



**STATE OF ALASKA
DEPARTMENT OF REVENUE
TREASURY DIVISION**

**INVESTED ASSETS UNDER THE
INVESTMENT AUTHORITY OF THE
COMMISSIONER OF REVENUE**

June 30, 2007

(With Independent Auditors' Report Thereon)

**STATE OF ALASKA
DEPARTMENT OF REVENUE
TREASURY DIVISION**

**INVESTED ASSETS UNDER THE
INVESTMENT AUTHORITY OF THE
COMMISSIONER OF REVENUE**

Schedules

June 30, 2007

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Independent Auditors' Report

State of Alaska, Department of Revenue
Division of Treasury:

We have audited the accompanying combined schedule of invested assets under the investment authority of the Commissioner of Revenue as of June 30, 2007 and the schedule of investment income and changes in invested assets for the year then ended (schedules). These schedules are the responsibility of the Division of Treasury's management. Our responsibility is to express an opinion on these schedules based on our audit. The prior year summarized comparative information has been derived from the investment authority of the Commissioner of Revenues 2006 invested assets schedules, and in our report dated October 27, 2006, we expressed an unqualified opinion on those invested assets.

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 schedules are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for expressing an opinion on internal control over financial reporting. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedules, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying schedules were prepared to present the invested assets under the Authority of the Commissioner of Revenue and changes therein and is not intended to be a complete presentation of the assets and liabilities of the Department of Revenue.

In our opinion, the schedules referred to above present fairly, in all material respects, the invested assets under the investment authority of the Commissioner of Revenue as of June 30, 2007, and the results of its investment income and changes in invested assets for the year then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

October 2, 2007

STATE OF ALASKA
DEPARTMENT OF REVENUE - TREASURY DIVISION
INVESTED ASSETS UNDER THE INVESTMENT AUTHORITY OF THE COMMISSIONER OF REVENUE

COMBINED SCHEDULE OF INVESTED ASSETS
June 30, 2007 (with summarized financial information for the year ended June 30, 2006)
(Expressed in thousands)

	GENERAL FUND and GeFONSI	CONSTITUTIONAL BUDGET RESERVE FUND		PUBLIC SCHOOL TRUST FUND		ALASKA CHILDREN'S TRUST		INVESTMENT LOSS TRUST FUND	GENERAL OBLIGATION BOND FUND	INTERNATIONAL AIRPORTS FUND	INTERNATIONAL AIRPORTS CONSTRUCTION FUND	POWER COST EQUALIZATION ENDOWMENT FUND	RETIREE HEALTH INSURANCE FUND		MINE RECLAMATION FUND	ALASKA SPORT FISH CONSTRUCTION FUND	TOTAL INVESTED ASSETS	
		MAIN	SUBACCOUNT	PRINCIPAL	INCOME	PRINCIPAL	INCOME						MAJOR MEDICAL	LONG TERM CARE			June 30, 2007	June 30, 2006
INVESTMENTS (at Fair Value)																		
Cash and Cash Equivalents																		
Short-term Fixed Income Pool	\$ 1,822,794	259,183	2	1,192	11,498	16	548	5,994	88,259	5,755	326,870	2	98,189	1,659	710	64,731	2,687,402	2,015,995
Non-interest Bearing Deposits	31,029	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	31,029	6,338
Securities Lending Collateral	517,106	286,100	22,576	8,537	-	456	-	-	-	26,938	-	15,687	4,710	6,357	-	-	888,467	1,064,177
Total Cash and Cash Equivalents	2,370,929	545,283	22,578	9,729	11,498	472	548	5,994	88,259	32,693	326,870	15,689	102,899	8,016	710	64,731	3,606,898	3,086,510
Marketable Debt Securities																		
Pooled Investments																		
Intermediate-term Fixed Income Pool	2,587,189	1,344,675	-	-	-	-	-	-	-	134,774	-	-	-	-	-	-	4,066,638	3,045,491
Broad Market Fixed Income Pool	-	375,673	197,494	184,971	-	1,998	-	-	-	-	-	131,346	70,760	51,620	-	-	1,013,862	889,442
Non-pooled Investments																		
Tobacco Revenue Fixed Income	178,182	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	178,182	16,523
Total Marketable Debt Securities	2,765,371	1,720,348	197,494	184,971	-	1,998	-	-	-	134,774	-	131,346	70,760	51,620	-	-	5,258,682	3,951,456
Equity Securities																		
Domestic Equity Pool	-	-	262,446	172,026	-	7,283	-	-	-	-	-	191,881	26,574	77,762	185	-	738,157	511,704
International Equity Pool	-	-	107,714	-	-	2,911	-	-	-	-	-	77,021	11,559	31,807	-	-	231,012	162,793
Total Equity Securities	-	-	370,160	172,026	-	10,194	-	-	-	-	-	268,902	38,133	109,569	185	-	969,169	674,497
Total Investments	5,136,300	2,265,631	590,232	366,726	11,498	12,664	548	5,994	88,259	167,467	326,870	415,937	211,792	169,205	895	64,731	9,834,749	7,712,463
Receivables (Payables)																		
Income Receivable	7,934	1,128	-	788	49	33	2	26	390	16	1,431	-	400	13	3	282	12,495	10,106
Transferred from (to) Other Funds	-	-	-	(1,725)	1,725	(52)	52	-	-	-	-	-	-	-	-	-	-	-
Securities Lending Collateral	(517,106)	(286,100)	(22,576)	(8,537)	-	(456)	-	-	-	(26,938)	-	(15,687)	(4,710)	(6,357)	-	-	(888,467)	(1,064,177)
Total Receivables (Payables)	(509,172)	(284,972)	(22,576)	(9,474)	1,774	(475)	54	26	390	(26,922)	1,431	(15,687)	(4,310)	(6,344)	3	282	(875,972)	(1,054,071)
Net Invested Assets	\$ 4,627,128	1,980,659	567,656	357,252	13,272	12,189	602	6,020	88,649	140,545	328,301	400,250	207,482	162,861	898	65,013	8,958,777	6,658,392

STATE OF ALASKA
DEPARTMENT OF REVENUE - TREASURY DIVISION
INVESTED ASSETS UNDER THE INVESTMENT AUTHORITY OF THE COMMISSIONER OF REVENUE

COMBINED SCHEDULE OF INVESTMENT INCOME AND CHANGES IN INVESTED ASSETS
For the year ended June 30, 2007 (with summarized financial information for the year ended June 30, 2006)
(Expressed in thousands)

	GENERAL FUND and GeFONSI	CONSTITUTIONAL BUDGET RESERVE FUND		PUBLIC SCHOOL TRUST FUND		ALASKA CHILDREN'S TRUST		INVESTMENT LOSS TRUST FUND	GENERAL OBLIGATION BOND FUND	INTERNATIONAL AIRPORTS FUND	INTERNATIONAL AIRPORTS CONSTRUCTION FUND	POWER COST EQUALIZATION ENDOWMENT FUND	RETIREE HEALTH INSURANCE FUND		MINE RECLAMATION FUND	ALASKA SPORT FISH CONSTRUCTION FUND	TOTAL INVESTED ASSETS	
		MAIN	SUBACCOUNT	PRINCIPAL	INCOME	PRINCIPAL	INCOME						MAJOR MEDICAL	LONG TERM CARE			YEAR ENDED 6/30/2007	YEAR ENDED 6/30/2006
Investment Income																		
Securities Lending Income	\$ 18,233	15,022	1,581	763	-	28	-	-	-	1,308	-	923	486	415	-	-	38,759	31,149
Securities Lending expense	(18,034)	(14,865)	(1,484)	(758)	-	(26)	-	-	-	(1,294)	-	(870)	(477)	(388)	-	-	(38,196)	(30,372)
Net Securities Lending Income	199	157	97	5	-	2	-	-	-	14	-	53	9	27	-	-	563	777
Short-term Fixed Income Pool	70,307	12,789	5	61	663	2	25	455	5,992	392	18,315	-	3,767	124	37	3,462	116,396	80,684
Intermediate-term Fixed Income Pool	96,242	70,552	-	-	-	-	-	-	-	6,831	-	-	802	-	-	-	174,427	38,780
Broad Market Fixed Income Pool	-	22,121	11,280	10,907	-	126	-	-	-	-	-	5,520	4,403	2,674	-	-	57,031	(1,386)
Domestic Equity	-	-	43,628	29,140	-	1,234	-	-	-	-	-	26,440	3,814	12,539	36	-	116,831	44,711
International Equity Pool	-	-	20,127	-	-	520	-	-	-	-	-	12,863	1,804	5,680	-	-	40,994	32,068
Tobacco Revenue Fixed Income	8,336	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8,336	804
Other Fixed Income	6,719	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6,719	3,479
Total Investment Income	181,803	105,619	75,137	40,113	663	1,884	25	455	5,992	7,237	18,315	44,876	14,599	21,044	73	3,462	521,297	199,917
Transfer from (to) Other Funds	(2,708)	-	-	(14,580)	14,580	(377)	377	-	-	2,708	-	-	-	-	-	-	-	-
Net Investment Income	179,095	105,619	75,137	25,533	15,243	1,507	402	455	5,992	9,945	18,315	44,876	14,599	21,044	73	3,462	521,297	199,917
Total Invested Assets, Beginning of Period	2,878,265	1,774,506	492,519	320,379	10,102	10,653	430	11,485	149,680	134,109	347,475	184,457	152,593	128,477	860	62,402	6,658,392	5,188,303
Net Contributions (Withdrawals)	1,569,768	100,534	-	11,340	(12,073)	29	(230)	(5,920)	(67,023)	(3,509)	(37,489)	170,917	40,290	13,340	(35)	(851)	1,779,088	1,270,172
Total Invested Assets, End of Period	\$ 4,627,128	1,980,659	567,656	357,252	13,272	12,189	602	6,020	88,649	140,545	328,301	400,250	207,482	162,861	898	65,013	8,958,777	6,658,392

**INVESTED ASSETS
UNDER THE INVESTMENT AUTHORITY OF THE COMMISSIONER OF REVENUE**

Notes to Schedules

June 30, 2007

(1) THE ACCOUNTING ENTITY

The accompanying combined schedules present the financial position and changes therein, as of and for the year ended June 30, 2007, for the invested assets of funds under the investment authority of the Commissioner of Revenue (Commissioner). The Commissioner is responsible for all deposits and investments of the State of Alaska (State) except where the Legislature has delegated that responsibility to other individuals or boards. As the fiduciary, the Commissioner has the statutory authority to invest the assets under the prudent investor rule. Alaska Statutes 37.10.070 and 37.10.071 provide 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.

These schedules represent only the investment activity of the funds described below, and not the complete financial activity of the funds or the State as a whole. A complete description of the investment policy for each fund's invested assets is included in the Department of Revenue, Treasury Division, Policies and Procedures. The complete financial activity of the funds is shown in the Comprehensive Annual Financial Report available from the Division of Finance in the Department of Administration.

The Department of Revenue, Treasury Division (Treasury) has created a pooled environment by which it manages the investments the Commissioner has fiduciary responsibility for. Actual investing is performed by investment officers in Treasury or by contracted external investment managers. Specifically, the Securities Lending Collateral, Tobacco Revenue Fixed Income, Domestic Equity and the International Equity Pool are managed externally. Treasury manages the Short-term Fixed Income Pool, Non-interest Bearing Deposits, Intermediate-term Fixed Income Pool, and the Broad Market Fixed Income Pool, in addition to acting as oversight manager for all externally managed investments.

General Fund and GeFONSI

The General Fund is the State's operating fund. Most of the assets of the General Fund are commingled with other funds for investment purposes in a pool named the General Fund and Other Non-segregated Investments (GeFONSI). GeFONSI consists of investments in the Short-term Fixed Income Pool and the Intermediate-term Fixed Income Pool. GeFONSI investment income is distributed to pool participants if prescribed by statute or if appropriated by the state legislature. The Tobacco Revenue Fixed Income assets represent the investment of proceeds received from the sale of anticipated Tobacco Settlement Revenues and investment earnings therein. The proceeds and earnings are available for projects prescribed by statute.

Constitutional Budget Reserve Fund

The Constitutional Budget Reserve Fund (CBRF) was established November 6, 1990 when voters approved adding Section 17 to Article IX of the Constitution of the State. All money received by the State after July 1, 1990, through resolution of disputes about the amount of certain mineral-related income, must be deposited in the CBRF. Such deposits may originate from mineral lease bonuses, rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments or bonuses, or taxes imposed on mineral income, production or property. The Legislature may, under certain conditions, appropriate funds from the CBRF to fund the operations of state government. The twenty-first Legislature created a subaccount within the CBRF effective July 1, 2000. The subaccount is currently comprised of appropriations by the Legislature. The subaccount is managed in accordance with Alaska Statute 37.10.430(c). Investment earnings of the subaccount are retained therein.

**INVESTED ASSETS
UNDER THE INVESTMENT AUTHORITY OF THE COMMISSIONER OF REVENUE**

Notes to Schedules

June 30, 2007

(1) THE ACCOUNTING ENTITY (CONT.)

Public School Trust Fund

The Public School Trust Fund was established by the Alaska State Legislature in Alaska Statute 37.14.110 – 37.14.170. The source of funding for the investment portfolio originally consisted of income from the sale or lease of land granted by an Act of Congress on March 15, 1915, but is now composed primarily of one-half of one percent of State receipts from the management of all State lands as prescribed by AS 37.14.150. The principal of the fund, and all capital gains/losses thereon, are perpetually retained in the fund (AS 37.14.110) and the remaining net income of the fund must be used for the State public school program (AS 37.14.140).

Alaska Children's Trust

The Alaska Children's Trust was established by the Alaska State Legislature in Alaska Statute 37.14.200 – 37.14.270. The purpose of the trust is to provide grants to community-based programs and projects that aid in the prevention of child abuse and neglect. The principal of the trust and any capital gains or losses realized on the principal are retained perpetually in the trust for investment. However, up to \$150,000 per year may be appropriated from the principal of the trust for the administrative expenses of the Alaska Children's Trust Board. The remaining income of the trust may be used for grants for the prevention of child abuse and neglect, certain fund raising activities, and the costs of establishing and maintaining the trust.

Investment Loss Trust Fund

The Investment Loss Trust Fund, codified under Alaska Statute 37.14.300, was established into law on June 14, 1991. The purpose of the fund is to provide financial security to participants in the State supplemental annuity plan established under Alaska Statute 39.30.150 – 39.30.180 and other annuity holders who may be harmed by the possible default on guaranteed investment and annuity contracts of Executive Life Insurance Company of California (Executive Life). The fund originally consisted of moneys appropriated to it by the Alaska Legislature. At June 30, 2004, the fund consisted of final settlements, part of which is available to repay State moneys which originally capitalized the fund, and the remaining held in escrow for legal fees and for annuitants with balances backed by investments of the successor company to Executive Life.

General Obligation Bond Fund

The General Obligation Bond Fund holds proceeds from the sale of bonds issued pursuant to Article IX, Section 8 of the Alaska Constitution and Alaska Statute 37.15, the State Bonding Act. On November 5, 2002, two general obligation bond propositions were passed by a majority of the qualified voters in the State, the Transportation Bond Act (Chapter 114, SLA 2002) and the Education Bond Act (Chapter 2 SLA 2002). These bonds were issued to finance educational and museum facilities and transportation projects.

At June 30, 2007, the invested asset balances in the various bond sub-funds were as follows (in thousands):

Series 2003A, Educational and Museum Facility Design, Construction and Major Maintenance	\$ 26,118
Series 2003A, Transportation Projects	35,783
Series 2003B, Accelerated Alaska Transportation Projects	<u>26,748</u>
Total general obligation bond fund	\$ <u><u>88,649</u></u>

**INVESTED ASSETS
UNDER THE INVESTMENT AUTHORITY OF THE COMMISSIONER OF REVENUE**

Notes to Schedules

June 30, 2007

(1) THE ACCOUNTING ENTITY (CONT.)

International Airports Funds

The International Airports Funds includes a revenue fund, a repair and replacement reserve account and a development account within the revenue fund, and a construction fund. The revenue fund, codified under Alaska Statute 37.15.430, was established to facilitate the construction and maintenance of the Anchorage and Fairbanks International Airports. The revenue fund receives all revenues, fees, charges and rentals derived by the State from the ownership, lease, use and operation of the two airports. The repair and replacement reserve account is used for the costs of extraordinary repairs, renewals and replacement of airport facilities. The development account is used for development projects approved by the legislature.

The construction fund holds proceeds from the sale of bonds issued to build airport facilities (Alaska Statute 37.15.420). Bonds issued to finance improvements at the airports have a first lien on the gross revenue from airport operations which are deposited into the revenue fund. At June 30, 2007, the invested asset balances in the various construction sub-funds were as follows (in thousands):

Series 1999A Alternative Minimum Tax	\$	4,172
Series 1999B Non-Alternative Minimum Tax		3,628
Series 1999C Alternative Minimum Tax		602
Series 2002A Alternative Minimum Tax		6,159
Series 2002B Non-Alternative Minimum Tax		46,181
Series 2002 Reserve		14,186
Series 2003A Alternative Minimum Tax		4,163
Series 2003B Non-Alternative Minimum Tax		10,284
Series 2003 Reserve		4,097
Series 2006 Alternative Minimum Tax		110,255
Series 2006 Non-Alternative Minimum Tax		72,356
Series 2006 Variable Rate		52,218
		328,301
Total international airports construction fund	\$	328,301

Power Cost Equalization Endowment Fund

The Alaska Legislature created the Power Cost Equalization (PCE) Endowment Fund through Chapter 60, SLA 2000 Sec. 6 and 7, codified under AS 42.45.070 (c); the governor signed funding legislation effective May 24, 2000. The PCE Endowment Fund is established as a separate fund of the Alaska Energy Authority, a component unit of the State of Alaska. The purpose of the PCE Endowment Fund is to provide for a long-term, stable financing source for power cost equalization which provides affordable levels of electric utility costs in otherwise high-cost service areas of the state.

Retiree Health Insurance Fund

The Department of Administration established the Retiree Health Insurance Fund for the state's self-funded health insurance program for retired employees (Alaska Statute 39.30.090, AS 39.30.091 and AS 39.30.095). Three insurance plans comprise the Retiree Health Insurance Fund: major medical, long-term care, and dental/visual/audio (assets for the latter plan are held in the GeFONSI). The fund consists of insurance premiums paid by the employer (the State and participating political subdivisions of the State) and retirees for future health-related expenses.

**INVESTED ASSETS
UNDER THE INVESTMENT AUTHORITY OF THE COMMISSIONER OF REVENUE**

Notes to Schedules

June 30, 2007

(1) THE ACCOUNTING ENTITY (CONT.)

Mine Reclamation Trust Fund

The Alaska Legislature in Chapter 137 SLA 2004 established a new Article 9 in AS 37.14. The Article established a Mine Reclamation Trust Fund. The mine reclamation trust fund is established as a separate trust fund of the state. The principal and earnings of the fund shall be held by the state for the purpose of protecting the public interest in reclaiming mine sites in the state. The mine reclamation trust fund income account consists of payments and deposits made by miners to satisfy the miners' reclamation bonding or financial assurance obligation under AS 27.19.040 or AS 27.21.160 and earnings on the income account

Alaska Sport Fish Construction Fund

The Alaska Sport Fish Construction Fund holds proceeds from the sale of bonds issued pursuant to Article IX, Section 8 of the Alaska Constitution and Alaska Statute 37.15, the State Bonding Act. These bonds were issued to finance the construction and renovation of sport fishing facilities under AS 16.05.092.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The combined schedules are prepared using the accrual basis of accounting for investment income. Assets are reported at fair value in accordance with Governmental Accounting Standards Board (GASB) Statement No. 31. Investment purchases and sales are recorded on a trade-date basis. Net contributions (withdrawals) are recorded on a cash basis. Net contributions (withdrawals) represent legislative appropriations, mineral-related royalties/leases/taxes, gifts and donations, bond proceeds, various payments for certain State services, and/or contributions from employers and employees net of benefits paid to participants as well as administrative and investment management expenses.

Valuation

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

The Non-interest Bearing Deposits are reported at cost, which approximates fair value.

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

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

Securities expressed in terms of foreign currencies are translated into U.S. dollars at the prevailing exchange rates. Forward currency contracts are valued at the mid-point of representative quoted bid and asked prices.

Income Allocation

Income in the fixed income and international equity pools are allocated to pool participants daily on a pro rata basis.

**INVESTED ASSETS
UNDER THE INVESTMENT AUTHORITY OF THE COMMISSIONER OF REVENUE**

Notes to Schedules

June 30, 2007

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Dividends paid to the Public School Trust Fund and the Alaska Children's Trust by the Domestic and International Equity investment are paid to the principal assets of those funds. Dividends are then transferred to the income assets of those funds to purchase shares in the Short-term Fixed Income Pool. All realized and unrealized gains and losses of the Public School and Alaska Children's Trusts remain with the principal assets.

Comparative Financial Schedules

The financial schedules include certain prior-year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Treasury's financial statements for the year ended June 30, 2006 upon which summarized information was derived.

(3) POOLED INVESTMENTS

Short-term Fixed Income Pool

Some funds participate in the State's internally managed Short-term Fixed Income Pool which was established March 15, 1993, with a start up and maintained share price of \$1. Treasury staff determines the allocation between permissible securities. Each participant owns shares in the pool, the number of which fluctuates daily with contributions and withdrawals. Participant shares also change at the beginning of each month when income is paid. Participants include the Intermediate-term and Broad Market Fixed Income Pools and a number of other funds, some of which are not under the fiduciary responsibility of the Commissioner.

Intermediate-term Fixed Income Pool

Some funds participate in the State's internally managed Intermediate-term Fixed Income Pool which was established July 1, 1994, with a start up share price of \$1,000. The share price at June 30, 2007 was \$1,983. Treasury staff determines the allocation between permissible securities. The pool has an intermediate time horizon, a more limited need for liquidity than the money invested in the Short-term Fixed Income Pool, a limited need for inflation protection, and can be invested at a moderate risk level. The net asset value per share on any given valuation date 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. Ownership in the pool is based on the number of shares held by each participant. 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. Not all participants in the pool are funds under the fiduciary responsibility of the Commissioner.

Broad Market Fixed Income Pool

Some funds participate in the State's internally managed Broad Market Fixed Income Pool which was established July 1, 1994, with a start up share price of \$1,000. The share price at June 30, 2007, was \$2,269. Treasury staff determines the allocation between permissible securities. When compared to the Short or Intermediate-term Fixed Income Pools, this pool has a longer time horizon, a more limited need for liquidity, a moderate need for long-term inflation protection, and can be invested at a high risk level. The net asset value per share on any given valuation date 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. Ownership in the pool is based on the number of shares held by each participant. 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. Not all participants in the pool are funds under the fiduciary responsibility of the Commissioner.

**INVESTED ASSETS
UNDER THE INVESTMENT AUTHORITY OF THE COMMISSIONER OF REVENUE**

Notes to Schedules

June 30, 2007

(3) POOLED INVESTMENTS (CONT.)

International Equity Pool

Some funds participate in the State's externally managed International Equity Pool which was established in April 2000 with a start up share price of \$1,000. The share price at June 30, 2007, was \$1,465. The external manager independently determines the allocation between permissible securities. The pool has a time horizon that is longer than any of the fixed income investment pools, limited liquidity, long term inflation protection and a high risk tolerance. The net asset value per share on any given valuation date 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. Ownership in the pool is based on the number of shares held by each participant. 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. Not all participants in the pool are funds under the fiduciary responsibility of the Commissioner.

(4) DOMESTIC AND INTERNATIONAL EQUITY

Some funds participate in the State's externally managed Domestic and International Equity accounts. The participants in these accounts hold shares in the Russell 3000 and Morgan Stanley Capital International (MSCI) Europe Australasia and Far East (EAFE), Index Common Trust Funds (Trusts), passively managed commingled index funds. The Trust includes other, non-State institutional investors. The investment objective of the Trusts is to replicate, as closely as possible, the return of the Russell 3000 Stock Index and the MSCI EAFE Stock Index, and thus is comprised of securities included in those indices. The net asset value per share on any given valuation date is determined by dividing the total fair value of the net assets by the number of shares outstanding on the valuation date. Ownership is based on the number of shares held by each participant. Contributions to and withdrawals are based on the beginning of the day net asset value per share on the day of the transaction.

(5) NON-INVESTMENT BEARING DEPOSITS

At June 30, 2007, non-interest bearing deposits totaling \$31.0 million were comprised of various State agency cash held pending redemption of State warrants and compensating balances.

**INVESTED ASSETS
UNDER THE INVESTMENT AUTHORITY OF THE COMMISSIONER OF REVENUE**

Notes to Schedules

June 30, 2007

(6) DEPOSIT AND INVESTMENT RISK

At June 30, 2007, the funds had the following investments:

Investment type	Fair value (in thousands)					Total
	Short-term fixed income pool	Intermediate-term fixed income pool	Broad market fixed income pool	Tobacco revenue fixed income	Other	
Deposits	\$ —	—	—	—	31,029	31,029
Overnight Sweep Account (LMCS)	23,683	—	—	—	—	23,683
Short-term Investment Fund	154,115	1,968	—	—	—	156,083
Governmental Short-term Investment Fund	—	429,052	—	—	—	429,052
Money Market	—	—	—	2,949	888,467	891,416
Commercial Paper	341,374	—	984	53,927	—	396,285
U.S. Treasury Bills	—	—	—	—	—	—
U.S. Treasury Notes	—	1,297,221	92,073	119,772	—	1,509,066
U.S. Treasury Bonds	—	—	54,582	—	—	54,582
U.S. Treasury Strips	—	—	—	—	—	—
U.S. Government Agency Discount Notes	—	1,133,365	64,789	—	—	1,198,154
U.S. Government Agency Mortgage-backed	—	—	24,205	—	—	24,205
Other Asset-backed	263,743	591,401	609,034	—	—	1,464,178
Corporate Bonds	1,895,086	158,955	57,572	—	—	2,111,613
Yankees:	982,603	383,479	211,544	—	—	1,577,626
Government	—	—	—	—	—	—
Corporate	—	49,291	4,522	—	—	53,813
Domestic equity	207,263	129,965	24,469	—	—	361,697
International equity	—	—	—	—	738,157	738,157
	—	—	—	—	277,771	277,771
Total Invested Assets	3,867,867	4,174,697	1,143,774	176,648	1,935,424	11,298,410
Pool related net assets (liabilities)	(1,103)	(551,219)	(213,644)	1,534	(3,229)	(767,661)
Net invested assets before earnings distribution to participants	3,866,764	3,623,478	930,130	178,182	1,932,195	10,530,749
Earnings payable to participants	(16,460)	1,940	702	—	—	(13,818)
Other pool ownership	(605,046)	441,220	163,826	—	—	—
Ownership under other fiduciary responsibility	(557,856)	—	(80,796)	—	(43,530)	(682,182)
Total Commissioner's fiduciary responsibility	\$ 2,687,402	4,066,638	1,013,862	178,182	1,888,665	9,834,749

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 fourteen months in maturity or fourteen months expected average life. Floating rate securities are limited to three years in maturity or three years expected average life. Treasury utilizes the actual maturity date for commercial paper and twelve-month prepay speeds for other securities. At June 30, 2007, the expected average life of individual fixed rate securities ranged from

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June 30, 2007

(6) DEPOSIT AND INVESTMENT RISK (CONT.)

three days to seven months and the expected average life of floating rate securities ranged from less than one year to three years.

Intermediate and Broad Market Fixed Income Pools

Through its investment policy, Treasury manages its exposure to fair value losses arising from increasing interest rates by limiting the effective duration of its other fixed income pool portfolios to the following:

Intermediate-term Fixed Income Pool – ± 20% of the Merrill Lynch 1-5 year Government Bond Index. The effective duration for the Merrill Lynch 1-5 year Government Bond Index at June 30, 2007, was 2.24 years.

Broad Market Fixed Income Pool – ± 20% of the Lehman Brothers Aggregate Bond Index. The effective duration for the Lehman Brothers Aggregate Bond Index at June 30, 2007, was 4.70 years.

At June 30, 2007, the effective duration by investment type was as follows:

	<u>Effective duration (in years)</u>	
	<u>Intermediate- term fixed income pool</u>	<u>Broad market fixed income pool</u>
U.S. treasury notes	2.41	3.92
U.S. treasury bonds	—	11.26
US. government and agency securities	1.76	5.79
Mortgage-backed	3.10	4.22
Other asset-backed	1.56	5.53
Corporate bonds	2.73	5.26
Yankees:		
Government	4.29	10.87
Corporate	3.58	5.84
Portfolio effective duration	1.93	4.06

Interest Rate Risk

Intermediate-term and Broad Market 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, call options and other variable cash flows for purposes of the effective duration calculation.

Other Fixed Income

The Tobacco Revenue Fixed Income securities are invested accordingly to the terms of the related bond indentures. The respective bond indentures do not establish policy with regard to interest rate risk.

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June 30, 2007

(6) DEPOSIT AND INVESTMENT RISK (CONT.)

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:

With the exception of the sweep account, 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 A-1 or equivalent. For securities with long-term credit ratings, they may be purchased if the median rating of Standard & Poor's Corporation, Moody's and Fitch is A3 or equivalent. Asset-backed and non-agency mortgage securities may be purchased if only rated by one of the rating agencies mentioned above if they are rated AAA. Unexpected daily cash surpluses that arise in this pool are invested overnight in the custodian's repurchase agreement sweep account. Treasury does not have a policy to limit credit risk associated with the sweep account.

Intermediate-term and Broad Market Fixed Income Pool investments are limited to securities with a long-term credit rating of at least BBB3 or equivalent and securities with a short-term credit rating of at least A-1 or equivalent. For securities with long-term credit ratings, they may be purchased if the median rating of Standard & Poor's Corporation, Moody's and Fitch is Baa3 or equivalent. Asset-backed and non-agency mortgage securities may be purchased if only rated by one of the rating agencies mentioned above if they are rated AAA.

The Russell 3000 Index Common Trust Fund (Trust), a passively managed commingled index fund, may lend assets or transfer securities to broker agents or other entities for collateral in the form of cash or securities and simultaneously agree to return the collateral for the same securities in the future. There is credit risk associated with the lending transactions. The risk exists that an issuer or other counterparty to an investment will not fulfill its obligations and a loss results from counterparty failure or default on a loaned security.

The Morgan Stanley Capital International (MSCI) Europe Australasia and Far East (EAFE), Index Common Trust Fund (Trust), a passively managed commingled index fund, may lend assets or transfer securities to broker agents or other entities for collateral in the form of cash or securities and simultaneously agree to return the collateral for the same securities in the future. There is credit risk associated with the lending transactions. The risk exists that an issuer or other counterparty to an investment will not fulfill its obligations and a loss results from counterparty failure or default on a loaned security.

The bond indentures governing the investment of tobacco revenue related bond proceeds, limits the investment in commercial paper to only those securities rated A-1 or equivalent.

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(6) DEPOSIT AND INVESTMENT RISK (CONT.)

At June 30, 2007, the State's internally managed Pools consisted of investments with credit quality ratings issued by nationally recognized statistical rating organizations as follows (using Standard and Poor's Corporation rating scale):

<u>Investment type</u>	<u>Rating</u>	<u>Short-term fixed income pool</u>	<u>Intermediate- term fixed income pool</u>	<u>Broad market fixed income pool</u>
Overnight sweep account	Not Rated	0.61%	—%	—%
Short-term investment account	— Not Rated	3.96 —	— 0.05	— —
Commercial paper	AA	1.88	—	—
Commercial paper	A	3.09	—	—
Commercial paper	Not Rated	3.86	—	—
U. S. government agency discount notes	— Not Rated	— —	— 11.83	— 6.96
U. S. government agency	AAA	—	31.21	1.82
U. S. government agency	BBB	—	—	0.16
U. S. government agency	Not Rated	—	0.05	0.62
Foreign government	AAA	—	—	—
Foreign government	AA	—	—	—
Foreign government	A	—	—	—
Mortgage-backed	AAA	6.50	14.75	55.03
Mortgage-backed	A	0.32	—	—
Mortgage-backed (agency)	Not Rated	—	1.57	10.39
Other asset-backed	AAA	40.98	2.46	4.73
Other asset-backed	AA	0.91	—	—
Other asset-backed	A	6.34	0.88	0.09
Other asset-backed	BBB	—	0.29	1.37
Other asset-backed	BB	—	—	—
Other asset-backed	Not Rated	0.78	0.76	—
Corporate bonds	AAA	1.97	0.93	2.14
Corporate bonds	AA	15.13	4.01	4.25
Corporate bonds	A	8.31	2.98	7.47
Corporate bonds	BBB	—	2.51	7.57
Corporate bonds	BB	—	—	—
Corporate bonds	B	—	—	—
Corporate bonds	CCC	—	—	—
Corporate bonds	D	—	—	—
Corporate bonds	Not Rated	—	0.14	1.29
Corporate bonds	BBB	—	—	—
Corporate bonds	BB	—	—	—
Corporate bonds	B	—	—	—
Corporate bonds	D	—	—	—

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June 30, 2007

(6) DEPOSIT AND INVESTMENT RISK (CONT.)

<u>Investment type</u>	<u>Rating</u>	<u>Short-term fixed income pool</u>	<u>Intermediate- term fixed income pool</u>	<u>Broad market fixed income pool</u>
Yankees:				
Government	AAA - BBB	—	1.36	0.49
Corporate	AAA	—	1.84	0.26
Corporate	AA	3.09	1.21	—
Corporate	A	1.75	0.29	1.45
Corporate	BBB	—	0.25	0.92
Corporate	Not Rated	0.52	—	—
Corporate	B	—	—	—
Corporate	CCC	—	—	—
No credit exposure		—	20.63	(7.12)
		<u>100%</u>	<u>100%</u>	<u>100%</u>

Custodial Credit Risk – Deposits

At June 30, 2007, the Tobacco Revenue Fixed Income consisted of commercial paper rated A-1 and the securities lending collateral was invested in a registered 2(a)-7 money market fund that was not rated.

Custodial credit risk is the risk that deposits may not be returned in the event of a bank failure. Treasury's policy with regard to custodial credit risk is to collateralize state deposits to the extent possible. The bond indentures governing the investment of tobacco revenue related bond proceeds, does not establish policy with regard to custodial credit risk. At June 30, 2007, the funds' had the following uncollateralized and uninsured deposits:

	<u>Amount</u> (in thousands)
Non-interest bearing deposits	\$ 7,832
International equity pool	91
	<u>\$ 7,923</u>

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June 30, 2007

(6) DEPOSIT AND INVESTMENT RISK (CONT.)

Concentration of Credit Risk

Treasury's policy with regard to concentration of credit risk is to prohibit the purchase of more than five percent of a pool's holdings in corporate bonds of any one company or affiliated group. Federal National Mortgage Association and Federal Home Loan Mortgage Corporation securities are not classified as corporate bonds. At June 30, 2007, the funds invested in the Intermediate-term Fixed Income Pool and the Broad Market Fixed Income Pool had more than five percent of their funds' investments in Federal Home Loan Mortgage Corporation and Federal National Mortgage Association as follows:

	Fair value	Percent of total pool investments
	(In thousands)	
Intermediate-term fixed income pool:		
Federal Home Loan Mortgage Corporation	\$ 1,117,785	28%
Federal National Mortgage Association	567,986	14
Broad market fixed income pool:		
Federal Home Loan Mortgage Corporation	101,636	9
Federal National Mortgage Association	340,511	31

Foreign Currency Risk

The Commissioner of Revenue formally adopts asset allocation policies for each fund at the beginning of each fiscal year which places policy limitations on the amount of international securities each fund is allowed to hold. The following policies were in place during fiscal year 2007 and invested assets included the following holdings at June 30, 2007, for the funds invested in the International Equity Pool:

	Policy	Actual
Alaska Children's Trust Fund	22% ± 5%	23.84%
Constitutional Budget Reserve Fund, Subaccount	17% ± 5%	18.98
Power Cost Equalization Endowment Fund	18% ± 5%	19.24
Retiree Health Insurance Fund, Major Medical	6% ± 4%	5.58
Retiree Health Insurance Fund, Long Term Care	19% ± 4%	19.53

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June 30, 2007

(6) DEPOSIT AND INVESTMENT RISK (CONT.)

At June 30, 2007, the funds invested in the International Equity Pool had exposure to foreign currency risk as follows:

Currency	Fair value (In thousands)
Deposits:	
Euro Currency	\$ 8
Japanese Yen	83
Under other fiduciary responsibility	17
	108
Investments – international equity:	
Euro Currency	90,686
Japanese Yen	34,296
New Zealand Dollar	2,153
Pound Sterling	63,971
Singapore Dollar	4,083
Swedish Krona	3,388
Swiss Franc	19,536
Under other fiduciary responsibility	41,100
	259,213
Total	\$ 259,321

(7) FOREIGN EXCHANGE, FOREIGN EXCHANGE CONTRACTS AND OFF-BALANCE SHEET RISK

The International Equity Pool investment income includes the following at June 30, 2007:

Net realized gain on foreign currency	\$ 3,699,588
Net unrealized gain on foreign currency	6,514
Net realized loss on foreign exchange contracts	(43,686)

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 maturity period for the contract is sixteen days. The International Equity Pool had no unrealized gains (losses) with respect to forward contracts at June 30.

The counterparties to the foreign currency forward contracts consist of a diversified group of financial institutions. Credit risk exposure exists to the extent of non-performance 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.

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(8) SECURITIES LENDING

Alaska Statute 37.10.071 authorizes the Commissioner to lend assets, under an agreement and for a fee, against deposited collateral. The Commissioner entered into an agreement with State Street Corporation (the Bank) to lend fixed income and equity securities. The Bank, acting as the Commissioner's agent under the agreement, transfers securities to broker agents or other entities for collateral in the form of cash or securities and simultaneously agrees to return the collateral for the same securities in the future.

At June 30, 2007, the fair value of securities on loan totaled \$874 million which is attributable on a pro rata basis to the funds invested in the following pools:

	<u>Amount</u> (in thousands)
Short-term fixed income pool	\$ —
Intermediate-term fixed income pool	800,054
Broad market fixed income pool	46,280
International equity pool	<u>27,875</u>
Total	\$ <u><u>874,209</u></u>

There is no limit to the amount that can be loaned and the Commissioner is able to sell securities on loan. International equity security loans are collateralized at not less than 105 percent of their fair value. All other security loans are collateralized at not less than 102 percent of their fair value. Loaned securities and collateral is marked to market daily and collateral is received or delivered the following day to maintain collateral levels.

Cash collateral is invested in a registered 2(a)-7 money market fund. Maturities of investments in the money market fund generally do not match the maturities of the loaned securities because the lending agreements are terminable at will. Collateral securities may be pledged or sold upon borrower default. Since the Commissioner does not have the ability to pledge or sell the collateral securities unless the borrower defaults, they are not recorded on the combined schedules. Securities under loan, cash collateral and cash collateral payable are recorded on the combined schedules at fair value. The Bank, participating funds and the borrower receive a fee from earnings on invested collateral. The Bank and participating funds share a fee paid by the borrower for loans not collateralized with cash.

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

For the year ended June 30, 2007, there were no losses incurred as a result of securities lending transactions and there were no significant violations of legal or contractual provisions nor failures by any borrowers to return loaned securities.

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(9) COMMITMENTS AND CONTINGENCIES

In the 1990 general election, the voters of Alaska adopted an amendment to the Alaska State Constitution creating the Constitutional Budget Reserve Fund (CBRF). All money received by the State after July 1, 1990 as a consequence of the resolution of disputes about the amount of mineral lease bonuses, royalties or taxes must be deposited in the CBRF. The Legislature may appropriate funding from the CBRF to pay for the operations of State government only under certain conditions. If, at any time, the amount of funding from other sources available to the Alaska Legislature for appropriation is less than the amount appropriated for government operations for the previous fiscal year, the Legislature may appropriate from the CBRF with a simple majority vote. When the amount of funding from other sources exceeds the amount appropriated for the previous fiscal year, the Legislature may appropriate from the CBRF for any public purpose with a three-fourths vote of the members of each house. The State constitutional provision governing the operation of the CBRF requires the State General Fund repay the moneys that have been appropriated from the CBRF if there is a surplus in the State General Fund at the end of any fiscal year. The amount due the CBRF from the State General Fund for past appropriations at June 30, 2007 is approximately \$5.2 billion. The State General Fund does not pay interest on the money due to the CBRF, unless appropriated.

Chapter 28, SLA 2006, appropriated unrestricted interest earnings on general fund investments for the year ended June 30, 2007, to the CBRF to compensate the CBRF for lost earnings caused by use of the CBRF's balance to permit expenditure of appropriations in anticipation of receiving unrestricted general fund revenue.