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, 2014 and 2013

(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
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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 fiduciary net position 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, 2014 and 2013, and the statements of changes in fiduciary net position for the years 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 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 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 fiduciary net position of the State of Alaska National Guard and Naval Militia Retirement System as of June 30, 2014 and 2013, and the changes in fiduciary net position for the year then ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of a Matter

As discussed in Note 2 to the financial statements, in 2014, the System adopted Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3–8, and the schedule of changes in employer net pension liability and related ratios, schedule of employer and nonemployer contributions, schedule of investment returns on pages 22–24 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

December 9, 2014

This section presents management's discussion and analysis (MD&A) of the State of Alaska National Guard and Naval Militia Retirement System's (the Plan) financial position and performance for the years ended June 30, 2014 and 2013. 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, 2014 and 2013. Information for fiscal year 2013 and 2012 is presented for comparative purposes.

Financial Highlights

The Plan's financial highlights as of June 30, 2014 were as follows:

- The Plan's fiduciary net position restricted for pension benefits as of June 30, 2014 increased by $3,433,953 during fiscal year 2014.
- The State of Alaska, Department of Military and Veterans' Affairs directly appropriated $740,100 during fiscal year 2014.
- The plan net investment income increased by $1,934,209 to $4,527,672 during fiscal year 2014.
- Plan pension benefit expenditures totaled $1,610,506 during fiscal year 2014.

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 fiduciary net position, (2) statement of changes in fiduciary net position, and (3) notes to financial statements. This report also contains required supplementary information and other supplemental schedules.

Statement of Fiduciary Net Position – This statement presents information regarding the Plan's assets, liabilities, and resulting net position restricted 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, 2014 and 2013.

Statement of Changes in Fiduciary Net Position – This statement presents how the Plan's net position restricted for pension benefits changed during the fiscal years ended June 30, 2014 and 2013. 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, 2014 and 2013, and the sources and uses of those funds during fiscal years 2014 and 2013.

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 four 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 Fiduciary Net Position

Description	2014	2013	Increase (decrease) Amount	Increase (decrease) Percentage	2012
Assets:					
Cash and cash equivalents	$ 1,123,670	2,008,913	(885,243)	(44.1)%	$ 487,744
Investments, at fair value	36,432,293	32,132,174	4,300,119	13.4	32,212,908
Total assets	37,555,963	34,141,087	3,414,876	10.0	32,700,652
Liabilities:					
Accrued expenses	68,635	88,225	(19,590)	(22.2)	54,551
Due to State of Alaska General Fund	20,223	19,710	513	2.6	7,667
Total liabilities	88,858	107,935	(19,077)	(17.7)	62,218
Net position	$ 37,467,105	34,033,152	3,433,953	10.1%	$ 32,638,434

Changes in Plan Fiduciary Net Position

Description	2014	2013	Increase (decrease) Amount	Increase (decrease) Percentage	2012
Net position, beginning of year	$ 34,033,152	32,638,434	1,394,718	4.3%	$ 32,912,815
Additions:					
Contributions – DMVA	740,100	739,100	1,000	0.1	895,611
Net investment income	4,527,672	2,593,463	1,934,209	74.6	287,726
Other Addition	21	4	17	425.0	25
Total additions	5,267,793	3,332,567	1,935,226	58.1	1,183,362
Deductions:					
Pension benefits	1,610,506	1,772,198	(161,692)	(9.1)	1,334,018
Administrative	223,334	165,651	57,683	34.8	123,725
Total deductions	1,833,840	1,937,849	(104,009)	(5.4)	1,457,743
Increase (decrease) in net position	3,433,953	1,394,718	2,039,235	146.2	(274,381)
Net position, end of year	$ 37,467,105	34,033,152	3,433,953	10.1%	$ 32,638,434

(Continued)

Financial Analysis of the Plan

The statements of plan net position as of June 30, 2014 and 2013 show net position restricted for pension benefits of $37,467,105 and $34,033,152, 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 $3,433,953 or 10.1% in plan net position restricted for pension benefits from fiscal year 2013 and $1,394,718 or 4.3% in plan net position restricted for pension benefits from fiscal year 2012. 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 2014 and 2013, the Board adopted the following asset allocations:

	2014	
	Allocation	**Range**
Broad domestic equity	29.0%	± 6%
Global equity ex-U.S.	20.0	± 4
Fixed composite	48.0	± 10
Short-term fixed income	3.0	-3/+1
Total	100.0%	
Expected five-year median return	5.68%	
Standard deviation	9.70	

	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	

For fiscal years 2014 and 2013, the Plan's investments generated a 13.56% and an 8.17% rate of return, respectively.

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		
	2014	2013	Amount	Percentage	2012
Contributions – DMVA	$ 740,100	739,100	1,000	0.1%	$ 895,611
Net investment income	4,527,672	2,593,463	1,934,209	74.6	287,726
Other addition	21	4	17	425.0	25
Total	$ 5,267,793	3,332,567	1,935,226	58.1%	$ 1,183,362

The Plan's employer contributions increased from $739,100 during fiscal year 2013 to $740,100 during fiscal year 2014, an increase of $1,000, or 0.1%. There was a slight increase between the actuarial roll-forward determined contribution amounts from fiscal year 2014 of $474,791 and the actuarially determined contribution amount for fiscal year 2013 of $431,367. The increase is attributed to the expense load added to the normal costs in determining the contribution amounts. A full actuarial valuation is completed for the Plan biennially with the actuarial roll-forward being completed in the interim years.

The Plan's net investment income in fiscal year 2014 increased by $1,934,209 or 74.6% from amounts recorded in fiscal year 2013 and net investment income in fiscal year 2013 increased by $2,305,737 or 801.4% from amounts recorded in fiscal year 2012. Over the long term, investment income is a major component of additions to Plan assets. During fiscal year 2014, the Plan experienced investment returns almost double of the actuarially assumed rate of return of 7.00%.

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

	Year ended		
	2014	2013	2012
System returns	13.56%	8.17%	1.02%
Domestic equities	25.80	21.15	2.05
International equities	23.48	15.03	(14.07)
Fixed income	3.43	0.62	6.17
Actuarially determined rate of return	7.00	7.00	7.00

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:

	2014	2013	Increase (decrease) Amount	Increase (decrease) Percentage	2012
Pension benefits	$ 1,610,506	1,772,198	(161,692)	(9.1)%	$ 1,334,018
Administrative	223,334	165,651	57,683	34.8	123,725
Total	$ 1,833,840	1,937,849	(104,009)	(5.4)%	$ 1,457,743

The increase in administrative deductions is related to the increase in data processing consultants service cost.

Net Pension Liability

In June 2012, the GASB released a new statement amending existing pension accounting standards for pension plans - GASB 67. The changes related to this new statement for the DB Plan is reflected in this year's notes, schedules, and required supplementary information. The new statement focuses on plan financial reporting and changes the System's DB Plan financial statements by requiring additional disclosure in the notes to the financial statements, actuarial calculations, and schedules. It also requires a different methodology to measure the liability of the DB Plan's pension benefits. The DB Plan is now required to report new pension items called the Total Pension Liability (TPL), Fiduciary Net Position (FNP), and Net Pension Liability (NPL).

The total pension liability (TPL) determines the total obligation for the DB Plan's pension benefits related to costs incurred as a result of years of service, changes in benefit terms, changes in actuarial assumptions, and any differences between the actuarial assumptions and actual experience. The DB Plan's fiduciary net position (FNP) determines the assets available to pay the DB Plan's future payment stream. The assets are derived from contributions received from participating employers, plan members, and nonemployer contributions, as well as investment earnings, less benefit payments during the year and the related costs to administer the DB Plan. The difference between the TPL and FNP is the Net Pension Liability (NPL), or the unfunded portion of the TPL.

The components of the net pension liability (asset) at June 30, 2014, were as follows:

Total pension liability	$ 35,311,535
Plan fiduciary net position	(37,467,105)
Employers' net pension liability (asset)	$ (2,155,570)
Plan fiduciary net position as a percentage of the total pension liability (asset)	106.10%

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 2014, the Twenty-Eighth Alaska State Legislature enacted one law that affects the Plan:

- House Bill 266 appropriates $627,300 from the general fund to the DMVA for deposit in the Plan's defined benefit pension fund for the purpose of retirement funding for fiscal year ending June 30, 2015.

Economic Conditions, Future Contribution Amounts, and Funding Status

Fiscal year 2014 was a stronger recovery year than fiscal year 2013 was in terms of investment returns. Net investment income increased from $2,593,463 in fiscal year 2013 to $4,527,672 in fiscal year 2014, an increase of $1,934,209 or 74.6%. The Board continues to diversify the portfolio of the Plan to maintain an optimal risk/return ratio. Although net investment income for fiscal year 2014 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 an increase from the Plan's actuarially determined contribution amount of $431,367 in fiscal year 2013 to $474,791 in fiscal year 2014. The fiscal year 2015 contribution amount has been actuarially determined to be $627,327 and was subsequently appropriated by the State.

The actuarial roll-forward valuation for June 30, 2013 reports a funding ratio based on actuarial value of assets of 100.8% and a funding excess of $270,654. Since full 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. The actuarial roll-forward analysis as of June 30, 2013 is available and posted to the Plan's Web page.

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
NAVAL MILITIA RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Statements of Plan Fiduciary Net Position

June 30, 2014 and 2013

		2014	**2013**
Assets:			
Cash and cash equivalents (notes 2, 3, and 4):			
Short-term fixed income pool	$	1,123,670	2,008,913
Investments (notes 3, 4, and 5) at fair value:			
Fixed income securities:			
U.S. intermediate treasury fixed income pool		13,861,580	10,005,488
Taxable municipal bond pool		394,806	—
High yield pool		1,732,247	3,704,736
International fixed income pool		1,739,439	2,590,401
Emerging market debt		272,439	1,102,771
Total fixed income securities		18,000,511	17,403,396
Broad domestic equity pool		10,905,158	8,959,877
Broad international equity:			
International equity pool		6,478,897	5,011,394
Frontier market pool		143,678	—
Emerging market equity pool		904,049	757,507
Total broad international equity		7,526,624	5,768,901
Total investments		36,432,293	32,132,174
Total assets		37,555,963	34,141,087
Liabilities:			
Accrued expenses		68,635	88,225
Due to State of Alaska General Fund		20,223	19,710
Total liabilities		88,858	107,935
Fiduciary net position restricted for pension benefits	$	37,467,105	34,033,152

See accompanying notes to financial statements.

STATE OF ALASKA
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Statements of Changes in Fiduciary Net Position

Years ended June 30, 2014 and 2013

		2014	**2013**
Additions:			
Contributions – State of Alaska, DMVA	$	740,100	739,100
Investment income:			
Net appreciation in fair value		3,807,171	1,833,259
Interest		402,102	480,782
Dividends		399,220	356,387
Total investment income		4,608,493	2,670,428
Less investment expense		80,821	76,965
Net investment income		4,527,672	2,593,463
Other additions		21	4
Total additions		5,267,793	3,332,567
Deductions:			
Pension benefits		1,610,506	1,772,198
Administrative		223,334	165,651
Total deductions		1,833,840	1,937,849
Net increase		3,433,953	1,394,718
Fiduciary net position restricted for pension benefits:			
Balance, beginning of year		34,033,152	32,638,434
Balance, end of year	$	37,467,105	34,033,152

See accompanying notes to financial statements.

(1) Description

The State of Alaska National Guard and Naval Militia Retirement System (the Plan), is a component unit of the State of Alaska (the State). 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 (Alaska Guard). The System is governed by the Alaska Retirement Management Board which consists of nine trustees, as follows: two members, consisting of the commissioner of administration and the commissioner of revenue; two trustees who are members of the general public; one trustee who is employed as a finance officer for a political subdivision participating in either the Public Employees' Retirement System (PERS) or Teachers' Retirement System (TRS); two trustees who are members of PERS; and two trustees who are members of TRS. Benefit and contribution provisions are established by State law and may be amended only by State Legislature.

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 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.

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.

(1) Description (cont.)

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. For Fiscal Years 2014 and 2013, the actuarially determined contribution amounts were $474,791 and $431,367. 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.

Investments

The Plan owns shares in various investment pools that are administered by the State of Alaska Department of Revenue, Division of Treasury (Treasury). The System's investment in the pools, except for the Short-Term Fixed Income Pool is reported at fair value based on the net asset value reported by the Treasury. 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.

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).

(Continued)

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

New Accounting Pronouncements

The System implemented the provisions of GASB Statement No. 67, Financial Reporting for Pension Plans (GASB 67), during the year ended June 30, 2014. GASB 67 replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and GASB Statement No. 50, *Pension Disclosures*. GASB 67 requires the disclosures of the total pension liability, fiduciary net position, and net pension liability for single-employer and cost-sharing multiple-employer defined benefit pension plans. GASB 67 also requires certain additional note disclosures for defined benefit pension plans including the annual money-weighted rate of return on plan investments. GASB 67 revised the reporting requirements for required supplementary information to include schedules which provide trend information related to 1) changes in the net pension liability 2) the actuarially and contractually determined contributions of employer contributing entities, and 3) the annual money-weighted rate of return on plan investments.

(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, Treasury manages the 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. All other investments are managed by external management companies.

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.

The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. The annual money-weighted rate of return, net of investment expense, for the year ended June 30, 2014 for the defined benefit pension plan is 13.53%.

(4) Deposit and Investment Risk

Interest Rate Risk

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

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, 2014, the expected average life of individual fixed rate securities ranged from one day to 2.2 years and the expected average life of floating rate securities ranged from 8 days to 3.2 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 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, 2014 was 3.63 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 Taxable Municipal Bond portfolios to ±20% of the Barclays Capital Aggregate Eligible Taxable Municipal Bond Index. The effective duration for the Barclays Capital Aggregate Eligible Taxable Municipal Bond Index at June 30, 2014 was 11.74 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, 2014 was 4.21 years.

(4) Deposit and Investment Risk (cont.)

Through the Board's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the 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, 2014 was 7.54 years and the effective duration of the JP Morgan Global Bond Index at June 30, 2014 was 4.87, for a blended duration of 6.74 at June 30, 2014.

Through the Board's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the TIPS portfolio to ± 20% of the Barclays Capital U.S. Treasury Inflation-Protected Securities (U.S. TIPS) Index, or a reasonable proxy thereof. The average life of the proxy index at June 30, 2014 was 8.21 years.

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

At June 30, 2014, the effective duration of the Board's fixed income pool was as follows (in years):

U.S. Treasury	3.50
Municipal bonds	10.81
High yield	3.75
International	5.82
TIPS	6.62

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 and Poor's Corporation (S&P), 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.

(4) Deposit and Investment Risk (cont.)

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

U.S. Intermediate Treasury Fixed Income

No more than 30% of the portfolio's assets may be invested in securities that are not nominal, U.S. Treasury obligations or the internally managed short-term or substantially similar portfolio at the time of purchase.

Corporate, asset-backed, and nonagency mortgage securities must be investment grade. Investment grade is defined as the median rating of Standard and 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.

Taxable Municipal Bond Pool

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

At the time of purchase, short-term securities must be rated at least A-2 or equivalent by a Nationally Recognized Statistical Rating Organization (NRSRO) or by the Contractor, if unrated. At the time of purchase, long-term securities must be rated investment grade by an NRSRO or by the Contractor, if unrated. Only one rating is necessary, and the median rating will apply for securities rated by more than one NRSRO.

No more than 20% of the portfolio's assets may be invested in securities that are not rated by an NRSRO.

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 and 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 debt and asset-backed obligations must be rated investment grade or better by a recognized credit rating agency. In the event of a split rating, the lower of the ratings shall apply for evaluating credit quality.

Commercial paper and euro commercial paper must be rated A-1 by Standard and 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 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.

The Plan's ownership held in the investment pools are not separately rated. See the separately issued report on the State of Alaska Retirement and Benefits Plan Invested Assets for credit ratings of investments within the pools.

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's 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 (FDIC) (the FDIC provides $250,000 of coverage). In accordance with treasury policy, they are to retain collateral equal to 110% of uninsured deposits.

(4) Deposit and Investment Risk (cont.)

Foreign Currency Risk

Foreign Currency Risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The Board's policy with regard to foreign currency risk in the International Fixed Income Pool is to restrict obligations to those issued in the currencies of these countries: Argentina, Australia, Brazil, Canada, Chile, China, Colombia, Czech Republic, Denmark, Egypt, Eurozone sovereign issuers in the aggregate, Hungary, India, Indonesia, Israel, Japan, Malaysia, Mexico, New Zealand, Norway, Peru, Poland, 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.
58%	24%

At June 30, 2014, the Plan had exposure to foreign currency risk within its ownership of the pools. See the separately issued report on the State of Alaska Retirement and Benefits Plan Invested Assets for more detail of foreign currency risk within the pools.

At June 30, 2014, the Plan also had exposure to foreign currency risk in the Emerging Markets Equity Pool and Emerging Markets Debt Pool. These pools consist of investments in commingled funds; therefore, no disclosure of specific currencies is made.

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 and Municipal Bond Pools.

At June 30, 2014, 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 investment pools for which the Plan is a part, are exposed to credit risk on underlying investment derivative instruments that are in asset positions. 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. The counterparties to the foreign currency forward contracts consist of a diversified group of financial institutions. For additional information on foreign exchange, derivatives and counterparty credit risk see the separately issued report on the State of Alaska Retirement and Benefits Invested Assets.

(6) Net Pension Liability (Asset)

The components of the net pension liability (asset) at June 30, 2014, were as follows:

Total pension liability	$	35,311,535
Plan fiduciary net position		(37,467,105)
Employers' net pension liability (asset)	$	(2,155,570)
Plan fiduciary net position as a percentage of the total pension liability (asset)		106.10%

Actuarial Assumptions

The total pension liability was determined by actuarial valuations as of July 1, 2013, which was rolled forward to June 30, 2014, using the following actuarial assumptions, applied to all periods in the measurement.

Inflation	3.12%
Salary increases	N/A
Investment rate of return	7.00%, net of pension plan investment expenses. This is based on an average inflation rate of 3.12% and a real rate of return of 3.88%

(6) Net Pension Liability (Asset) (cont.)

Mortality rates were based on the 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 for pre-termination mortality and the 1994 GAM Table, sex-distinct, 1994 Base Year without margin projected to 2013 using Projection Scale AA for males with a 1-year set-forward for females for post-termination mortality.

The actuarial assumptions used in the June 30, 2013 actuarial valuation were based on the results of an actuarial experience study for the period from July 1, 2005 to June 30, 2009, resulting in changes in actuarial assumptions adopted by the Alaska Retirement Management Board to better reflect future experience.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014 (see the discussion of the pension plan's investment policy) are summarized in the following table:

Asset class	Long-term Expected real rate of return
Equities	
Broad domestic equity	7.65%
Large cap	7.50
Small/Mid cap	7.85
International equity	7.50
Emerging markets equity	7.90
Global ex-US equity	7.80
Fixed income	
Domestic fixed	3.00
TIPS	3.00
Other	
Real estate	6.20
Private equity	8.65
Hedge funds	5.10
Cash equivalents	2.00

(6) Net Pension Liability (Asset) (cont.)

Discount Rate

The discount rate used to measure the total pension liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from school districts will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the System calculated using the discount rate of 7%, as well as what the Systems' net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6%) or 1-percentage-point higher (8%) than the current rate:

		1% Decrease (6%)	Current discount rate (7%)	1% Increase (8%)
Net pension liability (asset)	$	(450,532)	(2,155,570)	(3,686,221)

(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, 2014, the Plan's share of the unfunded commitment totaled $21,796. 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 Changes in Employer Net Pension Liability and Related Ratios

		2014	2013	2012
Total pension liability:				
Service cost	$	654,797	631,921	605,097
Interest		2,359,276	2,277,228	2,235,069
Changes of benefit terms		—	—	—
Differences between expected and actual experience		—	—	(13,687)
Changes of assumptions		—	—	—
Benefit payments, including refunds of member contributions		(1,610,506)	(1,772,198)	(1,379,919)
Net change in total pension liability		1,403,567	1,136,951	1,446,560
Total pension liability – beginning		33,907,968	32,771,017	31,324,457
Total pension liability – ending (a)		35,311,535	33,907,968	32,771,017
Plan fiduciary net position:				
Contributions – employer		740,100	739,100	895,611
Total net investment income		4,527,672	2,593,463	287,726
Other miscellaneous income		21	4	25
Benefit payments, including refunds of member contributions		(1,610,506)	(1,772,198)	(1,334,018)
Administrative expenses		(223,334)	(165,651)	(123,725)
Net change in plan fiduciary net position		3,433,953	1,394,718	(274,381)
Plan fiduciary net position – beginning		34,033,152	32,638,434	32,912,815
Plan fiduciary net position – ending (b)		37,467,105	34,033,152	32,638,434
Plan's net pension liability (a) - (b)	$	(2,155,570)	(125,184)	132,583
Plan fiduciary net position as a percentage of the total pension liability		106.10%	-27186.50%	24617.36%
Covered-employee payroll	$	N/A	N/A	N/A
Net pension liability as a percentage of covered-employee payroll		N/A	N/A	N/A

This schedule is intended to present information for 10 years. Additional years will be displayed as they become available.

See accompanying independent auditors' report.

STATE OF ALASKA
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Required Supplementary Information (unaudited)

Schedule of Employer Contributions

Last 10 Fiscal Years

		2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Actuarially determined contribution	$	474,791	431,367	895,565	965,329	2,415,077	2,473,282	1,737,406	1,737,406	2,025,257	2,025,257
Contributions in relation to the actuarially determined contribution		740,100	739,100	895,611	965,375	2,603,300	2,473,300	11,737,406	1,737,406	2,053,800	1,996,800
Contribution deficiency (excess)	$	(265,309)	(307,733)	(46)	(46)	(188,223)	(18)	(10,000,000)	—	(28,543)	28,457
Covered-employee payroll	$	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Contributions as a percentage of covered-employee payroll		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

See accompanying independent auditors' report

STATE OF ALASKA
NATIONAL GUARD AND
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(A Component Unit of the State of Alaska)

Required Supplementary Information (Unaudited)

Schedule of Investment Returns

	2014
Annual money-weighted rate of return, net of investment expense:	13.53%

This schedule is intended to present information for 10 years. Additional years will be displayed as they become available.

See accompanying 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 (UAAL) 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 UAAL.

(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 UAAL 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 2014 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 2014 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
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Schedule of Administrative and Investment Deductions

Year ended June 30, 2014 and 2013

			Total	
	Administrative	**Investment**	**2014**	**2013**
Personal services:				
Wages	$ 81,590	490	82,080	53,258
Benefits	50,734	214	50,948	32,661
Total personal services	132,324	704	133,028	85,919
Travel:				
Transportation	580	271	851	700
Per diem	104	135	239	217
Total travel	684	406	1,090	917
Contractual services:				
Management and consulting	26,965	77,225	104,190	107,994
Accounting and auditing	7,393	39	7,432	9,257
Data processing	40,474	1,628	42,102	26,400
Communications	2,521	82	2,603	1,815
Advertising and printing	393	35	428	374
Rental/leases	6,502	132	6,634	4,665
Legal	194	199	393	528
Transportation	428	4	432	283
Other services	2,411	114	2,525	1,392
Total contractual services	87,281	79,458	166,739	152,708
Other:				
Equipment	696	40	736	757
Supplies	2,349	213	2,562	2,315
Total other	3,045	253	3,298	3,072
Total administrative and investment deductions	$ 223,334	80,821	304,155	242,616

See accompanying independent auditors' report.

Schedule 2

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

Year ended June 30, 2014 and 2013

Firm	Services		2014	2013
Buck Consultants, an ACS Company	Actuarial services	$	20,040	32,120
KPMG LLP	Auditing services		7,309	7,200
State Street Corporation	Custodian banking services		2,017	1,942
Applied Microsystems, Inc.	Data processing consultants		21,659	2,098
Mythics Inc.	Data processing consultants		245	2,176
Wostmann Group LLC	Data processing consultants		4,303	—
		$	55,573	45,536

See accompanying independent auditors’ report.