

APPENDIX BG

Historical Trusts and Endowments

The following trusts and endowments have been retained for institutional memory:

Alaska Children's Trust – Investment Policy Statement (Historical)

1. Overview

The Alaska Children's Trust was a trust fund dedicated to funding community-based programs and projects for the prevention of child abuse and child neglect.¹ The Trust had provided individual grants of up to \$50,000 per year matched by funds from other sources to fund these programs and projects. As of July 1, 2011 the balance was appropriated from this trust to the Alaska Children's Trust grant account (AS 37.14.205) for payment as a grant to the Alaska Community Foundation for Friends of the Alaska Children's Trust for further aid in the prevention of child abuse and neglect. The following section has been retained for institutional memory.

2. History

- 1988. Legislature establishes Alaska Children's Trust (Ch. 19 SLA 1988). Commissioner of Revenue made fiduciary. Fund raising and grant making authority vested in Alaska Children's Trust Board.
- 1990. Fund raising and grant making responsibilities reassigned to Alaska Commission on Youth and Children (Ch. 16 SLA 1990).
- 1993. Fund raising and grant making moved again – this time to the Alaska Human Relations Commission (E.O. No. 84 1993).
- 1996. Fund raising and grant making moved yet again – this time to the reconstituted Alaska Children's Trust Board (E.O. No. 96 1996). Board consists of the governor (or the Governor's designee), the Commissioners (or their designees) of Health and Social Services and

¹ Up to \$150,000 of the principal of the Trust may be used each year to cover the expenses of the Alaska Children's Trust Board.

Education, and four public members appointed by the Governor. In appointing the four public members, the Governor must give preference to persons with experience and expertise in children's prevention programs or private sector finance.

- The S&P 500 Tobacco-free Common Trust Fund was used for the Alaska Children's Trust from November 1996 until the summer of 1998. As a consequence of an Attorney General's opinion (see [Appendix O](#)), Treasury has invested the money, previously held in this trust, in the Domestic Equity Investment Pool described earlier in this Section.
- March 2003. The asset allocation policy for the Principal assets was changed from 45% Domestic Equity Pool and 55% Broad Market Pool to 41% Domestic Equity Pool and 59% Broad Market Pool effective July 1, 2003. The asset allocation policy for the Income assets remains 100% Short-term Pool.
- July 2004. The asset allocation policy for the Principal assets was changed to 43% Domestic Equity Pool and 57% Broad Market Pool effective July 1, 2004. The asset allocation policy for the Income assets remains 100% Short-term Pool.
- March 2006. The asset allocation policy for the Principal assets was changed to 58% Domestic Equity Pool, 22% International Equities, and 20% Broad Market Pool effective April 1, 2006. The asset allocation policy for the Income assets remains 100% Short-term Pool.
- July 2007. The asset allocation policy for the Principal assets was changed to 58% Domestic Equity Pool, 24% International Equity Pool, and 18% Broad Market effective July 1, 2007. The asset allocation policy for the Income assets remains 100% Short-term Pool.
- July 2008. The asset allocation policy for the Principal assets was changed to 58% Domestic Equity Pool, 24% International Equity Pool, 18% Conservative Aggregate Pool, and 0% Short Term effective July 1, 2008. The asset allocation policy for the Income assets remains 100% Short-term Pool.
- July 2009. The asset allocation policy for the Principal assets was changed to 60% Domestic Equity Pool, 15% International Equities, and 25% Conservative Aggregate Fixed Income, and up to 2% Short Term effective July 1, 2009. The asset allocation policy for income assets remains 100% Short-term Pool.
- December 2009. The asset allocation policy was changed due to a replacement of the Conservative Aggregate Pool with a respective allocation to the Broad Market Pool and the U.S. Treasury Pool (90% Broad Mkt. and 10% U.S. Treasury). The resulting allocation was 23% Broad Market Pool, 2% US Treasury Pool, 60% Domestic Equity Pool, and 15% International Equities.
- July 2010. The asset allocation policy for the Principal assets was changed to 59% Domestic Equity Pool, 11% International Equities, 28% Broad Market Pool, 2% Intermediate Treasury Pool, and up to 2% Short Term effective July 1, 2010. The asset allocation policy for income assets remains 100% Short-term Pool.
- October 2010. The asset allocation policy for the Principal assets was changed in response to new investment objectives required by the passage of CSHB190(FIN) in 2010 (See [Appendix AB](#)). The policy was changed to 57% Domestic Equity Pool, 11% International

Equities, 29% Broad Market Pool, 3% Intermediate Treasury Pool, and up to 2% Short Term effective October 1, 2010. The asset allocation policy for income assets remains 100% Short-term Pool.

- At the beginning of FY12, the unexpended and unobligated balance on July 1, 2011, estimated to be \$7,800,000, of the Alaska Children’s Trust (AS 37.14.200) was appropriated from the Alaska Children’s Trust to the Alaska Children’s Trust Grant Account (AS 37.14.205) for payment as a grant to the Alaska Community Foundation for Friends of the Alaska Children’s Trust to aid in the prevention of child abuse and neglect, for the fiscal years ending June 30, 2012, June 30, 2013, and June 30, 2014.

3. Facts and Figures

Until 1996, there were no funds in the principal of the Trust. In conjunction with the attention generated by the 1996 Executive Order, private individuals and businesses contributed \$11,000 and the Legislature appropriated \$6,000,000 to the principal of the Trust.

Total invested assets in the Alaska Children’s Trust at June 30 have been:

Fiscal Year	Earnings	Fair Value
1997	911,129	6,929,174
1998	1,551,614	8,256,661
1999	1,025,208	9,270,385
2000	591,657	9,755,460
2001	(37,118)	9,452,346
2002	(325,281)	8,855,157
2003	707,458	9,595,668
2004	811,470	10,301,385
2005	761,615	10,942,205
2006	411,514	11,082,593
2007	1,908,127	12,790,502
2008	(1,030,791)	11,425,252
2009	(2,190,555)	8,785,163
2010	1,081,681	9,498,618
2011	1,835,139	7,992,317

4. Management

The applicable statutes required Treasury to account for the Trust in a manner that distinguishes between "principal" and "income." Treasury had historically achieved this objective by

establishing a "principal account" and an "income account" for the Trust.² While the income was permissible to spend, the principal was preserved, except that \$150,000 of the principal was permitted for use by the Board each year to cover the administrative expenses of the Board. AS 37.14.240(a) provided that capital gains and losses remain with the principal; consequently, income included only interest and dividends. AS 37.14.240(c) required Treasury to reinvest the realized net income not yet appropriated and expended.

AS 37.14.240 established the investment objectives for the Trust:

AS 37.14.240. Fund Utilization. (a) Except as provided in (d) of this section, the principal of the trust and any capital gains or losses realized on the principal shall be retained perpetually in the trust for investment as specified in AS 37.14.210, and may not be used for the awarding of grants. (b) The net income of the trust may be appropriated only for the following purposes:

- (1) the awarding of grants;*
- (2) obtaining private and federal grants for the trust;*
- (3) soliciting contributions, gifts, and bequests for the trust; and*
- (4) reimbursement to the Department of Revenue for the costs of establishing the trust.*

(c) Realized net income that has not been appropriated, or that has been appropriated but not expended, shall be invested until appropriated and expended.

(d) Up to \$150,000 per year may be appropriated from the principal of the trust for the administrative expenses of the board relating to AS 37.14.200 - 37.14.270.

The investment objective provided "increasing net income over long-term periods to the Trust's income beneficiaries." Treasury believed this provision required an investment policy that is most likely to yield increasing real or inflation adjusted income over long-term periods.

To historically fulfill the Legislature's policy requiring increasing the real or inflation adjusted income over long-term periods, a substantial proportion of the Trust was invested in the equity market.

Monthly, Treasury transferred income (only dividends and interest and not net appreciation) produced by the principal assets of the Trust to a separate income account within the Trust where it was held pending appropriation by the Legislature.

The Trust required separate investment policies for the principal assets of the Trust and the income assets of the Trust. Once appropriated, the income assets were available for expenditure for

² The two accounts are actually funds within the state's accounting system that roll up to one fund that represent the Trust. The principal fund is FU 34051. The income fund is FU 34052.

community-based grants to programs that prevent child abuse and neglect. Realized and unrealized capital gains and losses were retained in the principal assets account (AS 37.14.240(a)).

In FY 97, a change in accounting standards affected the amount of income to be transferred from the principal assets to income assets. Under GASB Statement No. 31 (effective for financial statements for periods beginning after June 15, 1997 although the state chose early implementation beginning in 1997), amortization (of premiums) and accretion (of discounts) are now classified as unrealized gains or losses. Prior to the change, Treasury transferred amortization and accretion from the principal assets to the income assets. With implementation of GASB Statement No. 31, the reclassification of amortization and accretion negatively impacts cash flow from the principal assets to the income assets. To fulfill the intent of AS 37.14.110 - that is, to adequately protect the principal corpus - Treasury continued to transfer an amount equal to amortization and accretion from the principal assets to income assets.

The principal of the Alaska Children's Trust was not protected from legislative appropriation if the Legislature decided it wished to so appropriate. The Public School Trust Fund, the University of Alaska Trust Fund, and the Mental Health Trust Fund were all originally established by the Congress and some or all of the principal of those funds is protected from appropriation by the Legislature as a matter of federal law. The Alaska Children's Trust was a creation of the Alaska Legislature; as a consequence, the Legislature has the legal authority to unmake what it has made.

In fiscal year 2010, the Alaska Children's Trust realized new investment objectives required by the passage of CSHB 190(FIN) in August of 2010. Significant changes were made to the statutes pertaining to investment of the ACT funds. Structurally, the funds were no longer managed in separate income and principal funds. Formerly, only income earned by the principal assets could be used for the purposes of the ACT. The new legislation repealed this structure. In its place, a 5% POMV distribution formula was enacted based on the average market value over the preceding three years. (For further explanation, and the resulting changes in asset allocation policy, please see Appendix AB).

At the beginning of fiscal year 2012, due to the appropriation of the remaining unexpended an unobligated balance of the Alaska Children's Trust; the Trust is no longer invested by the Department of Revenue, Division of Treasury.

5. Control and Reporting Requirements (Historical)

AS 37.14.210(6) required the Commissioner of Revenue to maintain accounting records that distinguish between the principal and income of the Trust. The accounting records were maintained by the State Comptroller. The State Comptroller sent quarterly financial statements to the Alaska Children's Trust Board within 30 days following the end of each quarter.

AS 37.14.210(7) required the Commissioner to engage an independent certified public accountant to perform an annual audit. To fulfill this requirement, the State Comptroller contracted with an independent certified public accountant to perform the annual audit.

The Commissioner provided reports to the Alaska Children's Trust Board on the condition and investment performance of the Trust (AS 34.14.210(9)). Treasury received year-end performance measurement reports for this Trust from an external consultant within 90 days following the end of the fiscal year. The State Comptroller was responsible for contacting the Chair of the Alaska Children's Trust Board to arrange for Treasury to present the annual performance measurement report and the annual audit report.

While the Commissioner was the sole fiduciary for this Trust (AS 37.10.071, AS 37.14.210 and AS 37.14.170), and, as such, responsible for the asset allocation judgments for the Trust, it was the policy of the Department to consult with the Alaska Children's Trust Board at least once a year to review the asset allocation options and to consult with the Board before making any substantial changes in asset allocation policy.

6. Treasury Funding

Every year Treasury included a portion of the income from the Alaska Children's Trust as a funding source for the Division's annual budget. The Trust was charged for the actual costs of investment management fees and performance measurement costs, if any. Treasury also allocated a portion of the Division's personnel costs and custodial costs to the Trust.

Version Control

Revision Date	Effective Date	Summary of Changes	Find it in Version
3/7/00	4/1/00	Treasury updates year 2000 capital market assumptions and revises asset allocation policy for principal assets accordingly. Target allocation was 56% for the Broad Market Fixed Income Investment Pool and 44% for Domestic Equity Investment Pool.	1.3
11/24/00		Updated Facts & Figures section	1.6
3/7/02		Updated the Facts & Figures section and added the investment in the S&P 500 Tobacco-free Common Trust Fund to the history section.	1.9
3/15/04		Updated History section for change in asset allocation policy, updated Facts and Figures section with current financial information, and updated the Investment Policy section. Updated the section with historical information from Appendix AD and deleted Appendix AD as it was outdated.	2.0
	7/1/04	Updated History and Investment Policy sections for changes in asset allocation policy.	2.1
1/21/05		Updated the Facts and Figures section.	2.2
4/30/06		Updated the Facts and Figures section.	2.3
12/31/06		Updated the History and Facts and Figures sections	3.0
12/31/08		Updated History, Facts and Figures and Investment Policy sections	3.1
12/31/09		Updated History, Facts and Figures and Investment Policy sections	3.3
12/31/10		Updated History, Management, Facts and Figures, and Investment Policy sections.	3.4
1/10/12		Updated History, Management, Facts and Figures. Deleted the Investment Policy section.	3.5

**POLICIES AND PROCEDURES APPLICABLE
TO THE TREASURY DIVISION,
DEPARTMENT OF REVENUE,
STATE OF ALASKA**



10. Management

The Trust sponsored an annual award, the Margaret Nick Cooke Award, through the Alaska State Council on the Arts. This award was presented each year to honor a person or persons for furthering Alaska Native arts and language.

The Arts council had the authority to receive gifts, contributions and bequests from private individuals and firms for the purpose of furthering the educational objectives of the Council's programs. AS 44.27.052(a)(4). It is not clear whether this trust was intended as an expendable or a non-expendable trust (for accounting purposes this fund had been classified as an Agency Trust). Nor is it clear if a legislative appropriation was required to authorize expenditure of the income or principal assets of the Trust.

This trust was invested with the GeFONSI until it was closed in 2009. See Section XII(A) for the GeFONSI Investment Policy Statement.

11. Control and Reporting Requirements

Treasury worked with staff of the Alaska State Council on the Arts to assist them in making the best use of Treasury's investment services in relation to this fund.

