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, 2013 and 2012

(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 statement 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, 2013 and 2012, and the related statements of changes in plan net assets for the year then ended, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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, 2013 and 2012, and the changes in plan net assets for the year then ended, in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis, Schedules of Funding Progress, and Schedules of Contributions from Employers on pages 3-9 and 29-32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplemental Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Plan's basic financial statements. The supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

KPMG LLP

October 18, 2013

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, 2013 and 2012. 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, 2013 and 2012. Information for fiscal year 2012 and 2011 is presented for comparative purposes.

Financial Highlights

The Plan financial highlights as of June 30, 2013 were as follows:

- The Plan's net assets held in trust for pension benefits as of June 30, 2013 increased by $1,394,718 during fiscal year 2013.
- The State of Alaska directly appropriated $739,100 during fiscal year 2013.
- The plan net investment income increased $2,305,737 to $2,593,463 during fiscal year 2013.
- Plan pension benefit expenditures totaled $1,772,198 during fiscal year 2013.

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 composed 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, 2013 and 2012.

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, 2013 and 2012. This statement presents contributions and investment income 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, 2013 and 2012, and the sources and uses of those funds during fiscal years 2013 and 2012.

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

Required Supplementary Information and Related Notes – The required supplementary information consists of 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	2013	2012	Increase (decrease) Amount	Increase (decrease) Percentage	2011
Assets:					
Cash and cash equivalents	$ 2,008,913	487,744	1,521,169	311.9%	$ 24,456
Investments, at fair value	32,132,174	32,212,908	(80,734)	(0.3)	32,970,734
Total assets	34,141,087	32,700,652	1,440,435	4.4	32,995,190
Liabilities:					
Accrued expenses	88,225	54,551	33,674	61.7	60,815
Due to State of Alaska General Fund	19,710	7,667	12,043	157.1	21,560
Total liabilities	107,935	62,218	45,717	73.5	82,375
Net assets	$ 34,033,152	32,638,434	1,394,718	4.3%	$ 32,912,815

Changes in Plan Net Assets

Description	2013	2012	Increase (decrease) Amount	Increase (decrease) Percentage	2011
Net assets, beginning of year	$ 32,638,434	32,912,815	(274,381)	(0.8)%	$ 29,431,722
Additions:					
Contributions – DMVA	739,100	895,611	(156,511)	(17.5)	965,375
Net investment income	2,593,463	287,726	2,305,737	801.4	4,079,268
Other Addition	4	25	(21)	(84.0)	32
Total additions	3,332,567	1,183,362	2,149,205	181.6	5,044,675
Deductions:					
Pension benefits	1,772,198	1,334,018	438,180	32.8	1,411,254
Administrative	165,651	123,725	41,926	33.9	152,328
Total deductions	1,937,849	1,457,743	480,106	32.9	1,563,582
Increase (decrease) in net assets	1,394,718	(274,381)	1,669,099	(608.3)	3,481,093
Net assets, end of year	$ 34,033,152	32,638,434	1,394,718	4.3%	$ 32,912,815

Financial Analysis of the Plan

The statements of plan net assets as of June 30, 2013 and 2012 show net assets held in trust for pension benefits of $34,033,152 and $32,638,434, 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 an increase of $1,394,718 or 4.3% in plan net assets held in trust for pension benefits from fiscal year 2012 and a decrease of $274,381 or 0.8% in plan net assets held in trust for pension benefits from fiscal year 2011. 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 2013 and 2012, the Board adopted the following asset allocations:

	2013	
	Allocation	**Range**
Broad domestic equity	26.0%	± 6%
Global equity ex-U.S.	17.0	± 4
Fixed composite	51.0	± 10
Short-term fixed income	6.0	-6/+1
Total	100.0%	
Expected five-year median return	5.75%	
Standard deviation	8.73	

	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	

For fiscal years 2013 and 2012, the Plan's investments generated an 8.17% and a 1.02% rate of return, respectively. The Plan's annualized rate of return was 7.57% over the last three years and 4.94% 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 105.4% at June 30, 2011 to 102.8% at June 30, 2012. This decrease was primarily due to the loss created by less than expected return on assets. 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 or rollforward year	
		2012	2011
Valuation assets	$	33,682,091	33,019,577
Accrued liabilities		32,771,017	31,324,457
Funding excess	$	911,074	1,695,120
Funding ratio		102.8%	105.4%

Contributions and Investment Income

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

	Additions				
			Increase (decrease)		
	2013	2012	Amount	Percentage	2011
Contributions – DMVA	$ 739,100	895,611	(156,511)	(17.5)%	$ 965,375
Net investment income	2,593,463	287,726	2,305,737	801.4	4,079,268
Other addition	4	25	(21)	(84.0)	32
Total	$ 3,332,567	1,183,362	2,149,205	181.6%	$ 5,044,675

The Plan's employer contributions decreased from $895,611 during fiscal year 2012 to $739,100 during fiscal year 2013, a decrease of $156,511 or 17.5%. There was a decrease between the actuarial roll-forward determined contribution amounts from fiscal year 2013 of $431,367 and the actuarially determined contribution amount for fiscal year 2012 of $895,565. 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 2013 increased by $2,305,737 or 801.4% from amounts recorded in fiscal year 2012 and net investment income in fiscal year 2012 decreased by $3,791,542 or 92.9% from amounts recorded in fiscal year 2011. Over the long term, investment income is a major component of additions to Plan assets. During fiscal year 2013, the Plan experienced mixed returns on investments.

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

	Year ended 2013	2012	2011
System returns	8.17%	1.02%	13.90%
Domestic equities	21.15	2.05	31.50
International equities	15.03	(14.07)	31.36
Fixed income	0.62	6.17	1.42

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:

	2013	2012	Increase Amount	Increase Percentage	2011
Pension benefits	$ 1,772,198	1,334,018	438,180	32.8%	$ 1,411,254
Administrative	165,651	123,725	41,926	33.9	152,328
Total	$ 1,937,849	1,457,743	480,106	32.9%	$ 1,563,582

The increase in administrative deductions is related to the increase 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.

(Continued)

Legislation

During fiscal year 2013, the Twenty-Eighth Alaska State Legislature enacted one law that affects the Plan:

- House Bill 65 appropriates $740,100 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, 2014.

Economic Conditions, Future Contribution Rates, and Funding Status

Fiscal year 2013 was a stronger recovery year than fiscal year 2012 was in terms of investment returns. Net investment income increased from $287,726 in fiscal year 2012 to $2,593,463 in fiscal year 2013, an increase of $2,305,737 or 801.4%. The Board continues to diversify the portfolio of the Plan to maintain an optimal risk/return ratio. Although net investment income for fiscal year 2013 was positive, actual investment returns greater than the assumed investment return remain the objective. Maintaining this objective 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 $895,565 in fiscal year 2012 to $431,367 in fiscal year 2013. The fiscal year 2014 contribution amount has been actuarially determined to be $474,791.

The actuarial valuation for June 30, 2012 reports a funding ratio based on actuarial value of assets of 102.8% and a funding excess of $911,074. Since actuarial valuation reports for the Plan are conducted biennially, the June 30, 2014 report will be completed and presented to the Board in the spring of 2015. 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, Finance Section
P.O. Box 110203
Juneau, Alaska 99811-0203

STATE OF ALASKA
NATIONAL GUARD AND
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Statements of Plan Net Assets

June 30, 2013 and 2012

		2013	**2012**
Assets:			
Cash and cash equivalents (notes 2, 3, and 4):			
Short-term fixed income pool	$	2,008,913	487,744
Investments (notes 3, 4, and 5) at fair value:			
Fixed income securities:			
Retirement fixed income pool		—	122,935
U.S. intermediate treasury fixed income pool		10,005,488	11,079,647
High yield pool		3,704,736	2,764,653
International fixed income pool		2,590,401	2,346,226
Emerging market debt		1,102,771	773,651
Total fixed income securities		17,403,396	17,087,112
Broad domestic equity pool		8,959,877	9,695,305
Broad international equity:			
International equity pool		5,011,394	4,101,170
Emerging market equity pool		757,507	1,329,321
Total broad international equity		5,768,901	5,430,491
Total investments		32,132,174	32,212,908
Total assets		34,141,087	32,700,652
Liabilities:			
Accrued expenses		88,225	54,551
Due to State of Alaska General Fund		19,710	7,667
Total liabilities		107,935	62,218
Commitments (note 7)			
Net assets held in trust for pension benefits	$	34,033,152	32,638,434

See accompanying notes to financial statements.

STATE OF ALASKA
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Statements of Changes in Plan Net Assets

Years ended June 30, 2013 and 2012

		2013	2012
Additions:			
Contributions – State of Alaska, Division Military and Veterans' Affairs	$	739,100	895,611
Investment income:			
Net appreciation (depreciation) in fair value		1,833,259	(548,005)
Interest		480,782	475,664
Dividends		356,387	414,541
Total investment income		2,670,428	342,200
Less investment expense		76,965	54,474
Net investment income		2,593,463	287,726
Other addition		4	25
Total additions		3,332,567	1,183,362
Deductions:			
Pension benefits		1,772,198	1,334,018
Administrative		165,651	123,725
Total deductions		1,937,849	1,457,743
Net increase (decrease)		1,394,718	(274,381)
Net assets held in trust for pension benefits:			
Balance, beginning of year		32,638,434	32,912,815
Balance, end of year	$	34,033,152	32,638,434

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	
	2012	**2010**
Retirees and beneficiaries currently receiving benefits	608	547
Terminated plan members entitled to future benefits	1,308	1,251
Total current and future benefits	1,916	1,798
Active plan members:		
Alaska Air National Guard	2,446	2,208
Alaska Army National Guard	1,899	1,789
Alaska Naval Militia	52	88
Total active plan members	4,397	4,085
Total members	6,313	5,883

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.

(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.

Valuation and Income Allocation

Fixed Income Pools

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

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 midpoint of representative quoted bid and ask prices.

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.

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

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.

Emerging Markets Equity

Income in this pool 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, 2013, the plan investments included the following:

	Fair value						
	Fixed income pools						
	Short-term	U.S. Treasury	High yield	International	Convertible	Other	Total
Commercial paper	$ 110,597	—	—	—	—	—	110,597
Convertible bonds	—	—	13,382	—	171,025	—	184,407
Corporate bonds	135,569	404,902	3,175,947	—	—	—	3,716,418
Deposits	56,673	—	129,633	8,827	713	—	195,846
Foreign corporate bonds	—	—	—	198,729	—	—	198,729
Foreign government bonds	—	—	—	2,317,492	—	—	2,317,492
Mortgage-backed	5,688	543,010	—	—	—	—	548,698
Municipal bonds	1,327	13,883	—	—	—	—	15,210
Other asset backed	1,131,685	307,456	12,877	—	—	—	1,452,018
Short-term investment fund	—	—	—	23,945	—	—	23,945
U.S. government agency discount notes	189	—	—	—	—	—	189
U.S. government agency	—	249,536	—	—	—	—	249,536
Treasury bills	1,116,996	—	—	—	—	—	1,116,996
Treasury notes	—	7,843,094	—	—	—	—	7,843,094
Treasury strips	—	14,473	—	—	—	—	14,473
Yankees:							
Corporate	35,519	55,803	346,074	—	—	—	437,396
Government	—	206,872	—	—	—	—	206,872
Fixed income pool:							
Equity	—	—	—	—	21,329	—	21,329
Warrants	—	—	375	—	—	—	375
Emerging markets debt pool				—	—	1,102,771	1,102,771
Broad domestic equity pool:							
Deposits	—	—	—	—	—	51,979	51,979
Equity	—	—	—	—	—	8,100,017	8,100,017
Futures	—	—	—	—	—	(467)	(467)
Limited partnership	—	—	—	—	—	410,685	410,685
Options	—	—	—	—	—	(28,209)	(28,209)
Treasury bills	—	—	—	—	—	4,454	4,454
Warrants	—	—	—	—	—	2	2
Broad international equity pool:							
Deposits	—	—	—	—	—	88,767	88,767
Equity	—	—	—	—	—	4,306,190	4,306,190
Rights	—	—	—	—	—	31	31
Mutual fund	—	—	—	—	—	587,394	587,394
Short-term investment fund	—	—	—	—	—	16,116	16,116
Warrants	—	—	—	—	—	150	150
Emerging markets equity pool	—	—	—	—	—	757,507	757,507
Net other assets (liabilities)	(46,590)	41,515	26,448	41,408	1,966	25,333	90,080
Other pool ownership	(538,740)	324,944	—	—	—	213,796	—
Total invested assets	$ 2,008,913	10,005,488	3,704,736	2,590,401	195,033	15,636,516	34,141,087

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 14 months to maturity or 14 months expected average life upon purchase. Floating rate securities are limited to 3 years to maturity or 3 years expected average life upon purchase. These constraints apply to trade date, except for securities bought at new issue, for which settlement date applies. At June 30, 2013, the expected average life of individual fixed rate securities ranged from 3 days to 34 years and the expected average life of floating rate securities ranged from 14 days to 22 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, 2013 was 5.49 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, 2013 was 3.68 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 High Yield Fixed Income portfolio to ± 20% of the Bank of America Merrill Lynch U.S. High Yield Master II Constrained Index. The effective duration for the Bank of America Merrill Lynch U.S. High Yield Master II Constrained Index at June 30, 2013 was 4.46 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, 2013 was 7.25 years and the effective duration of the JP Morgan Global Bond Index at June 30, 2013 was 4.89, for a blended duration of 6.54 at June 30, 2013.

(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, 2013, the effective duration of the Board's fixed income pool, by investment type, was as follows (in years):

	Effective duration		
	U.S. Treasury	**High yield**	**International**
Corporate bonds	2.83	4.29	—
Foreign corporate bonds	—	—	3.16
Foreign government bonds	—	—	5.74
Mortgage-backed	2.59	—	—
Municipal bonds	11.85	—	—
Other asset-backed	0.48	3.88	—
U.S. Treasury bonds	—	—	—
U.S. Treasury notes	3.64	—	—
U.S. Treasury strips	5.12	—	—
U.S. government agency	8.31	—	—
Yankees:			
Corporate	3.77	4.31	—
Government	6.00	—	—
Portfolio effective duration	**3.52**	**4.13**	**5.46**

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 nonagency 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 nonagency 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 nonagency mortgage securities must be investment grade. Investment grade is defined as the median rating of Standard & Poor’s, Moody’s, and Fitch. Asset-backed and nonagency 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. Intermediate 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 nonagency mortgage securities must be investment grade. Investment grade is defined as the median rating of Standard & Poor’s, Moody’s, and Fitch. Asset-backed and nonagency 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 by any rating agency (including government instruments). Cash held in the portfolio will be included in this limitation.

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.

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

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. In the event a split rating exists, the lower of the ratings shall apply for evaluating credit quality.

(4) Deposit and Investment Risk (cont.)

Convertible Bonds

Nonrated 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. Nonrated securities are limited to 35% of the total market value of the portfolio. Nonrated securities to which the Manager assigns a noninvestment grade rating are subject to the below investment grade limitation.

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

The Manager shall not purchase any security with a credit rating at or below CCC- by S&P 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.

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, 2013, 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**	**U.S. Treasury**	**High yield**	**International**	**Convertible**
Deposits	Not rated	2.22 %	— %	3.50 %	0.34 %	0.37 %
Commercial paper	Not rated	4.34	—	—	—	—
Corporate bonds	AA	2.41	0.65	—	—	—
Corporate bonds	A	2.91	2.50	0.11	—	—
Corporate bonds	BBB	—	0.82	3.21	—	—
Corporate bonds	BB	—	0.09	32.85	—	—
Corporate bonds	B	—	—	41.86	—	—
Corporate bonds	CCC	—	—	3.44	—	—
Corporate bonds	CC	—	—	0.28	—	—
Corporate bonds	D	—	—	0.47	—	—
Corporate bonds	Not rated	—	—	3.55	—	—
Convertible bonds	A	—	—	—	—	5.08
Convertible bonds	BBB	—	—	0.33	—	17.94
Convertible bonds	BB	—	—	—	—	15.86
Convertible bonds	B	—	—	—	—	14.47
Convertible bonds	CCC	—	—	—	—	2.73
Convertible bonds	Not rated	—	—	0.03	—	31.60
Equity	BBB	—	—	—	—	2.88
Equity	BB	—	—	—	—	3.97
Equity	B	—	—	—	—	2.08
Equity	Not rated	—	—	—	—	2.01
Foreign corporate bonds	A	—	—	—	1.27	—
Foreign corporate bonds	BBB	—	—	—	0.56	—
Foreign corporate bonds	Not rated	—	—	—	5.84	—
Foreign government bonds	AAA	—	—	—	6.77	—
Foreign government bonds	AA	—	—	—	1.68	—
Foreign government bonds	A	—	—	—	22.90	—
Foreign government bonds	BBB	—	—	—	3.58	—
Foreign government bonds	BB	—	—	—	1.41	—
Foreign government bonds	Not rated	—	—	—	53.11	—
U.S. government agency	Not rated	0.01	2.48	—	—	—
Mortgage-backed	AAA	0.07	1.35	—	—	—
Mortgage-backed	AA	0.08	1.82	—	—	—
Mortgage-backed	A	0.07	0.38	—	—	—
Mortgage-backed	Not rated	—	1.88	—	—	—
Municipal bonds	AA	0.05	0.14	—	—	—
Other asset-backed	AAA	39.98	1.71	—	—	—
Other asset-backed	AA	0.72	—	—	—	—
Other asset-backed	BB	—	—	0.10	—	—
Other asset-backed	B	—	—	0.25	—	—
Other asset-backed	Not rated	3.71	1.36	—	—	—
Other pool ownership	Not rated	—	3.25	—	—	—
U.S. Treasury bills	AA	43.83	—	—	—	—
U.S. Treasury notes	AA	—	78.40	—	—	—
U.S. Treasury strips	AA	—	0.14	—	—	—
Short-term investment	Not rated	—	—	—	0.92	—
Warrants	Not rated	—	—	0.01	—	—
Yankees:						
Corporate	AAA	—	0.06	—	—	—
Corporate	AA	0.55	0.28	—	—	—
Corporate	A	0.84	0.07	—	—	—
Corporate	BBB	—	0.14	—	—	—
Corporate	BB	—	—	3.37	—	—
Corporate	B	—	—	4.80	—	—
Corporate	CCC	—	—	0.55	—	—
Corporate	Not rated	—	—	0.58	—	—
Government	AAA	—	0.33	—	—	—
Government	AA	—	0.35	—	—	—
Government	Not rated	—	1.38	—	—	—
No credit risk		(1.79)	0.42	0.71	1.62	1.01
		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, Treasury Investment policy requires the State's depository banks to collateralize State deposits to the extent they exceed insurance coverage provided by the Federal Deposit Insurance Corporation (the FDIC provides $250,000 of coverage). In accordance with treasury policy, they are to retain collateral equal to 110% of uninsured deposits.

At June 30, 2013, the Plan's invested assets had the following uncollateralized and uninsured deposits:

		Amount
Broad international equity pool	$	88,770
International fixed income pool		8,830

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, Romania, 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.
61%	21%

(4) Deposit and Investment Risk (cont.)

At June 30, 2013, the Plan had exposure to foreign currency risk with the following deposits and investments:

	Amount						
	International fixed income			International equity			
Currency	Deposits	Foreign government bonds	Foreign corporate bonds	Deposits	Equity	Mutual Funds	Rights
Australian Dollar	$ 473	87,100	—	1,000	96,632	—	2
Brazilian Real	—	161,154	—	58	17,720	—	—
Canadian Dollar	—	—	—	264	121,393	—	—
Chilean Peso	—	28,901	—	—	—	—	—
Colombian Peso	913	35,525	—	—	—	—	—
Danish Krone	—	—	—	149	40,340	—	—
Euro Currency	—	352,216	181,017	75,323	1,110,657	—	28
Hong Kong Dollar	—	—	—	1,032	147,697	—	—
Hungarian Forint	—	36,549	—	—	—	—	—
Indian Rupee	—	—	—	—	2,246	—	—
Indonesian Rupiah	—	—	—	277	17,214	—	—
Israeli Shekel	—	—	—	97	1,722	—	—
Japanese Yen	1,635	729,066	—	6,205	862,269	—	—
Malaysian Ringgit	2,096	127,917	—	—	8,958	—	—
Mexican Peso	3,074	154,607	17,712	17	2,592	—	—
New Russian Ruble	—	59,340	—	—	—	—	—
New Taiwan Dollar	—	—	—	80	19,656	—	—
New Zealand Dollar	—	—	—	3	13,034	—	—
Norwegian Krone	—	—	—	132	24,106	—	—
Peruvian Nouveau Sol	—	36,490	—	—	—	—	—
Philippine Peso	—	—	—	—	3,073	—	—
Polish Zloty	—	217,308	—	—	—	—	—
Pound Sterling	—	—	—	2,897	786,473	641	—
Singapore Dollar	—	—	—	284	56,554	—	—
South African Rand	—	67,394	—	—	—	—	—
South Korean Won	361	—	—	—	59,752	—	—
Swedish Krona	—	175,459	—	423	105,334	—	—
Swiss Franc	—	—	—	454	274,183	—	—
Thailand Baht	278	—	—	75	23,130	—	—
Turkish Lira	—	48,468	—	—	—	—	—
UAE Dirham	—	—	—	—	2,385	—	—
	$ 8,830	2,317,494	198,729	88,770	3,797,120	641	30

At June 30, 2013, the Plan also had exposure to foreign currency risk in the Emerging Markets Equity Pool. This pool consist 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 U.S. government.

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

At June 30, 2013, 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, 2013, the Board had the following derivative instruments outstanding:

	Changes in fair value		Fair value at June 30, 2013		
	Classification	**Amount**	**Classification**	**Amount**	**Notional**
Equity options bought	Investment revenue	—	Options	—	—
Equity options written	Investment revenue	406	Options	(27,256)	(4,269)
FX forwards	Investment revenue	5,039	Long-term instruments	2,951	41,185
Index futures long	Investment revenue	20,163	Futures	—	83
Index options written	Investment revenue	1,084	Options	(98)	(6)
Rights	Investment revenue	(229)	Common stock	32	101
Warrants	Investment revenue	91	Common stock	233	498
Grand total		$ 26,554		$ (24,138)	

(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, 2013, 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	2	(176)	2,690	2,516
Euro Currency	28	—	4	32
Japanese Yen	—	—	122	122
New Zealand Dollar	—	—	218	218
	30	(176)	3,034	2,888

At June 30, 2013, 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
State Street Bank London	96.0%	A+	A+	A1
Bank of New York	4.0%	A+	AA-	Aa3
UBS AG	—%	A	A	A2

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, 2013	$	3,034
Effect of collateral reducing maximum exposure		—
Liabilities subject to netting arrangements reducing exposure		—
Resulting net exposure	$	3,034

(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, 2012	$ 33,682,091	32,771,017	(911,074)	102.8%	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.

(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, 2012
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, 80% / 120% of fair value corridor
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 limited partnerships in domestic equity portfolios. At June 30, 2013, the Plan’s share of the unfunded commitment totaled $12,988. This commitment can be canceled annually in December with 90 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, 2013

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
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
2012	33,682,091	32,771,017	(911,074)	102.8	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, 2013

Year ended June 30	Actuarial valuation year ended June 30 (1)	Annual required contribution	Annual actual contribution	Supplemental contributions	Total contributions	Percentage contributed
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
2011	2012	965,329	965,375	—	965,375	100.0
2012	2012	895,565	895,611	—	895,611	100.0

(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, 2012 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 – Pretermination: 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. Posttermination: 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.

(Continued)

(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, 2012, there was no change in methods from the prior valuation.

Changes in Assumptions from the Last Actuarial Valuation – June 30, 2010 to June 30, 2012

There are no changes in actuarial assumptions from the prior valuations.

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, 2013 and 2012

			Total	
	Administrative	**Investment**	**2013**	**2012**
Personal services:				
Wages	$ 52,765	493	53,258	45,414
Benefits	32,450	211	32,661	27,825
Total personal services	85,215	704	85,919	73,239
Travel:				
Transportation	416	284	700	554
Per diem	70	147	217	194
Total travel	486	431	917	748
Contractual services:				
Management and consulting	36,595	71,399	107,994	61,670
Accounting and auditing	7,254	2,003	9,257	9,541
Data Processing	24,755	1,645	26,400	11,264
Communications	1,706	109	1,815	2,955
Advertising and printing	350	24	374	613
Rental/leases	4,512	153	4,665	4,129
Legal	358	170	528	989
Transportation	279	4	283	313
Other services	1,270	122	1,392	4,287
Total contractual services	77,079	75,629	152,708	95,761
Other:				
Equipment	712	45	757	2,002
Supplies	2,159	156	2,315	6,449
Total other	2,871	201	3,072	8,451
Total administrative and investment deductions	$ 165,651	76,965	242,616	178,199

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

Year ended June 30, 2013 and 2012

Firm	**Services**		**2013**	**2012**
Buck Consultants, an ACS Company	Actuarial services	$	32,120	9,364
KPMG LLP	Auditing services		7,200	7,000
Mythics Inc	Data processing consultants		2,176	—
Applied Microsystems Inc	Data processing consultants		2,098	2,078
State Street Corporation	Custodian banking services		1,942	2,426
		$	45,536	20,868

See accompanying independent auditors' report.