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, 2012 and 2011

(With Independent Auditors' Report Thereon)

STATE OF ALASKA
NATIONAL GUARD AND
NAVAL MILITIA 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 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 (the Plan), a component unit of the State of Alaska, as of June 30, 2012 and 2011, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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, 2012 and 2011, 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 audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules presented on pages 35 – 36 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Supplemental schedules are the responsibility of the management of the Plan. This information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. 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

October 22, 2012

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, 2012 and 2011. 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, 2012. Information for fiscal year 2011 and 2010 is presented for comparative purposes.

Financial Highlights

The Plan financial highlights as of June 30, 2012 were as follows:

- The Plan's net assets held in trust for pension benefits as of June 30, 2012 decreased by $274,381 during fiscal year 2012.
- The State of Alaska directly appropriated $895,611 during fiscal year 2012.
- The Plan net investment income decreased $3,791,542 to $287,726 during fiscal year 2012.
- Plan pension benefit expenditures totaled $1,334,018 during fiscal year 2012.

Overview of the Financial Statements

The 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, 2012 and 2011.

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, 2012 and 2011. 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, 2012 and 2011, and the sources and uses of those funds during fiscal years 2012 and 2011.

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.

(Continued)

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

Description	2012	2011	Increase (decrease) Amount	Increase (decrease) Percentage	2010
Assets:					
Cash and cash equivalents	$ 487,744	24,456	463,288	1,894.4%	$ 14,856
Investments, at fair value	32,212,908	32,970,734	(757,826)	(2.3)	29,481,908
Total assets	32,700,652	32,995,190	(294,538)	(0.9)	29,496,764
Liabilities:					
Accrued expenses	54,551	60,815	(6,264)	(10.3)	52,525
Due to State of Alaska General Fund	7,667	21,560	(13,893)	(64.4)	12,517
Total liabilities	62,218	82,375	(20,157)	(24.5)	65,042
Net assets	$ 32,638,434	32,912,815	(274,381)	(0.8)%	$ 29,431,722

Changes in Plan Net Assets

			Increase (decrease)		
Description	**2012**	**2011**	**Amount**	**Percentage**	**2010**
Net assets, beginning of year	$ 32,912,815	29,431,722	3,481,093	11.8%	$ 25,429,842
Additions:					
Contributions – DMVA	895,611	965,375	(69,764)	(7.2)	2,603,300
Net investment income	287,726	4,079,268	(3,791,542)	(92.9)	3,163,676
Other Addition	25	32	(7)	(21.9)	—
Total additions	1,183,362	5,044,675	(3,861,313)	(76.5)	5,766,976
Deductions:					
Pension benefits	1,334,018	1,411,254	(77,236)	(5.5)	1,647,349
Administrative	123,725	152,328	(28,603)	(18.8)	117,747
Total deductions	1,457,743	1,563,582	(105,839)	(6.8)	1,765,096
Increase (decrease) in net assets	(274,381)	3,481,093	(3,755,474)	(107.9)	4,001,880
Net assets, end of year	$ 32,638,434	32,912,815	(274,381)	(0.8)%	$ 29,431,722

Financial Analysis of the Plan

The statements of plan net assets as of June 30, 2012 and 2011 show net assets held in trust for pension benefits of $32,638,434 and $32,912,815, respectively. The entire amount is available to cover the Plan's obligations to pay benefits to its members and their beneficiaries, as well as administrative costs. These amounts represent a decrease of $274,381 or 0.8% in plan net assets held in trust for pension benefits from fiscal year 2011 and an increase of $3,481,093 or 11.8% in plan net assets held in trust for pension benefits from fiscal year 2010. Over the long term, employer contributions and investment income are expected to sufficiently fund 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 years 2012 and 2011, the Board adopted the following asset allocations:

	2012	
	Allocation	**Range**
Broad domestic equity	27.0%	± 5%
International equity	17.0	± 5
Domestic fixed composite	54.0	± 10
Cash equivalents	2.0	-2/+3
Total	100.0%	
Expected five-year median return	6.18%	
Standard deviation	8.70	

	2011	
	Allocation	**Range**
Broad domestic equity	27.0%	± 5%
International equity	15.0	± 5
Domestic fixed income	57.0	± 10
Cash equivalents	1.0	-1/+3
Total	100.0%	
Expected five-year median return	6.59%	
Standard deviation	8.02	

For fiscal years 2012 and 2011, the Plan's investments generated a 1.02% and a 13.90% rate of return, respectively. The Plan's annualized rate of return was 8.66% over the last three years and 3.06% over the last five years. During fiscal year 2011, the Board approved a reduction in the actuarial earnings rate assumption from 7.25% to 7.00% effective with the June 30, 2010 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 Actuarial Cost 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 decreased from 106.5% for the year ended June 30, 2010 to 105.4% for the year ended June 30, 2011. Progress continues toward achieving and maintaining the funding objectives of the Plan.

(Continued)

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 or rollforward year	
		2011	2010
Valuation assets	$	33,019,577	32,000,585
Accrued liabilities		31,324,457	30,034,407
Funding excess (unfunded liability)	$	1,695,120	1,966,178
Funding ratio		105.4%	106.5%

Contributions and Investment Income

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

	Additions (reductions)				
			Decrease		
	2012	2011	Amount	Percentage	2010
Contributions – DMVA	$ 895,611	965,375	(69,764)	(7.2)%	$ 2,603,300
Net investment income	287,726	4,079,268	(3,791,542)	(92.9)	3,163,676
Other addition	25	32	(7)	(21.9)	—
Total	$ 1,183,362	5,044,675	(3,861,313)	(76.5)%	$ 5,766,976

The Plan's employer contributions decreased from $965,375 during fiscal year 2011 to $895,611 during fiscal year 2012, a decrease of $69,764 or 7.2%. There was a decrease between the actuarial roll-forward determined contribution amounts from fiscal year 2012 of $895,565 and the actuarially determined contribution amount for fiscal year 2011 of $965,329. A full actuarial valuation is completed for the Plan biennially with the actuarial roll-forward being completed in the interim years. The employer contributions decrease was due to a funding ratio increase from 61.2% at June 30, 2006 to 98.2% at June 30, 2008. This increase was primarily due to a $10 million appropriation from the State of Alaska during the 25th legislative session, during fiscal year 2008 that was contributed to the fund in Senate Bill 221.

The Plan's net investment income in fiscal year 2012 decreased by $3,791,542 or 92.9% from amounts recorded in fiscal year 2011 and net investment income in fiscal year 2011 increased by $915,592 or 28.9% from amounts recorded in fiscal year 2010. Over the long term, investment income is a major component of additions to Plan assets. During fiscal year 2012, the Plan experienced mixed returns on investments.

(Continued)

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

	Year ended 2012	2011	2010
System returns	1.02%	13.90%	11.50%
Domestic equities	2.05	31.50	15.52
International equities	(14.07)	31.36	8.48
Fixed income	6.17	1.42	10.79

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 operations as follows:

	Deductions		Decrease		
	2012	2011	Amount	Percentage	2010
Pension benefits	$ 1,334,018	1,411,254	(77,236)	(5.5)%	$ 1,647,349
Administrative	123,725	152,328	(28,603)	(18.8)	117,747
Total	$ 1,457,743	1,563,582	(105,839)	(6.8)%	$ 1,765,096

The decrease in administrative deductions is related to the decrease in actuarial cost.

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

Legislation

During fiscal year 2012, the Twenty-Seventh Alaska State Legislature enacted one law that affects the Plan:

- House Bill 284 appropriates $739,100 from the general fund to the DMVA for deposit in the defined benefit pension fund for the purpose of funding the Alaska National Guard and Alaska Naval Militia retirement system for fiscal year ending June 30, 2013.

Economic Conditions, Future Contribution Rates, and Funding Status

Fiscal year 2012 was not as strong a recovery year as fiscal year 2011 was in terms of investment returns. Net investment income decreased from $4,079,268 in fiscal year 2011 to $287,726 in fiscal year 2012, a decrease of $3,791,542 or 92.9%. The Board continues to diversify the portfolio of the Plan to maintain an optimal risk/return ratio. Although net investment income for fiscal year 2012 was positive overall, actual investment returns greater than the assumed investment return remain the objective as these would have a positive impact on both the annual actuarially-determined contribution amount and the Plan's funded level.

The consulting actuary recommended a decrease from the Plan's actuarially determined contribution amount of $965,329 in fiscal year 2011 to $895,565 in fiscal year 2012. The fiscal year 2013 contribution amount has been actuarially determined to be $431,367.

The actuarial roll-forward for June 30, 2011 reports a funding ratio based on actuarial value of assets of 105.4% and a funding excess of $1,695,120. Since actuarial valuation reports for the Plan are conducted biannually, the June 30, 2012 report will be completed and presented to the Board in the spring of 2013. An actuarial roll-forward analysis as of June 30, 2013 is estimated to be available in the spring of 2014.

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 and Benefits, Accounting Section
P.O. Box 110203
Juneau, Alaska 99811-0203

STATE OF ALASKA
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Statement of Plan Net Assets

June 30, 2012 and 2011

		2012	2011
Assets:			
Cash and cash equivalents (notes 2, 3 and 4):			
Short-term fixed income pool	$	487,744	24,456
Investments (notes 3, 4, and 5) at fair value:			
International fixed income pool		2,346,226	—
Retirement fixed income pool		122,935	1,272,478
U.S. treasury fixed income pool		11,079,647	15,570,006
High yield pool		2,764,653	—
Emerging market debt		773,651	—
Broad domestic equity pool		9,695,305	10,174,728
Broad international equity pool		4,101,170	5,953,522
Emerging market equity pool		1,329,321	—
Total investments		32,212,908	32,970,734
Total assets		32,700,652	32,995,190
Liabilities:			
Accrued expenses		54,551	60,815
Due to State of Alaska General Fund		7,667	21,560
Total liabilities		62,218	82,375
Commitments (note 7)			
Net assets held in trust for pension benefits	$	32,638,434	32,912,815

See accompanying notes to financial statements.

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Statement of Changes in Plan Net Assets

Years ended June 30, 2012 and 2011

		2012	2011
Additions:			
Contributions – State of Alaska, Military and Veterans' Affairs	$	895,611	965,375
Investment income:			
Net appreciation (depreciation) in fair value		(548,005)	3,394,713
Interest		475,664	413,235
Dividends		414,541	326,105
Total investment income		342,200	4,134,053
Less investment expense		54,474	54,785
Net investment income		287,726	4,079,268
Other addition		25	32
Total additions		1,183,362	5,044,675
Deductions:			
Pension benefits		1,334,018	1,411,254
Administrative		123,725	152,328
Total deductions		1,457,743	1,563,582
Net increase (decrease)		(274,381)	3,481,093
Net assets held in trust for pension benefits:			
Balance, beginning of year		32,912,815	29,431,722
Balance, end of year	$	32,638,434	32,912,815

See accompanying notes to financial statements.

(1) Description

The following brief description of the State of Alaska National Guard and Naval Militia Retirement System (the Plan), a component unit of the State of Alaska (the State), 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 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:

	Valuation as of	
	2010	**2008**
Retirees and beneficiaries currently receiving benefits	547	516
Terminated Plan members entitled to future benefits	1,251	1,148
Total current and future benefits	1,798	1,664
Active plan members:		
Alaska Air National Guard	2,208	1,956
Alaska Army National Guard	1,789	1,866
Alaska Naval Militia	88	75
Total active plan members	4,085	3,897
Total members	5,883	5,561

Pension Benefits

Members who voluntarily retire from the Alaska National Guard or Alaska Naval Militia (Alaska Guard) after at least 5 years of Alaska Guard service and a total of at least 20 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 resources measurement 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 and No. 50

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. The Plan follows the provisions of GASB Statement No. 50, *Pension Disclosures*. GASB 50 amended certain disclosure provisions of GASB 25 and expanded the required disclosures.

(Continued)

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

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.

Valuation and Income Allocation

Fixed Income Pools

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 determines 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 and International Equity Pools

Domestic equity 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. 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.

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

Emerging Markets Equity

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.

Administrative Costs

Administrative costs are paid from investment earnings.

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

(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, Large Cap Domestic Equity Pool, Small Cap Domestic Equity Pool, Convertible Bond Domestic Equity Pool, International Equity Large Cap Pool, International Equity Small Cap Pool, Emerging Markets Equity Pool are managed by external management companies. Treasury manages the Retirement Fixed Income Pool, U.S. Treasury Fixed Income 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.

(4) Deposit and Investment Risk

At June 30, 2012, the Plan investments included the following:

	Fair value							
	Fixed income pools							
	Short term	Retirement	U.S. Treasury	High yield	International	Convertible	Other	Total
Bridge loans	$ —	—	—	23,428	—	—	—	23,428
Commercial paper	65,061	—	—	—	—	—	—	65,061
Convertible bonds	—	—	—	25,576	—	206,133	—	231,709
Corporate bonds	174,041	—	586,288	2,356,459	—	—	—	3,116,788
Deposits	7,640	—	—	140,233	10,414	3,087	—	161,374
Foreign corporate bonds	—	—	—	4,593	53,315	—	—	57,908
Foreign government bonds	—	—	—	—	2,238,434	—	—	2,238,434
Mortgage backed	16,218	73,231	359,470	—	—	—	—	448,919
Municipal bonds	—	—	12,829	—	—	—	—	12,829
Other asset backed	673,766	—	16,431	—	—	—	—	690,197
Short-term investment fund	—	—	—	—	17,452	—	30,074	47,526
Treasury bills	1,010,331	—	—	—	—	—	—	1,010,331
Treasury bonds	—	—	797,348	—	—	—	—	797,348
Treasury notes	—	—	8,861,888	—	—	—	—	8,861,888
U.S. government agency	22,910	—	58,605	—	—	—	—	81,515
Yankees:								
Corporate	40,043	—	83,958	184,124	—	—	—	308,125
Government	—	—	42,320	—	—	—	—	42,320
Fixed income pool:								
Equity	—	—	—	—	—	18,563	—	18,563
Warrants	—	—	—	97	—	—	—	97
Emerging markets debt pool	—	—	—	—	—	—	773,652	773,652
Broad domestic equity pool:								
Deposits	—	—	—	—	—	—	94,756	94,756
Equity	—	—	—	—	—	—	8,607,022	8,607,022
Futures	—	—	—	—	—	—	3,188	3,188
Limited partnership	—	—	—	—	—	—	487,276	487,276
Mutual fund	—	—	—	—	—	—	82,194	82,194
Options	—	—	—	—	—	—	(40,549)	(40,549)
Treasury bills	—	—	—	—	—	—	4,587	4,587
Broad international equity pool:								
Deposits	—	—	—	—	—	—	77,168	77,168
Equity	—	—	—	—	—	—	3,675,263	3,675,263
Mutual fund	—	—	—	—	—	—	310,050	310,050
Rights	—	—	—	—	—	—	67	67
Emerging markets equity pool	—	—	—	—	—	—	1,329,321	1,329,321
Net other assets (liabilities)	(54,395)	663	(947,539)	30,143	26,611	1,393	25,421	(917,703)
Other pool ownership	(1,467,871)	49,041	1,208,049	—	—	—	210,781	—
Total invested assets	$ 487,744	122,935	11,079,647	2,764,653	2,346,226	229,176	15,670,271	32,700,652

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.)

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 three years to maturity or three years expected average life upon purchase. Treasury utilizes the actual maturity date for commercial paper and twelve-month prepay speeds for other securities. At June 30, 2012, the expected average life of individual fixed rate securities ranged from two days to twenty five years and the expected average life of floating rate securities ranged from twelve days to nine 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 ± 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, 2012 was 5.07 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 U.S. Treasury Fixed Income portfolio to ± 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, 2012 was 3.86 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 Fixed Income portfolio to ± 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, 2012, was 4.21 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 ± 25% of the blended benchmark of 70% Citigroup Non-USD World Government Bond Index and 30% JP Morgan Global Bond Emerging Markets Broad Diversified Index. The effective duration for the Citigroup Non-USD World Government Bond Index at June 30, 2012, was 7.26 years and the effective duration of the JP Morgan Global Bond Index at June 30, 2012 was 4.75, for a blended duration of 6.50 at June 30, 2012.

(Continued)

(4) Deposit and Investment Risk (cont.)

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

At June 30, 2012, the effective duration of the Board's fixed income pool, by investment type, was as follows (in years):

	Effective duration			
	Retirement	**U.S. Treasury**	**High yield**	**International**
Cash Equivalent	0.26	0.26	—	—
Convertible bonds	—	—	0.12	—
Corporate	—	3.83	3.82	—
Foreign corporate bonds	—	—	—	3.27
Foreign government bonds	—	—	4.81	5.48
Mortgage backed	—	2.49	—	—
Other asset backed	—	0.83	—	—
U.S. government agency	—	7.27	—	—
U.S. Treasury bonds	—	6.83	—	—
U.S. Treasury notes	—	3.48	—	—
Yankees:				
Corporate	—	2.14	3.74	—
Government	—	1.23	—	—
Portfolio effective duration	**1.66**	**3.36**	**3.57**	**5.34**

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 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.

(4) Deposit and Investment Risk (cont.)

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 30% of the portfolio’s assets may be invested in securities that are not nominal, United States Treasury obligations or the internally managed short term or substantially similar portfolio at the time of purchase.

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.

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.

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. Only one rating is necessary.

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.

(Continued)

(4) Deposit and Investment Risk (cont.)

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 C3 by Moody's. However, the manager may continue to hold securities downgraded below CCC- by Standard and Poor's and C3 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.

Domestic Equity (Large Cap and Small Cap) and Broad 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.

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

(4) Deposit and Investment Risk (cont.)

At June 30, 2012, the Plan's Invested Assets 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					
Investment type	Rating	Short term	Retirement	U.S. Treasury	High yield	International	Convertible
Bank loans	BB	—%	—%	—%	0.36%	—%	—%
Bank Loans	Not rated	—	—	—	0.49	—	—
Commercial paper	Not rated	3.33	—	—	—	—	—
Convertible bonds	AAA	—	—	—	—	—	1.56
Convertible bonds	A	—	—	—	0.25	—	8.26
Convertible bonds	BBB	—	—	—	0.37	—	17.19
Convertible bonds	BB	—	—	—	—	—	19.40
Convertible bonds	B	—	—	—	0.07	—	13.72
Convertible bonds	CCC	—	—	—	—	—	0.58
Convertible bonds	Not rated	—	—	—	0.49	—	29.24
Corporate bonds	AA	4.94	—	0.94	—	—	—
Corporate bonds	A	3.60	—	2.72	—	—	—
Corporate bonds	BBB	—	—	1.17	3.22	—	—
Corporate bonds	BB	—	—	—	33.38	—	—
Corporate bonds	B	—	—	—	39.68	—	—
Corporate bonds	CCC	—	—	—	6.25	—	—
Corporate bonds	Not rated	0.35	—	0.57	2.44	—	—
Equity	BBB	—	—	—	—	—	2.15
Equity	BB	—	—	—	—	—	3.00
Equity	B	—	—	—	—	—	1.33
Equity	CCC	—	—	—	—	—	0.35
Equity	Not rated	—	—	—	—	—	1.27
Foreign corporate bonds	AA	—	—	—	—	0.67	—
Foreign corporate bonds	A	—	—	—	—	3.07	—
Foreign government bonds	AA	—	—	—	—	1.56	—
Foreign government bonds	A	—	—	—	—	21.37	—
Foreign government bonds	BBB	—	—	—	0.17	2.24	—
Foreign government bonds	BB	—	—	—	—	4.49	—
Foreign government bonds	Not rated	—	—	—	—	65.42	—
Government agency	AA	1.17	—	0.53	—	—	—
Mortgage backed	AAA	0.46	7.96	0.47	—	—	—
Mortgage backed	AA	—	31.67	1.82	—	—	—
Mortgage backed	CCC	—	10.53	—	—	—	—
Mortgage backed	Not rated	0.37	9.40	0.95	—	—	—
Other asset backed	AAA	26.15	—	—	—	—	—
Other asset backed	AA	1.90	—	—	—	—	—
Other asset backed	A	0.08	—	0.13	—	—	—
Other asset backed	Not rated	6.30	—	0.02	—	—	—
Other pool Ownership	Not rated	—	39.90	10.90	—	—	—
Short-term investment	Not rated	—	—	—	—	0.74	—
U.S. Treasury bills	AA	51.67	—	—	—	—	—
U.S. Treasury bonds	AA	—	—	7.20	—	—	—
U.S. Treasury notes	AA	—		79.99	—	—	—
Yankees:							
Corporate	AA	1.42	—	—	—	—	—
Corporate	A	0.62	—	0.44	—	—	—
Corporate	BBB	—	—	0.32	—	—	—
Corporate	BB	—	—	—	2.76	—	—
Corporate	B	—	—	—	3.44	—	—
Corporate	Not rated	—	—	—	0.47	—	—
Government	AA	—	—	0.29	—	—	—
Government	Not rated	—	—	0.09	—	—	—
No credit exposure		(2.36)	0.54	(8.55)	6.16	0.44	1.95
		100.00%	100.00%	100.00%	100.00%	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; however, any uninvited 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, 2012, the Plan's invested assets had the following uncollateralized and uninsured deposits:

		Amount
Broad international equity pool	$	77,167
International fixed income pool		10,414

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:

Fixed income	Global equity ex-U.S.
64%	22%

(4) Deposit and Investment Risk (cont.)

At June 30, 2012, the Plan had exposure to foreign currency risk with the following deposits:

Currency	Amount: International fixed income pool	Amount: Broad international equity pool
Australian Dollar	$ —	529
Brazilian Real	—	77
Canadian Dollar	—	396
Danish Krone	—	193
Euro Currency	—	66,633
Hong Kong Dollar	—	245
Hungarian Fornit	1,692	—
Israeli Shekel	—	55
Japanese Yen	1,663	6,290
Mexican Peso	6,622	—
New Zealand Dollar	—	42
Norwegian Krone	—	124
Peruvian Nouveau Sol	—	—
Pound Sterling	—	1,500
Singapore Dollar	—	158
South African Rand	437	—
South Korean Won	—	—
Swedish Krona	—	104
Swiss Franc	—	821
	$ 10,414	77,167

(4) Deposit and Investment Risk (cont.)

At June 30, 2012, the Plan had exposure to foreign currency risk with the following investments:

	Amount		
	International fixed income pool		Broad international equity pool
Currency	Foreign government	Corporate	Equity
Australian Dollar	$ —	—	142,755
Brazilian Real	133,624	—	13,282
Canadian Dollar	—	—	134,459
Chilean Peso	21,129	—	—
Colombian Peso	22,158	—	—
Czech Koruna	—	—	1,263
Danish Krone	—	—	31,845
Euro Currency	381,505	22,382	972,413
Hong Kong Dollar	—	—	120,924
Hungarian Forint	105,779	—	—
Indian Rupee	—	—	11,301
Indonesian Rupiah	20,738	—	8,229
Israeli Shekel	41,908	—	1,520
Japanese Yen	823,674	15,890	726,634
Malaysian Ringgit	35,813	—	—
Mexican Peso	172,972	15,043	1,385
New Taiwan Dollar	—	—	2,911
New Zealand Dollar	—	—	11,477
Norwegian Krone	—	—	16,268
Peruvian Nouveau Sol	7,771	—	—
Polish Zloty	249,945	—	1,172
Pound Sterling	127,192	—	767,549
Singapore Dollar	—	—	47,125
South African Rand	71,489	—	5,758
South Korean Won	—	—	70,962
Swedish Krona	—	—	82,808
Swiss Franc	—	—	217,488
Thailand Baht	—	—	17,894
Turkish Lira	22,737	—	—
	$ 2,238,434	53,315	3,407,422

At June 30, 2012, 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.

(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 United States 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 Pool.

At June 30, 2012, 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, 2012, the Board had the following derivative instruments outstanding:

	Changes in fair value		Fair value at June 30, 2012		
	Classification	**Amount**	**Classification**	**Amount**	**Notional**
Equity options bought	Investment revenue	$ 1,794	Options	$ —	—
Equity options written	Investment revenue	44,734	Options	(35,676)	(6,591)
FX forwards	Investment revenue	1,493	Long-term instruments	127	41,453
Index futures long	Investment revenue	4,024	Futures	—	90
Index options bought	Investment revenue	33	Options	—	—
Index options written	Investment revenue	729	Options	(135)	(12)
Rights	Investment revenue	177	Common stock	77	186
Warrants	Investment revenue	16	Common stock	28	17
Grand total		$ 53,000		$ (35,579)	

(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, 2012, the Board had the following Foreign Currency risk related to forward contracts:

Currency Forward Contracts

Currency name	Options	Net receivables	Net payables	Total Exposure
Australian dollar	—	32	5	37
Canadian dollar	15	—	—	15
Euro currency	52	16	(104)	(36)
Japanese yen	—	—	132	132
New Zealand dollar	—	—	29	29
	67	48	62	177

At June 30, 2012, the Board had the following counterparty credit and counterparty concentration risk associated with its investment derivative positions:

Counterparty name	Percentage of net exposure	S&P rating	Fitch rating	Moody's rating
Credit Suisse London Branch (GFX)	54.0%	A+	A	A1
State Street Bank London	31.0%	A+	A+	A1
Mellon Bank NA	8.0%	A+	AA-	Aa3
Bank of America N.A.	7.0%	A	A	A3

Maximum amount of loss the Plan would face in case of default of all counterparties i.e., aggregated (positive) fair value of Over-The-Counter (OTC) positions as of June 30, 2012	$	214
Effect of collateral reducing maximum exposure		—
Liabilities subject to netting arrangements reducing exposure		—
Resulting net exposure	$	214

(6) Funded Status and Funding Progress

The funded status of the Plan is as follows:

Actuarial valuation or rollforward date	Actuarial value of assets	Actuarial accrued liability (AAL) – entry age	Unfunded or (funding excess) actuarial accrued liability (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
June 30, 2011	$ 33,019,577	31,324,457	(1,695,120)	105.4%	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, presents 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.

The accompanying schedule of employer contributions (unaudited) presents trend information about the amounts contributed to the Plan 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 30 years.

(Continued)

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

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
Amortization method	Level dollar, open
Amortization period	20 years less average military service of active members
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.00% per annum – includes inflation at 3.12% per annum.
Projected salary increases	None
Cost-of-living adjustment	None

(7) 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, 2012, the Plan’s share of the unfunded commitment totaled $41,796. This commitment can be withdrawn annually in December with ninety days’ notice.

REQUIRED SUPPLEMENTARY INFORMATION

(Unaudited)

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

Required Supplementary Information (Unaudited)

Schedule of Funding Progress

June 30, 2012

Actuarial valuation or roll forward year ended June 30		Actuarial value of plan assets	Actuarial accrued liabilities (AAL)	Unfunded or (funding excess) actuarial accrued liabilities (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
2006	$	15,587,569	25,457,589	9,870,020	61.2%	N/A	N/A
2007		16,882,529	26,289,978	9,407,449	64.2	N/A	N/A
2008		28,370,756	28,904,645	533,889	98.2	N/A	N/A
2009		30,123,348	30,208,411	85,063	99.7	N/A	N/A
2010		32,000,585	30,034,407	(1,966,178)	106.5	N/A	N/A
2011		33,019,577	31,324,457	(1,695,120)	105.4	N/A	N/A

See accompanying notes to required supplementary information (unaudited) 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 (Unaudited)

Schedule of Employer Contributions

June 30, 2012

Year ended June 30	Actuarial valuation year ended June 30 (1)	Annual required contribution	Annual actual contribution	Supplemental contributions	Total contributions	Percentage contributed
2005	2006	$ 2,025,257	1,996,800	—	1,996,800	98.6%
2006	2006	2,025,257	2,053,800	—	2,053,800	101.4
2007	2008	1,737,406	1,737,406	—	1,737,406	100.0
2008	2008	1,737,406	1,737,406	10,000,000 (1)	11,737,405	675.6
2009	2010	2,473,282	2,473,300	—	2,473,300	100.0
2010	2010	2,415,077	2,603,300	—	2,603,300	107.8

(1) During the year ended June 30, 2008, the Plan received a $10,000,000 supplemental appropriation from the State of Alaska General Fund to increase funding.

See accompanying notes to required supplementary information (unaudited) 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, 2010 are as follows:

a. Actuarial cost method – Entry Age Normal Actuarial Cost, any funding surpluses or unfunded actuarial accrued liability amortized over 20 years less the average total military service of active members.

b. Interest – 7.00% 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 – Pre-termination: 1994 Group Annuity Mortality (GAM) Table, sex distinct, 1994 Base Year without margin, projected to 2013 using Projection Scale AA, 80% of the male table for males and 60% of the female table for females. Post-termination: 1994 GAM Table, sex-distinct, 1994 Base Year without margin projected to 2013 using Projection Scale AA for males and with a 1-year set-forward for females. Disability: RP-2000 Disabled Retiree Mortality Table.

e. Turnover – Assumed at 20.00% in the first year, and at 10.00% in the second through fifth year. The ultimate rate of turnover assumption after the first 5 years of employment is 7.40% at age 30, 6.06% at age 40, and 3.26% at age 50.

f. Disability rate – Assumed incidence rates based upon 2005-2009 actual experience of the State of Alaska Public Employees’ Retirement System Peace Officer/Firefighter Plan.

(2) Actuarial Assumptions and Methods (cont.)

g. Retirement age – Active members are assumed to retire beginning at the earliest eligible retirement age according to the following rates:

Age	Rate	Age	Rate
<51	5%	58	56%
51	11	59	62
52	18	60	68
53	24	61	75
54	30	62	81
55	37	63	87
56	43	64	94
57	49	65+	100

Vested terminated members are assumed to retire at current age or age 50, whichever is later.

h. Assets – 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.

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, 2010, there was no change in methods from the prior valuation.

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

a. Investment return has changed from 7.25% per year, compounded annually, net of expenses to 7.00% per year, compounded annually, net of expenses.

b. Pre-termination mortality has changed from 1994 GAM Table, 1994 Base Year without margin to 80% of the male rates and 60% of the female rates of the 1994 GAM Table, 1994 Base Year without margin projected to 2013 with Projection Scale AA.

c. Post-termination mortality has changed from 1994 GAM Table, 1994 Base Year without margin to 1994 GAM Table, 1994 Base Year without margin projected to 2013 with Projection Scale AA for males and with a 1-year set-forward for females.

d. Total inflation has changed from 3.5% annually to 3.12% annually.

(2) Actuarial Assumptions and Methods (cont.)

e. Turnover has changed from unisex; 2-year select period; ultimate follows T-3 Table from Pension Actuary's Handbook to unisex; 5-year select period; increase all ultimate rates by 50%.

f. Retirement age has changed from members are assumed to retire after 20 years of eligibility service, unless they complete 20 years before age 55, then it is assumed that they will work one-half of the remaining years to age 55 to members are assumed to begin retiring at the earliest eligible retirement age in accordance with the table of retirement rates.

g. 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.

h. Disability rate has changed from disability rates under Group Long Term Disability policies, as given in the 1978 Society of Actuaries Study to incidence rates based upon the 2005-2009 actual experience of the State of Alaska Public Employees' Retirement System Peace Officer/Firefighter Plan.

SUPPLEMENTAL SCHEDULES

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, 2012 and 2011

	Administrative	Investment	Total 2012	Total 2011
Personal services:				
Wages	$ 45,010	3,698	48,708	51,927
Benefits	27,648	1,793	29,441	29,316
Total personal services	72,658	5,491	78,149	81,243
Contractual services:				
Accounting and auditing	7,000	2,463	9,463	8,595
Management and consulting	10,491	43,105	53,596	67,339
Other professional services	911	1	912	1,188
Communications	331	48	379	402
Other services	23,822	2,694	26,516	38,815
Advertising and printing	—	13	13	23
Transportation	308	5	313	242
Total contractual services	42,863	48,329	91,192	116,604
Other:				
Travel	284	464	748	884
Supplies	6,260	190	6,450	3,391
Equipment	1,660	—	1,660	4,991
Total other	8,204	654	8,858	9,266
Total administrative and investment deductions	$ 123,725	54,474	178,199	207,113

See accompanying independent auditors' report.

Schedule 2

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

Year ended June 30, 2012 and 2011

Firm	Services		2012	2011
Buck Consultants, an ACS Company	Actuarial services	$	9,364	22,872
KPMG LLP	Auditing services		7,000	6,500
State Street Corporation	Custodian banking services		2,426	2,181
Alaska IT Group	Data processing consultants		506	701
		$	19,296	32,254

See accompanying independent auditors' report.