum retirement age – Age 70.
- (v) Marital status – 90% of male and 70% of female active and inactive members are assumed to be married. Husbands are assumed to be 4 years older than their wives.
- (w) Form of payment – Married members are assumed to choose the 50% Joint and Survivor benefit option. Single members are assumed to choose the Modified Cash Refund Annuity.
- (x) Contribution refunds – 0% of terminating members with vested benefits are assumed to have their contributions refunded. 100% of those with nonvested benefits are assumed to have their contributions refunded.

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.

***Changes in Methods since the Prior Valuation – June 30, 2008 to June 30, 2010***

There were no changes in methods from the prior valuation, except for the healthcare section, which reflects the results of the annual experience rate update for the period July 1, 2010 to June 30, 2011.

***Changes in Assumptions from the Last Actuarial Valuation – June 30, 2008 to June 30, 2010***

- (a) Investment return has changed from 8.25% per year, compounded annually, net of expenses to 8.00% per year, compounded annually, net of expenses.
- (b) Pretermination mortality basis has changed from 55% of the male rates and 60% of the female rates of the 1994 GAM Table, 1994 Base Year without margin to 45% of the male rates and 55% of the female rates of the 1994 GAM Table, 1994 Base Year without margin projected to 2013 with Projection Scale AA.
- (c) Posttermination mortality basis has changed from 1994 GAM Table, 1994 Base Year without margin, with a 3-year setback for males and a 1-year setback for females to 1994 GAM Table, 1994 Base Year without margin projected to 2013 with Projection Scale AA, with a 3-year setback for males and a 1-year setback for females.

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**(2) Actuarial Assumptions and Methods (cont.)**

- (d) Salary scale has changed from 4% per year, compounded annually to 4.12% per year, compounded annually.
- (e) Total payroll growth changed from 4% per year to 3.62% per year.
- (f) Total inflation has changed from 3.50% annually to 3.12% annually.
- (g) Turnover has changed from 3% if service is greater than 15 years to 3% if service is less than 10 years and 1% if service is greater than 10 years.
- (h) Retirement age has changed from 6% if vested and age is less than 65 and 10% if vested and age is greater than 65, 100% at age 70 to 3% if vested and age is less than 59, 10% if vested and age is greater than 59, 100% at age 70.
- (i) Disability mortality has changed from table ranging from 5.10% for males and 4.26% for females at age 20 to 8.13% for males and 4.73% for females at age 64 to RP-2000 Disabled Retiree Mortality Table.
- (j) Marital status has changed from 90% of active and inactive members are assumed to be married to 90% of male and 70% of female active and inactive members are assumed to be married.

## **SUPPLEMENTAL SCHEDULES**

**STATE OF ALASKA**  
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Schedule of Administrative and Investment Deductions

Years ended June 30, 2011 and 2010

	<u>Administrative</u>	<u>Investment</u>	<u>Total</u>	
			<u>2011</u>	<u>2010</u>
Personal services:				
Wages	\$ 17,246	1,502	18,748	15,143
Benefits	6,869	575	7,444	8,087
Total personal services	<u>24,115</u>	<u>2,077</u>	<u>26,192</u>	<u>23,230</u>
Travel:				
Transportation	276	662	938	931
Per diem	72	1,006	1,078	1,081
Total travel	<u>348</u>	<u>1,668</u>	<u>2,016</u>	<u>2,012</u>
Contractual services:				
Management and consulting	69,828	257,265	327,093	235,933
Accounting and auditing	6,540	8,658	15,198	13,754
Other services	7,075	8,001	15,076	13,139
Total contractual services	<u>83,443</u>	<u>273,924</u>	<u>357,367</u>	<u>262,826</u>
Other:				
Supplies	806	458	1,264	744
Equipment	1,108	—	1,108	585
Total other	<u>1,914</u>	<u>458</u>	<u>2,372</u>	<u>1,329</u>
Total administrative and investment deductions	<u>\$ 109,820</u>	<u>278,127</u>	<u>387,947</u>	<u>289,397</u>

See accompanying independent auditors' report.



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Schedule of Payments to Consultants  
Other than Investment Advisors

Years ended June 30, 2011 and 2010

<u>Firm</u>	<u>Services</u>	<u>2011</u>	<u>2010</u>
Buck Consultants, an ACS Company	Actuarial services	\$ 46,694	15,582
State Street Corporation	Custodian banking services	9,013	7,448
KPMG LLP	Auditing services	6,540	6,225
Wostmann Group LLC	Data processing consultants	140	320
State of Alaska, Department of Law	Legal services	3,267	113
Computer Task Group	IT consulting	1,395	—
		<u>\$ 67,049</u>	<u>29,688</u>

See accompanying independent auditors' report.