STATE OF ALASKA
NATIONAL GUARD AND
NAVAL MILITIA RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Financial Statements and Supplemental Schedules

June 30, 2009 and 2008

(With Independent Auditors' Report Thereon)

STATE OF ALASKA
NATIONAL GUARD AND
NAVAL MILITIA RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Table of Contents

KPMG

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

Independent Auditors' Report

Division of Retirement and Benefits and
Members of the Alaska Retirement Management Board
State of Alaska National Guard and Naval Militia Retirement System:

We have audited the accompanying statements of plan net assets of the State of Alaska National Guard and Naval Militia Retirement System (Plan), a Component Unit of the State of Alaska, as of June 30, 2009 and 2008, 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 National Guard and Naval Militia Retirement System as of June 30, 2009 and 2008, 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 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 31-32 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 a material respects when considered in relation to the basic financial statements taken as a whole.

KPMG LLP

November 13, 2009

This section presents management's discussion and analysis (MD&A) of the State of Alaska National Guard and Naval Militia Retirement System's (Plan) financial position and performance for the years ended June 30, 2009 and 2008. 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, 2009 and 2008. Information for fiscal year 2007 is presented for comparative purposes.

Financial Highlights

The Plan's net assets held in trust for pension benefits as of June 30, 2009 and 2008 are $25,429,842 and $27,188,928, respectively.

The Plan's net assets held in trust for pension benefits as of June 30, 2009, decreased by ($1,759,086) or (6.5%) from fiscal year 2008. The Plan's net assets held in trust for pension benefits as of June 30, 2008, increased by $9,574,609 or 54.4% from fiscal year 2007.

Employer contributions totaled $2,473,300 and $1,737,406 during fiscal years 2009 and 2008, respectively; an increase of $735,894 or 42.4%. There was no change from fiscal years 2007 to 2008.

State of Alaska appropriations totaled $10,000,000 during fiscal year 2008. No similar appropriation was enacted during fiscal year 2009.

Net investment loss increased from ($395,751) in 2008 to ($2,546,193) in 2009, reflecting an increase of 543.4%. Net investment income (loss) decreased from $2,194,596 in 2007 to ($395,751) in 2008, reflecting a decrease of -118.0%.

Benefit payments totaled $1,535,247 and $1,642,441 during fiscal years 2009 and 2008, respectively; reflecting a decrease of ($107,194) and ($112,419) or -6.5% and -6.4% from fiscal years 2008 and 2007, respectively.

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 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, 2009 and 2008.

Statement of *Changes in Plan Net Assets* – This statement presents how the Plan's net assets held in trust for pension benefits changed during the fiscal years ended June 30, 2009 and 2008. This statement presents contributions earned and investment income (loss) during the period. Deductions for pension benefits and operating deductions are also presented.

The above statements represent resources available for investment and payment of benefits as of June 30, 2009 and 2008, and the sources and uses of those funds during fiscal years 2009 and 2008.

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

Required Supplementary Information and Related Notes – The required supplementary information consists of two schedules and related notes concerning the funded status of the Plan, as well as 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

		Plan Net Assets				
				Increase/(decrease)		
Description		**2009**	**2008**	**Amount**	**Percentage**	**2007**
Assets:						
Cash and cash equivalents	$	2,152	24,898	(22,746)	(91.4)%	12,818
Securities lending collateral		—	—	—	n/a	1,804,387
Investments, at fair value		25,504,970	27,236,684	(1,731,714)	(6.4)	17,689,982
Total assets		25,507,122	27,261,582	(1,754,460)	(6.4)	19,507,187
Liabilities:						
Accrued expenses		65,354	55,447	9,907	17.9	75,183
Due to State of Alaska General Fund		11,926	17,207	(5,281)	(30.7)	13,298
Securities lending collateral payable		—	—	—	n/a	1,804,387
Total liabilities		77,280	72,654	4,626	6.4	1,892,868
Net assets	$	25,429,842	27,188,928	(1,759,086)	(6.5)%	17,614,319

STATE OF ALASKA
NATIONAL GUARD AND
NAVAL MILITIA RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Management's Discussion and Analysis

June 30, 2009 and 2008

Changes in Plan Net Assets

Description		2009	2008	Increase/(decrease) Amount	Increase/(decrease) Percentage	2007
Net assets, beginning of year	$	27,188,928	17,614,319	9,574,609	54.4%	15,587,569
Additions (reductions):						
Contributions - DMVA		2,473,300	1,737,406	735,894	42.4	1,737,406
Appropriation - State of Alaska		—	10,000,000	(10,000,000)	(100.0)	—
Net investment (loss) income		(2,546,193)	(395,751)	(2,150,442)	543.4	2,194,596
Total (reductions) additions		(72,893)	11,341,655	(11,414,548)	(100.6)	3,932,002
Deductions:						
Pension benefits		1,535,247	1,642,441	(107,194)	(6.5)	1,754,860
Administrative		150,946	124,605	26,341	21.1	150,392
Total deductions		1,686,193	1,767,046	(80,853)	(4.6)	1,905,252
(Decrease) increase in net assets		(1,759,086)	9,574,609	(11,333,695)	(118.4)	2,026,750
Net assets, end of year	$	25,429,842	27,188,928	(1,759,086)	(6.5)%	17,614,319

Financial Analysis of the Plan

The Statement of Plan Net Assets as of June 30, 2009 and 2008 showed net assets held in trust for pension benefits of $25,429,842 and $27,188,928, respectively. The entire amount is available to cover the Plan's obligations to pay benefits to its members and their beneficiaries. These amounts also represent a decrease in net assets held in trust for pension benefits of ($1,759,086) or (6.5%) and an increase of $9,574,609 or 54.4% from fiscal years 2008 and 2007, respectively. Over the long term, employer contributions and investment income are expected to cover the pension costs of the Plan.

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.

During fiscal year 2009 and 2008, the Board adopted the following asset allocations:

	2009	
	Allocation	**Range**
Broad domestic equity	30%	± 5%
International equity	10	± 5
Domestic fixed income (includes cash)	60	± 10
Total	100%	
Expected five-year median return	6.80%	
Standard deviation	8.01%	

	2008	
	Allocation	**Range**
Domestic large capitalization	24%	± 5%
Domestic small capitalization	6	± 3
International equity	10	± 5
Domestic fixed-income (includes cash)	60	± 10
Total	100%	
Expected five-year median return	6.79%	
Standard deviation	7.70%	

For fiscal years 2009 and 2008, the Plan's investments generated a -8.31% and a -1.18% rate of return, respectively. The Plan's annualized rate of return was +0.88% over the last three years and +3.14% over the last five years. The actuarial earnings rate assumption was 7.25% in the June 30, 2008 and 2006 actuarial valuation reports and 8.25% in the June 30, 2004 actuarial valuation report.

Actuarial Valuations and Funding Progress

The overall objective of a pension fund is to accumulate sufficient funds to meet all expected future obligations to members. The employer contribution requirements are actuarially determined and funded by contributions from the State of Alaska, Department of Military and Veterans' Affairs (DMVA). Annually, DMVA includes an appropriation to fund the Plan for the cost determined. The Plan uses the Entry Age Normal method of funding. Actuarially determined contribution amounts are recommended by the Actuary and adopted by the Board prior to each fiscal year that the contribution amount applies. The ratio of assets to liabilities increased from 61.2% to 98.2% during the two–year period ending June 30, 2008. This increase was primarily due to an additional appropriation of $10,000,000 made to the Plan during fiscal year 2008. Progress continues toward achieving and maintaining the funding objectives of the Plan.

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

		Valuation year	
		2008	2006
Valuation assets	$	28,370,756	15,587,569
Accrued liabilities		28,904,645	25,457,589
Funding ratio		98.2%	61.2%

Contributions and Investment Income

The additions required to fund retirement benefits are accumulated through a combination of employer contributions and net investment income.

		Additions (reductions)				
				Increase/(decrease)		
		2009	2008	Amount	Percentage	2007
Contributions - DMVA	$	2,473,300	1,737,406	735,894	42.4%	1,737,406
Appropriation - State of Alaska		—	10,000,000	(10,000,000)	(100.0)	—
Net investment (loss) income		(2,546,193)	(395,751)	(2,150,442)	543.4	2,194,596
Total	$	(72,893)	11,341,655	(11,414,548)	(100.6)%	3,932,002

Employer contributions increased from $1,737,406 during fiscal year 2008 to $2,473,300 during fiscal year 2009, an increase of $735,894 or 42.4%. There was no change in the actuarially determined contribution amounts from fiscal year 2007 to 2008 as employer contribution amounts for the Plan are determined biennially. The employer contributions increase is primarily attributable to the past service cost of the Plan, which increased $690,700 from the fiscal year 2004 to 2006 actuarial valuation reports. The past service increase relates to changes in the actuarial cost method, reduction of the valuation interest rate, extended retirement rates, and a change to a 5-year smoothing asset valuation method.

During fiscal year 2008, Senate Bill 221 appropriated $10,000,000 in additional funding to the Plan. The Alaska Legislature appropriated these funds in order to reduce the Plan's unfunded liability, which was $9,870,020 as of the June 30, 2006 actuarial valuation report.

Net investment loss in 2009 increased by $2,150,442 or 543.4% compared to amounts recorded in fiscal year 2008. Net investment income in 2008 decreased by $2,590,347 or -118% compared to amounts recorded in fiscal year 2007. Fiscal year 2009 proved to be a very challenging year in the investment environment due to a number of failures in the financial sector, increased volatility and risks in the stock market, and the impacts of the federal stimulus package. Since March 2009, the stock market has rebounded significantly, but the impact for losses prior to that time still had a negative effect on investments. In fiscal years 2009 and 2008, more than 54% and

61% of invested assets were in the Alaska Retirement Fixed Income Pool. The Alaska Retirement Fixed Income Pool realized a return of 3.62% in 2009 compared to 6.6% in 2008.

Benefits and Other Deductions

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

	Deductions				
			Increase/(decrease)		
	2009	2008	Amount	Percentage	2007
Pension	$ 1,535,247	1,642,441	(107,194)	(6.5)%	1,754,860
Administrative	150,946	124,605	26,341	21.1	150,392
Total	$ 1,686,193	1,767,046	(80,853)	(4.6)%	1,905,252

The increase in administrative deductions is related to an increase in actuarial cost generated from the completion of the biennial NGNMRS valuation.

Funding

Retirement benefits are financed by accumulations from DMVA annual contributions, periodic State of Alaska appropriations, and investment income earned on Plan investments.

- The actuarially determined employer contribution amounts are determined by the Plan's consulting actuary and approved by the Board. Contributions are determined on a biannual basis.
- The Board works with an external consultant to determine the proper asset allocation strategy.

Legislation

In fiscal year 2009, there was no legislation during the legislative session that affected the Plan.

In fiscal year 2008, during the State of Alaska's 25th legislative session, the Alaska legislature appropriated in Senate Bill 221 $10,000,000 to the Plan to reduce the actuarial unfunded liability based on the June 30, 2006 actuarial valuation report. This transfer occurred in June 2008.

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

Net investment loss reflected an increase of 543.4% between 2008 and 2009. The Board continues to diversify the portfolio of the Plan to maintain an optimal risk / return ratio. Actual investment returns lower than the assumed investment return continues to impact both the annual actuarially determined contribution amount and the Plan's funded level. As a result, the fiscal year 2009 contribution amount is $735,876 or a 42.4% increase over the fiscal year 2007 and 2008 contribution amount. However, with the $10,000,000 appropriation received during fiscal year 2008, the Plan expects to collect the normal cost, a significantly lower past service cost, plus one-half of the average of two years' administrative costs in fiscal year 2011 and 2012.

The actuarial valuation dated June 30, 2008, reports a funding ratio of 98.2% and an unfunded liability of $533,889. Since actuarial valuation reports for the Plan are conducted biannually, the June 30, 2010 report will be completed and presented to the Board in June 2011. A roll-forward analysis for fiscal year 2009 is estimated to be available in Spring 2010.

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 National Guard and Naval Militia Retirement System
> Division of Retirement & Benefits, Accounting Section
> P.O. Box 110203
> Juneau, Alaska 99811–0203

STATE OF ALASKA
NATIONAL GUARD AND
NAVAL MILITIA RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Statements of Plan Net Assets

June 30, 2009 and 2008

		2009	2008
Assets:			
Cash and cash equivalents (notes 3, 4 and 7):			
Short-term fixed income pool	$	2,152	24,898
Investments (notes 3, 4, 5, 6 and 7) at fair value:			
Alaska retirement fixed income pool		13,954,357	16,710,578
Domestic equity pool		8,433,391	7,876,930
International equity pool		3,117,222	2,649,176
Total investments		25,504,970	27,236,684
Total assets		25,507,122	27,261,582
Liabilities:			
Accrued expenses		65,354	55,447
Due to State of Alaska General Fund		11,926	17,207
Total liabilities		77,280	72,654
Commitments (note 6)			
Net assets held in trust for pension benefits (see Unaudited Schedule of Funding Progress)	$	25,429,842	27,188,928

See accompanying notes to financial statements.

STATE OF ALASKA
NATIONAL GUARD AND
NAVAL MILITIA RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Statements of Changes in Plan Net Assets

Years ended June 30, 2009 and 2008

		2009	2008
Additions (reductions):			
Contributions – State of Alaska, Military & Veterans' Affairs	$	2,473,300	1,737,406
Appropriation – State of Alaska		—	10,000,000
Total contributions		2,473,300	11,737,406
Investment income (loss):			
Net depreciation in fair value (note 3)		(3,599,024)	(1,149,392)
Interest		801,778	615,882
Dividends		275,995	155,680
Total investment loss		(2,521,251)	(377,830)
Less investment expense		24,942	24,326
Net investment loss before securities lending activities		(2,546,193)	(402,156)
Securities lending income (note 7)		—	61,798
Less securities lending expenses (note 7)		—	55,393
Net income from securities lending activities		—	6,405
Net investment loss		(2,546,193)	(395,751)
Total (reductions) additions		(72,893)	11,341,655
Deductions:			
Pension benefits		1,535,247	1,642,441
Administrative		150,946	124,605
Total deductions		1,686,193	1,767,046
Net (decrease) increase		(1,759,086)	9,574,609
Net assets held in trust for pension benefits:			
Balance, beginning of year		27,188,928	17,614,319
Balance, end of year	$	25,429,842	27,188,928

See accompanying notes to financial statements.

(1) Description

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

General

The Plan is a defined benefit, single–employer retirement system established and administered by the State of Alaska (State) to provide pension benefits for eligible members of the Alaska National Guard and Alaska Naval Militia. 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.

Plan membership as of valuation year ended June 30:

	2008	2006
Retirees and beneficiaries currently receiving benefits	516	506
Terminated Plan members entitled to future benefits	1,148	936
Total current and future benefits	1,664	1,442
Active Plan members:		
Alaska Air National Guard	1,956	1,909
Alaska Army National Guard	1,866	1,871
Alaska Naval Militia	75	66
Total active plan members	3,897	3,846
	5,561	5,288

Pension Benefits

Members who voluntarily retire from the Alaska National Guard or Alaska Naval Militia (Alaska Guard) after at least five years of Alaska Guard service and a total of at least twenty years of U.S. military service or members who involuntarily leave the Alaska Guard service due to federal standards imposed on the Alaska Guard, regardless of length of service, are eligible for a retirement pension. The retirement pension is $100 per month for each month of Alaska Guard service and may be paid to the member monthly or in a one-time lump sum.

Postemployment Healthcare Benefits

Major medical benefits are not provided to retired Plan members.

(1) Description (cont.)

Death Benefits

Upon the death of an eligible member, as previously described, the member's designated beneficiary is entitled to a lump sum benefit equal to the original pension amount less any payments already paid to the member.

Contributions

The Plan's funding policy provides for annual employer contributions by the State of Alaska, Department of Military and Veterans' Affairs (Department) at actuarially determined contribution amounts that are sufficient to accumulate assets to pay benefits when due. Some officials of the Department may be members of the Plan. Plan members make no contributions to the Plan.

(2) Summary of Significant Accounting Policies

Basis of Accounting

The Plan's financial statements are prepared using the economic resource focus and the accrual basis of accounting. Contributions are recognized in the period 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.

GASB Statement No. 25

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

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. Contributions, benefits paid and all expenses are recorded on a cash basis.

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

Valuation

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

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

Emerging market securities are valued on the last business day of each month by the investment manager.

Income Allocation

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

Administrative Costs

Previously, administrative costs were paid from investment earnings. Beginning on the June 30, 2008 actuarial valuation report, administrative cost is equal to the average of the prior two years actual expenses rounded to the nearest $1,000.

Due to State of Alaska General Fund

Amounts due 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 exempt from federal income taxes under Section 501(a).

(3) Investments

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

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

(3) Investments (cont.)

Short-term Fixed Income Pool

The Plan participates in the State's internally managed Short–term Fixed Income Pool, which was established March 15, 1993, with a start up and maintained share price of $1. Treasury staff determines the allocation between permissible securities. 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. At June 30, 2009 and 2008, the Plan had a 0.0006% direct ownership in the Short–term Fixed Income Pool, which included interest receivable of $51 and $391, respectively. The Plan had a 0.02% indirect ownership in the Short–term Fixed Income Pool at June 30, 2009 and 2008.

Alaska Retirement Fixed Income Pool

The Plan participates in the Board's internally managed Alaska Retirement Fixed Income Pool, which was established March 1, 1996, with a start up share price of $1,000. The share price at June 30, 2009 was $2,163. Treasury staff determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of day net asset value per share on the day of the transaction. At June 30, 2009 and 2008, the Plan had a 0.96% and 0.70% ownership in the Alaska Retirement Fixed Income Pool.

Domestic Equity Pool

The Domestic Equity Pool is comprised of an External Large Cap Domestic Equity Pool and an External Small Cap Domestic Equity Pool

Large Cap Domestic Equity Pool

The Plan participates in the Board's externally managed Large Cap Domestic Equity Pool which was established July 1, 2004, with a start up share price of $1,000. The share price at June 30, 2009, was $870. Each manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2009 and 2008, the Plan had a 0.24% and 0.16% ownership in the Large Cap Domestic Equity Pool, respectively.

Small Cap Domestic Equity Pool

The Plan participates in the Board's externally managed Small Cap Domestic Equity Pool, which was established July 1, 2004, with a start up share price of $1,000. The share price at June 30, 2009, was $844. Each manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value

(3) Investments (cont.)

per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2009 and 2008, the Plan had a 0.06% and 0.17% ownership in the Small Cap Domestic Equity Pool, respectively.

International Equity Pool

The Plan participates in the Board's externally managed International Equity Pool, which was established January 1, 1992, with a start up share price of $1,000. The share price at June 30, 2009 was $2,703. Each manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2009 and 2008, the Plan had a 0.16% and 0.12% ownership in the International Equity Pool, respectively.

(3) Investments (cont.)

At June 30, 2009, the Plan's investments included the following:

	Fair value			
	Fixed Income Pools			
	Short-term	Retirement	Other	Total
Deposits	$ 2,289	(752)	18,732	20,269
Short-term Investment Fund	—	—	40,953	40,953
Commercial Paper	45,910	—	—	45,910
U.S. Treasury Bills	259,024	—	—	259,024
U.S. Treasury Notes	—	2,347,692	—	2,347,692
U.S. Treasury Bonds	—	197,761	—	197,761
U.S. Government Agency	20,087	280,731	—	300,818
Mortgage-backed	28,894	7,092,601	—	7,121,495
Other asset-backed	91,473	99,819	—	191,292
Corporate Bonds	247,287	2,782,225	—	3,029,512
Yankees:				
Government	—	162,249	—	162,249
Corporate	53,232	629,372	—	682,604
Domestic Equity Pool:				
Limited Partnership	—	—	507,319	507,319
Treasury Bills	—	—	5,955	5,955
Equity	—	—	7,843,008	7,843,008
International Equity Pool:				
Convertible Bonds	—	—	1,957	1,957
Equity	—	—	2,997,729	2,997,729
Mutual Funds	—	—	51,614	51,614
Net other assets (liabilities)	(1,697)	(304,114)	5,772	(300,039)
Other Pool Ownership	(744,347)	666,773	77,574	—
Total invested assets	$ 2,152	13,954,357	11,550,613	25,507,122

(3) Investments (cont.)

At June 30, 2008, the Plan's investments included the following:

	Fair value				
	Fixed Income Pools				
	Short-term	Retirement	Enhanced cash	Other	Total
Deposits	$ —	—	—	8,784	8,784
Short-term Investment Fund	—	—	—	51,339	51,339
Commercial Paper	59,936	—	—	—	59,936
U.S. Treasury Notes	—	1,653,512	—	—	1,653,512
U.S. Treasury Bonds	—	668,184	—	—	668,184
U.S. Government Agency	387,912	299,468	—	—	687,380
Municipal Bonds	—	6,097	—	—	6,097
Mortgage-backed	31,166	8,862,032	104,362	—	8,997,560
Other asset-backed	180,705	891,981	128,811	—	1,201,497
Corporate Bonds	171,044	3,328,330	51,766	—	3,551,140
Yankees:					
Government	—	77,845	—	—	77,845
Corporate	51,284	429,687	29,230	—	510,201
Domestic Equity Pool:					
Limited Partnership	—	—	—	351,565	351,565
Convertible Bonds	—	—	—	1,109	1,109
Treasury Bills	—	—	—	2,676	2,676
Equity	—	—	—	7,415,045	7,415,045
International Equity Pool:					
Convertible Bonds	—	—	—	1,341	1,341
Equity	—	—	—	2,575,404	2,575,404
Net other assets (liabilities)	(88)	(520,491)	(26,169)	(12,285)	(559,033)
Other Pool Ownership	(857,061)	1,013,933	(288,000)	131,128	—
Total invested assets	$ 24,898	16,710,578	—	10,526,106	27,261,582

(4) Deposit and Investment Risk

Interest Rate Risk

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

(4) Deposit and Investment Risk (cont.)

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 for purposes of the effective duration calculation.

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. Floating rate securities are limited to three years to maturity or three years expected average life. Treasury utilizes the actual maturity date for commercial paper and twelve–month prepay speeds for other securities. At June 30, 2009, the expected average life of fixed income securities ranged from eight days to less than three months.

Other Fixed Income Pools

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 ± 20% of the Lehman Brothers Aggregate Bond Index. The effective duration for the Lehman Brothers Aggregate Bond Index at June 30, 2009, was 4.68 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 Enhanced Cash Income portfolio to one year.

(4) Deposit and Investment Risk (cont.)

At June 30, 2009, the effective duration of the defined benefit fixed income pool, by investment type, was as follows:

	Effective Duration (in years)
	Retirement Fixed Income Pool
Corporate bonds	4.96
Mortgage-backed	3.50
Other Asset-backed	1.72
U.S. Treasury bonds	14.18
U.S. Treasury notes	4.95
U.S. government and agency securities	5.48
Yankees:	
Corporate	4.48
Government	10.52
Portfolio effective duration	**4.16**

Credit Risk

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

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

Short-term Fixed Income Pool investments are limited to instruments with a long-term credit rating of at least A3 or equivalent and instruments with a short-term credit rating of at least P1 or equivalent. Asset-backed and non-agency mortgage securities 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, 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.

(4) Deposit and Investment Risk (cont.)

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 & 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 Corporation, 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 & Poor's Corporation or the equivalent by Moody's or Fitch.

Domestic and international equity:
- 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.

(4) Deposit and Investment Risk (cont.)

At June 30, 2009, the Plan's investments consisted of securities with credit quality ratings issued by nationally recognized statistical rating organizations as follows (using Standard & Poor's Corporation rating scale):

		Fixed Income Pools	
	Rating	Short-term	Retirement
Commercial paper	A-1	1.10 %	- %
Commercial paper	Not Rated	5.05	-
U. S. Treasury notes	AAA	-	16.82
U. S. Treasury bills	AAA	34.70	-
U.S. Treasury bonds	AAA	-	1.42
U. S. government agency	AAA	2.69	1.84
U. S. government agency	Not Rated	-	0.17
Mortgage-backed	AAA	3.46	44.60
Mortgage-backed	A	0.11	-
Mortgage-backed	BBB	0.18	-
Mortgage-backed	Not Rated	0.30	6.22
Other Asset-backed	AAA	10.87	0.47
Other Asset-backed	AA	0.85	0.13
Other Asset-backed	A	0.35	0.03
Other Asset-backed	BBB	-	0.08
Corporate bonds	AAA	19.33	1.18
Corporate bonds	AA	6.16	2.48
Corporate bonds	A	7.64	9.15
Corporate bonds	BBB	-	6.25
Corporate bonds	BB	-	0.02
Corporate bonds	Not Rated	-	0.86
Yankees:			
Government	AAA	-	0.46
Government	BBB	-	0.24
Government	Not Rated	-	0.46
Corporate	AAA	1.61	0.76
Corporate	AA	4.29	0.43
Corporate	A	1.24	2.13
Corporate	BBB	-	1.09
Corporate	Not Rated	-	0.10
No Credit Exposure		0.07	2.61
		100.00 %	100.00 %

(4) Deposit and Investment Risk (cont.)

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. At June 30, 2009, the Plan's investment had the following uncollateralized and uninsured deposits:

		Amount
International Equity Pool	$	12,993

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 Equity Pool is to permit the Plan to hold up to fifteen percent of total investments in international equity.

At June 30, 2009, the Plan's investment in the International Equity Pool had exposure to foreign currency risk with the following deposits:

Currency		**Amount**
Australian Dollar	$	100
Canadian Dollar		60
Danish Krone		1,541
Euro Currency		6,621
Hong Kong Dollar		175
Japanese Yen		3,652
New Taiwan Dollar		69
New Zealand Dollar		38
Norwegian Krone		114
Pound Sterling		596
Singapore Dollar		1
Swedish Krona		18
Swiss Franc		1
Yuan Renminbi		7
	$	12,993

(4) Deposit and Investment Risk (cont.)

At June 30, 2009, the Plan's investment in the International Equity Pool had exposure to foreign currency risk with the following investments:

Currency		Amount
Australian Dollar	$	47,692
Brazilian Real		19,057
Canadian Dollar		50,756
Danish Krone		22,400
Euro Currency		1,009,059
Hong Kong Dollar		108,018
Indonesian Rupah		1,671
Japanese Yen		719,727
Mexican Peso		1,671
New Taiwan Dollar		17,837
New Zealand Dollar		3,504
Norwegian Krone		7,341
Pound Sterling		518,458
Singapore Dollar		21,639
South African Rand		6,259
South Korean Won		9,963
Swedish Krona		40,465
Swiss Franc		219,615
	$	2,825,132

Concentration of Credit Risk

Treasury's policy with regard to concentration of credit risk for the Short-term Fixed Income Pool is to prohibit the purchase of more than five percent of the portfolio's assets in corporate bonds of any one company or affiliated group. This provision does not apply to securities backed by the full faith and credit of the United States Government.

The Board's policy with regard to concentration of credit risk for the Retirement Fixed Income Pool is to prohibit the purchase of more than five percent of the portfolio's assets in corporate bonds of any one company or affiliated group.

At June 30, 2009, the Plan's invested assets included $4.0 million in Federal National Mortgage Association securities, which represented 16% of the Plan's total invested assets. Federal National Mortgage Association securities are not classified as corporate bonds.

(5) Foreign Exchange Contracts and Off–Balance Sheet Risk

The Plan's International Equity Pool's investment income includes the following at June 30:

		2009	2008
Net realized (loss) gain on foreign currency	$	(55,056)	106,010
Net unrealized gain on foreign currency		62	81
Net realized gain (loss) on foreign exchange contracts		867	(117)

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. At June 30, 2009, the International Equity Pool had one foreign currency forward which matured in twenty-two days. The Plan had net unrealized losses with respect to this contract, calculated using forward rates at June 30, as follows:

		2009	2008
Contract purchase	$	45,562	33,907
Less fair value		45,211	33,721
Net unrealized loss on contract	$	(351)	(186)

The counterparties to the foreign currency forward contract consists 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.

(6) 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, 2009, the Plan's share of the unfunded commitment totaled $111,611. This commitment can be withdrawn annually in December with ninety days notice.

(7) Securities Lending

Alaska Statute 37.10.071 authorized the Commissioner to lend assets, under an agreement and for a fee, against deposited collateral. In February 2008, the Commissioner suspended the securities lending agreement with the Bank which lent equity and domestic fixed income securities. Prior to suspension, the Bank, acting as the Commissioner's agent under the agreement, transferred securities to broker agents or other entities for collateral in the form of cash or securities and simultaneously agreed to return the collateral for the same securities in the future. At June 30, 2009 and 2008, there were no outstanding securities on loan.

At June 30, 2009 and 2008, there were no loans allocable to the Plan. While the securities lending agreement was active, there was no limit to the amount that could be loaned and the Commissioner was

(7) Securities Lending (cont.)

able to sell securities on loan. International equity security loans were collateralized at not less than 105% of their fair value. All other security loans were collateralized at not less than 102% of their fair value. Loaned securities and collateral were marked to market daily and collateral was received or delivered the following day to maintain collateral levels.

Cash collateral was invested in a registered 2(a)–7 money market fund. Maturities of investments in the money market fund generally did not match the maturities of the loaned securities because the lending agreements were terminable at will. Collateral securities could have been pledged or sold upon borrower default. Since the Commissioner did not have the ability to pledge or sell the securities collateral unless the borrower defaulted, they were not recorded on the financial statements. Securities under loan, cash collateral and cash collateral payable were recorded on the financial statements at fair value. The Bank, the Plan and the borrower received a fee from earnings on invested collateral. The Bank and the Plan shared a fee paid by the borrower for loans not collateralized with cash.

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

For the years ended June 30, 2009 and 2008, there were no losses incurred as a result of securities lending transactions and there were no violations of legal or contractual provisions or failures by any borrowers to return loaned securities.

(8) Funded Status and Funding Progress

The funded status of the Plan is as follows:

Actuarial valuation date	Actuarial value of assets	Actuarial Accrued Liability (AAL) – Entry Age	Unfunded Actuarial Accrued Liability (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
June 30, 2008	$ 28,370,756	28,904,645	533,889	98.2%	N/A	N/A

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 the financial statements, present multi-year trend

(8) Funded Status and Funding Progress (cont.)

information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The accompanying schedule of employer contributions (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 on-going basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Projections of benefits for financial 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, 2008
Actuarial cost method	Entry age normal
Amortization method	Level dollar, open
Remaining amortization period	20 years less average military service of active members
Asset valuation method	5 year smoothed market

Actuarial assumptions:	
Investment rate of return	7.25 % per annum

STATE OF ALASKA
NATIONAL GUARD AND
NAVAL MILITIA RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Required Supplementary Information

Schedule of Funding Progress

June 30, 2009

Actuarial valuation date as of June 30	Actuarial value of plan assets	Actuarial accrued liabilities (AAL)	Unfunded actuarial accrued liabilities (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
2004	$ 13,391,055	19,749,305	6,358,250	67.8 %	N/A	N/A
2006	15,587,569	25,457,589	9,870,020	61.2	N/A	N/A
2008	28,370,756	28,904,645	533,889	98.2	N/A	N/A

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

STATE OF ALASKA
NATIONAL GUARD AND
NAVAL MILITIA RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Required Supplementary Information

Schedule of Employer Contributions

June 30, 2009

Year ended June 30	Actuarial valuation date as of June 30 [1]	Annual required contribution	Annual actual contribution	Percentage contributed	Supplemental contribution
2004	2000	$ 1,322,502	1,322,500	100.0 %	$ —
2005	2002	2,025,257	1,996,800	98.6	—
2006	2002	2,025,257	2,053,800	101.4	—
2007	2004	1,737,406	1,737,406	100.0	—
2008	2004	1,737,406	1,737,406	100.0	10,000,000
2009	2006	2,473,282	2,473,300	100.0	—

[1] Actuarial valuation related to annual required contribution for fiscal year.

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

(1) Description of Schedule of Funding Progress

Each time a new benefit is added which applies to service already rendered, an "unfunded actuarial accrued liability" is created. Laws governing the 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.

(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, 2008, are as follows:

a. Actuarial cost method – Entry Age Normal Actuarial Cost, any funding surpluses or unfunded actuarial accrued liability amortized over twenty years reduced by the average total military service of active members.

b. Interest – 7.25% per year, compounded annually, net of investment expenses.

c. Administrative expenses – the expense load is equal to the average of the prior 2 years actual administrative expenses rounding to the nearest $1,000.

d. Mortality basis – 1994 Group Annuity Mortality Basic Table for males and females, 1994 base year without margin.

e. Turnover – assumed at 25% in the first year and at 8% in the second; both rates are independent of age. Turnover after the second year is assumed to follow the T–3 Table published in the Pension Actuary's Handbook.

f. Disability rate – assumed to follow disability rates under the Group Long Term Disability policies, as given in the 1978 Society of Actuaries Study.

g. Retirement age – active members are assumed to retire after 20 years of total military service, except if they complete 20 years of total military service before age 55, it is assumed that they will work one–half of the remaining years to age 55. Vested terminated members are assumed to retire at current age or age 50, whichever is later.

h. Asset valuation – effective June 30, 2006, the asset valuation method recognizes 20% of the investment gain or loss in each of the current and preceding four years. This method is initialized as of June 30, 2006 at market value and will be phased in over the next five years. Valuation assets are constrained to a range of 80% to 120% of the market value of assets.

(2) Actuarial Assumptions and Methods (Cont.)

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.

Effective June 30, 2006, there was a change in the actuarial cost methods. The cost method was changed from Projected Unit Credit to Entry Age Normal. The changes in assumptions were adopted by the Board during the October 2006 Board meeting.

Changes in Assumptions from the Last Actuarial Valuation – June 30, 2006 to June 30, 2008

(a) An administrative expense load was added to the calculation of the annual contribution equal to the average of the prior two years of actual expenses, rounded to the nearest $1,000.

Schedule 1

STATE OF ALASKA
NATIONAL GUARD AND
NAVAL MILITIA RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Schedule of Administrative and Investment Deductions

Year ended June 30, 2009
with Summarized Financial Information for 2008

			Totals	
	Administrative	**Investment**	**2009**	**2008**
Personal services:				
Wages	$ 51,525	2,014	53,539	55,365
Benefits	27,565	885	28,450	29,722
Total personal services	79,090	2,899	81,989	85,087
Contractual services:				
Accounting and auditing	6,696	1,212	7,908	7,355
Management and consulting	9,874	18,969	28,843	27,700
Other professional services	1,269	—	1,269	1,489
Communications	347	33	380	485
Other services	48,556	1,538	50,094	19,730
Advertising and printing	—	—	—	23
Transportation	66	10	76	125
Securities lending	—	—	—	55,393
Total contractual services	66,808	21,762	88,570	112,300
Other:				
Travel	116	174	290	88
Supplies	2,300	107	2,407	2,083
Equipment	2,632	—	2,632	4,766
Total other	5,048	281	5,329	6,937
Total administrative and investment deductions	$ 150,946	24,942	175,888	204,324

See accompanying independent auditors' report.

Schedule 2

STATE OF ALASKA
NATIONAL GUARD AND
NAVAL MILITIA RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Schedule of Payments to Consultants
Other than Investment Advisors

Years ended June 30, 2009 and 2008

Firm	Services		2009	2008
State Street Corporation	Custodian Banking Services	$	1,208	1,508
KPMG LLP	Auditing Services		6,696	5,847
Buck Consultants, an ACS Company	Actuarial Services		9,863	9,756
		$	17,767	17,111

See accompanying independent auditors’ report.