



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

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

**June 30, 2006**

**(With Independent Auditors' Report Thereon)**

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

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

**Combined Schedules**

**June 30, 2006**

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## **Independent Auditors' Report**

State of Alaska, Department of Revenue  
Division of Treasury:

We have audited the accompanying combined schedules of invested assets under the investment authority of the Commissioner of Revenue as of June 30, 2006 and 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.

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 the purpose of expressing an opinion on the effectiveness of the Division of Treasury's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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, 2006, 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 27, 2006

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, 2006 (with memorandum totals for June 30, 2005)  
(Expressed in thousands)

	GENERAL FUND and GeFONSI	CONSTITUTIONAL BUDGET RESERVE FUND		PUBLIC SCHOOL TRUST FUND		ALASKA CHILDREN'S TRUST		INVESTMENT LOSS TRUST FUND	SUPPLEMENTAL BENEFITS 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 (MEMORANDUM ONLY)	
		MAIN	SUBACCOUNT	PRINCIPAL	INCOME	PRINCIPAL	INCOME							MAJOR MEDICAL	LONG TERM CARE			June 30, 2006	June 30, 2005
<b>INVESTMENTS (at Fair Value) (Notes 6 and 7)</b>																			
<b>Cash and Cash Equivalents</b>																			
Short-term Fixed Income Pool (Note 3)	\$ 1,126,868	265,543	256	1,084	8,393	1	378	11,435	1,646	149,017	11,962	345,955	6	31,415	848	705	62,129	2,017,641	1,725,963
Non-interest Bearing Deposits (Note 5)	6,338	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6,338	6,285
Securities Lending Collateral (Note 8)	551,867	393,806	28,871	11,690	-	549	-	-	-	-	40,016	-	10,300	19,781	7,297	-	-	1,064,177	141,609
Total Cash and Cash Equivalents	1,685,073	659,349	29,127	12,774	8,393	550	378	11,435	1,646	149,017	51,978	345,955	10,306	51,196	8,145	705	62,129	3,088,156	1,873,857
<b>Marketable Debt Securities</b>																			
Pooled Investments (Note 3)																			
Intermediate-term Fixed Income Pool	1,720,748	1,153,976	-	-	-	-	-	-	-	-	124,772	-	-	45,995	-	-	-	3,045,491	1,952,646
Broad Market Fixed Income Pool	-	353,541	177,948	174,309	-	2,104	-	-	-	-	-	-	64,201	74,995	42,344	-	-	889,442	872,105
Non-pooled Investments																			
Tobacco Revenue Fixed Income	16,523	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	16,523	22,582
Total Marketable Debt Securities	1,737,271	1,507,517	177,948	174,309	-	2,104	-	-	-	-	124,772	-	64,201	120,990	42,344	-	-	3,951,456	2,847,333
<b>Equity Securities</b>																			
Domestic Equity (Note 4)	-	-	215,119	145,938	-	6,179	-	-	-	-	-	-	85,142	-	59,174	152	-	511,704	470,506
International Equity Pool (Notes 3 and 7)	-	-	99,195	-	-	2,389	-	-	-	-	-	-	35,108	-	26,101	-	-	162,793	134,970
Total Equity Securities	-	-	314,314	145,938	-	8,568	-	-	-	-	-	-	120,250	-	85,275	152	-	674,497	605,476
<b>Total Investments</b>	<b>3,422,344</b>	<b>2,166,866</b>	<b>521,389</b>	<b>333,021</b>	<b>8,393</b>	<b>11,222</b>	<b>378</b>	<b>11,435</b>	<b>1,646</b>	<b>149,017</b>	<b>176,750</b>	<b>345,955</b>	<b>194,757</b>	<b>172,186</b>	<b>135,764</b>	<b>857</b>	<b>62,129</b>	<b>7,714,109</b>	<b>5,326,666</b>
<b>Receivables (Payables)</b>																			
Income Receivable	5,080	1,446	1	721	36	30	2	50	14	663	83	1,520	-	188	10	3	273	10,120	4,987
Transferred from (to) Other Funds	2,708	-	-	(1,673)	1,673	(50)	50	-	-	-	(2,708)	-	-	-	-	-	-	-	-
Securities Lending Collateral (Note 8)	(551,867)	(393,806)	(28,871)	(11,690)	-	(549)	-	-	-	-	(40,016)	-	(10,300)	(19,781)	(7,297)	-	-	(1,064,177)	(141,609)
Total Receivables (Payables)	(544,079)	(392,360)	(28,870)	(12,642)	1,709	(569)	52	50	14	663	(42,641)	1,520	(10,300)	(19,593)	(7,287)	3	273	(1,054,057)	(136,622)
<b>Net Invested Assets</b>	<b>\$ 2,878,265</b>	<b>1,774,506</b>	<b>492,519</b>	<b>320,379</b>	<b>10,102</b>	<b>10,653</b>	<b>430</b>	<b>11,485</b>	<b>1,660</b>	<b>149,680</b>	<b>134,109</b>	<b>347,475</b>	<b>184,457</b>	<b>152,593</b>	<b>128,477</b>	<b>860</b>	<b>62,402</b>	<b>6,660,052</b>	<b>5,190,044</b>

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, 2006 (with memorandum totals for the year ended June 30, 2005)  
(Expressed in thousands)

	GENERAL FUND and GeFONSI	CONSTITUTIONAL BUDGET RESERVE FUND		PUBLIC SCHOOL TRUST FUND		ALASKA CHILDREN'S TRUST		INVESTMENT LOSS TRUST FUND	SUPPLEMENTAL BENEFITS 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 (MEMORANDUM ONLY)	
		MAIN	SUBACCOUNT	PRINCIPAL	INCOME	PRINCIPAL	INCOME							MAJOR MEDICAL	LONG TERM CARE			YEAR ENDED 6/30/2006	YEAR ENDED 6/30/2005
Investment Income																			
Securities Lending Income	\$ 10,277	11,518	4,223	530	2	34	-	1	1	97	1,137	86	1,586	700	958	-	-	31,150	10,075
Securities Lending expense	(10,021)	(11,231)	(4,118)	(517)	(2)	(33)	-	(1)	(1)	(94)	(1,109)	(84)	(1,546)	(682)	(934)	-	-	(30,373)	(9,360)
Net Securities Lending income	256	287	105	13	-	1	-	-	-	3	28	2	40	18	24	-	-	777	715
Short-term Fixed Income Pool	45,731	14,735	10	153	304	2	16	244	131	7,975	828	7,851	8	2,144	78	23	582	80,815	35,828
Intermediate-term Fixed Income Pool	16,038	19,775	-	-	-	-	-	-	-	-	2,025	223	-	719	-	-	-	38,780	54,011
Broad Market Fixed Income Pool	-	(431)	(373)	(374)	-	(20)	-	-	-	78	-	156	(257)	(78)	(87)	-	-	(1,386)	57,057
Domestic Equity	-	-	18,757	12,922	-	432	-	-	-	-	-	-	7,596	-	5,004	-	-	44,711	35,401
International Equity Pool	-	-	20,398	-	-	(20)	-	-	-	-	-	-	7,205	-	4,485	-	-	32,068	15,651
Tobacco Revenue Fixed Income	804	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	804	894
Other Fixed Income	3,479	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,479	1,553
<b>Total Investment Income</b>	<b>66,308</b>	<b>34,366</b>	<b>38,897</b>	<b>12,714</b>	<b>304</b>	<b>395</b>	<b>16</b>	<b>244</b>	<b>131</b>	<b>8,056</b>	<b>2,881</b>	<b>8,232</b>	<b>14,592</b>	<b>2,803</b>	<b>9,504</b>	<b>23</b>	<b>582</b>	<b>200,048</b>	<b>201,110</b>
Transfer from (to) Other Funds	2,708	-	-	(12,328)	12,328	(397)	397	-	-	-	(2,708)	-	-	-	-	-	-	-	-
<b>Net Investment Income</b>	<b>69,016</b>	<b>34,366</b>	<b>38,897</b>	<b>386</b>	<b>12,632</b>	<b>(2)</b>	<b>413</b>	<b>244</b>	<b>131</b>	<b>8,056</b>	<b>173</b>	<b>8,232</b>	<b>14,592</b>	<b>2,803</b>	<b>9,504</b>	<b>23</b>	<b>582</b>	<b>200,048</b>	<b>201,110</b>
<b>Total Invested Assets, Beginning of Period</b>	<b>1,708,388</b>	<b>1,731,492</b>	<b>453,622</b>	<b>308,193</b>	<b>9,622</b>	<b>10,589</b>	<b>353</b>	<b>2,203</b>	<b>1,741</b>	<b>263,445</b>	<b>121,220</b>	<b>126,429</b>	<b>181,113</b>	<b>164,564</b>	<b>107,070</b>	<b>-</b>	<b>-</b>	<b>5,190,044</b>	<b>4,611,034</b>
Net Contributions (Withdrawals)	1,100,861	8,648	-	11,800	(12,152)	66	(336)	9,038	(212)	(121,821)	12,716	212,814	(11,248)	(14,774)	11,903	837	61,820	1,269,960	377,900
<b>Total Invested Assets, End of Period</b>	<b>\$ 2,878,265</b>	<b>1,774,506</b>	<b>492,519</b>	<b>320,379</b>	<b>10,102</b>	<b>10,653</b>	<b>430</b>	<b>11,485</b>	<b>1,660</b>	<b>149,680</b>	<b>134,109</b>	<b>347,475</b>	<b>184,457</b>	<b>152,593</b>	<b>128,477</b>	<b>860</b>	<b>62,402</b>	<b>6,660,052</b>	<b>5,190,044</b>

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

**Notes to Combined Schedules**

**June 30, 2006**

**(1) THE ACCOUNTING ENTITY**

The accompanying combined schedules present the financial position and changes therein, as of and for the year ended June 30, 2006, 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 Combined Schedules**

**June 30, 2006**

**(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.

**Supplemental Benefits Trust Fund**

Effective January 1, 1980, the State of Alaska Supplemental Benefits System (System) was created. The majority of the System's assets are under the fiduciary responsibility of the Alaska Retirement Management Board. The Supplemental Benefits Trust Fund represents a short-term investment account of the System in which employer and employee contributions are held pending transfer to the System's record keeper.

**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.

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

**Notes to Combined Schedules**

**June 30, 2006**

**(1) THE ACCOUNTING ENTITY (CONT.)**

At June 30, 2006, the invested asset balances in the various bond sub-funds were as follows (in thousands):

Series 2002A, Educational and Museum Facility Design, Construction and Major Maintenance	\$ 52,694
Series 2002A, Transportation Projects	63,704
Series 2002B, Accelerated Alaska Transportation Projects	<u>33,282</u>
Total General Obligation Bond Fund	<u>\$ 149,680</u>

**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, 2006, the invested asset balances in the various construction sub-funds were as follows (in thousands):

Series 1999A Alternative Minimum Tax	\$ 4,637
Series 1999B Non-Alternative Minimum Tax	4,334
Series 1999C Alternative Minimum Tax	732
Series 2002A Alternative Minimum Tax	6,531
Series 2002B Non-Alternative Minimum Tax	49,142
Series 2002 Reserve	13,437
Series 2003A Alternative Minimum Tax	4,005
Series 2003B Non-Alternative Minimum Tax	11,357
Series 2003 Reserve	3,880
Series 2006 Alternative Minimum Tax	124,590
Series 2006 Non-Alternative Minimum Tax	75,372
Series 2006 Variable Rate	<u>49,458</u>
Total International Airports Construction Fund	<u>\$ 347,475</u>



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

**Notes to Combined Schedules**

**June 30, 2006**

**(1) THE ACCOUNTING ENTITY (CONT.)**

**Power Cost Equalization Endowment Fund (Cont.)**

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.

**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.

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

**Notes to Combined Schedules**

**June 30, 2006**

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

**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.

The domestic equity account is valued each business day by the Trustee Committee in good faith and pursuant to procedures established by the Trustee.

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.

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.

**Combined Schedule Presentation**

Total columns in the combined schedules are captioned "memorandum only" to indicate they are presented only to facilitate financial analysis. Interfund eliminations have not been made in the aggregation of this data. The financial information for the year ended June 30, 2005, is presented for comparative purposes.

**(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.

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

**Notes to Combined Schedules**

**June 30, 2006**

**(3) POOLED INVESTMENTS (CONT.)**

**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, 2006, was \$1,879. 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, 2006, was \$2,136. 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.

**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, 2006, was \$1,202. 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 EQUITY**

Some funds participate in the State's externally managed Domestic Equity account. The participants in this account hold shares in the Russell 3000 Index Common Trust Fund (Trust), a passively managed commingled index fund. The Trust includes other, non-State institutional investors. The investment objective of the Trust is to replicate, as closely as possible, the return of the Russell 3000 Stock Index and thus is comprised of securities included in that index. 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 common trust by the number of shares outstanding on the valuation date.

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**Notes to Combined Schedules**

**June 30, 2006**

**(4) DOMESTIC EQUITY (CONT.)**

Ownership in the common trust is based on the number of shares held by each participant. Contributions to and withdrawals from the common trust 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, 2006, non-interest bearing deposits totaling \$6.3 million was comprised of various State agency deposits-in-transit, cash held pending redemption of State warrants and compensating balances.

**(6) DEPOSIT AND INVESTMENT RISK**

At June 30, 2006, 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	\$ -	\$ -	\$ -	\$ -	\$ 6,338	\$ 6,338
Overnight Sweep Account	4,581	-	-	-	-	4,581
Short-term Investment Fund	112,799	-	-	-	-	112,799
Money Market	-	-	-	5	1,064,177	1,064,182
Commercial Paper	226,233	-	-	16,518	-	242,751
U.S. Treasury Notes	-	1,488,734	50,910	-	-	1,539,644
U.S. Treasury Bonds	-	-	56,407	-	-	56,407
U.S. Government Agency Discount Notes	-	-	15,120	-	-	15,120
U.S. Government Agency Mortgage-backed	-	553,840	104,830	-	-	658,670
Other Asset-backed	194,749	328,440	446,588	-	-	969,777
Corporate Bonds	1,354,220	74,042	17,348	-	-	1,445,610
Corporate Bonds	700,653	486,901	218,394	-	-	1,405,948
Yankees:						
Government	-	-	5,316	-	-	5,316
Corporate	28,755	16,200	14,306	-	-	59,261
Domestic Equity	-	-	-	-	511,704	511,704
International Equity	-	-	-	-	197,025	197,025
Total Invested Assets	2,621,990	2,948,157	929,219	16,523	1,779,244	8,295,133
Net other assets (liabilities)	9,889	(8,354)	(83,811)	-	(279)	(82,555)
Net Invested Assets before earnings distribution to participants	2,631,879	2,939,803	845,408	16,523	1,778,965	8,212,578
Earnings payable to participants	(11,595)	277	417	-	-	(10,901)
Ownership by other pools	(244,858)	135,072	109,786	-	-	-
Other fiduciary responsibility	(357,785)	(29,661)	(66,169)	-	(33,953)	(487,568)
Commissioner's fiduciary responsibility	\$ 2,017,641	\$ 3,045,491	\$ 889,442	\$ 16,523	\$ 1,745,012	\$ 7,714,109

**INVESTED ASSETS  
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**Notes to Combined Schedules**

**June 30, 2006**

**(6) DEPOSIT AND INVESTMENT RISK (CONT.)**

**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, 2006, the expected average life of individual fixed rate securities ranged from 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 -  $\pm 20\%$  of the Merrill Lynch 1-5 years Government Bond Index. The effective duration for the Merrill Lynch 1-5 year Government Bond Index at June 30, 2006, was 2.28 years.

Broad Market Fixed Income Pool -  $\pm 20\%$  of the Lehman Brothers Aggregate Bond Index. The effective duration for the Lehman Brothers Aggregate Bond Index at June 30, 2006, was 4.80 years.

At June 30, 2006, the effective duration by investment type was as follows:

	Effective Duration (in years)	
	Intermediate-term Fixed Income Pool	Broad Market Fixed Income Pool
U.S. Treasury Notes	2.01	3.13
U.S. Treasury Bonds	-	9.74
U.S. Government Agency	2.36	4.25
Mortgage-backed	2.79	3.75
Other Asset-backed	1.06	0.87
Corporate Bonds	2.65	4.99
Yankees:		
Government	-	8.83
Corporate	4.17	6.34
Portfolio Effective Duration	2.16	3.96

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.

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**June 30, 2006**

**(6) DEPOSIT AND INVESTMENT RISK (CONT.)**

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.

**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 A1 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 A1 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 BBB3 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 counter party 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 A1 or equivalent.

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**June 30, 2006**

**(6) DEPOSIT AND INVESTMENT RISK (CONT.)**

At June 30, 2006, 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):

Investment Type	Rating <sup>1</sup>	Short-term Fixed Income Pool	Intermediate-term Fixed Income Pool	Broad Market Fixed Income Pool
Overnight Sweep Account	Not Rated	0.17%	-	-
Short-term Investment Account	Not Rated	4.29%	-	-
Money Market	AAA	-	-	-
Commercial Paper	A-1	8.60%	-	-
U.S. Government Agency Discount Notes	AAA	-	-	1.79%
U.S. Government Agency Mortgage-backed	AAA	-	18.84%	12.39%
Mortgage-backed	AAA	-	10.48%	44.12%
Mortgage-backed	Not Rated	7.40%	0.69%	8.68%
Other Asset-backed	AAA	48.17%	1.67%	2.05%
Other Asset-backed	A	3.28%	0.85%	-
Corporate Bonds	AAA	2.02%	5.78%	2.01%
Corporate Bonds	AA	15.32%	3.20%	4.01%
Corporate Bonds	A	9.27%	4.42%	10.91%
Corporate Bonds	BBB	-	3.17%	8.89%
Yankees - Corporate	AAA	-	0.24%	0.36%
Yankees - Corporate	AA	0.91%	-	0.22%
Yankees - Corporate	A	0.18%	0.13%	0.63%
Yankees - Corporate	BBB	-	-	0.48%
Yankees - Government	AAA	-	-	0.33%
Yankees - Government	BBB	-	-	0.30%
No Credit Exposure		0.39%	50.53%	2.83%
		<u>100%</u>	<u>100%</u>	<u>100%</u>

<sup>1</sup>Rating modifiers are not disclosed.

At June 30, 2006, 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.

**INVESTED ASSETS  
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**Notes to Combined Schedules**

**June 30, 2006**

**(6) DEPOSIT AND INVESTMENT RISK (CONT.)**

**Custodial Credit Risk – Deposits**

Custodial credit risk is the risk that deposits may not be returned in the event of a bank failure. 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, 2006, the funds' had the following uncollateralized and uninsured deposits:

	<b>Amount</b>
	<b>(in thousands)</b>
Non-interest Bearing Deposits	\$ 6
International Equity Pool	34
	\$ 40

**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, 2006, 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:

	<b>Fair Value</b>	<b>Percent of</b>
	<b>(in thousands)</b>	<b>Total Pool</b>
		<b>Investments</b>
Intermediate-term Fixed Income Pool		
Federal Home Loan Mortgage Corporation	\$ 412,801	13%
Federal National Mortgage Association	\$ 432,023	14%
Broad Market Fixed Income Pool		
Federal Home Loan Mortgage Corporation	\$ 134,984	14%
Federal National Mortgage Association	\$ 320,129	34%



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**Notes to Combined Schedules**

**June 30, 2006**

**(6) DEPOSIT AND INVESTMENT RISK (CONT.)**

**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 2006 and invested assets included the following holdings at June 30, 2006, for the funds invested in the International Equity Pool:

	<u>Policy</u>	<u>Actual</u>
Alaska Children's Trust Fund	22% ± 5%	22.38%
Constitutional Budget Reserve Fund, Subaccount	16% ± 5%	20.14%
Power Cost Equalization Endowment Fund	17% ± 5%	19.03%
Retiree Health Insurance Fund, Long Term Care	18% ± 4%	20.32%

At June 30, 2006, the funds invested in the International Equity Pool had exposure to foreign currency risk as follows:

<u>Currency</u>	<u>Fair Value</u> (in thousands)
Deposits:	
Euro Currency	3
Japanese Yen	159
Under other fiduciary responsibility	7
	<u>169</u>
Investments - International Equity	
Australian Dollar	1,056
Euro Currency	65,976
Japanese Yen	29,826
Norwegian Krone	2,244
Pound Sterling	26,193
Swedish Krona	1,375
Swiss Franc	14,767
Under other fiduciary responsibility	29,499
	<u>170,936</u>
Total	<u>\$ 171,105</u>

**INVESTED ASSETS  
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**Notes to Combined Schedules**

**June 30, 2006**

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

The International Equity Pool investment income includes the following at June 30, 2006:

Net Realized Gain on Foreign currency	\$	1,110,964
Net Unrealized Gain on Foreign currency		12,709
Net Realized Gain (Loss) on Foreign Exchange Contracts		(32,375)

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 net unrealized gains (losses) with respect to such contract, calculated using forward rates at June 30, as follows:

Contract Sales	\$	(231,104)
Less: Fair Value		(234,631)
Net unrealized Gains on Contracts	\$	<u>3,527</u>

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.

**(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, 2006, the fair value of securities on loan totaled \$1.045 billion which is attributable on a pro rata basis to the funds invested in the following pools:

	<u>Amount</u>
	<u>(in thousands)</u>
Short-term Fixed Income Pool	\$ -
Intermediate-term Fixed Income Pool	958,771
Broad Market Fixed Income Pool	59,662
International Equity Pool	27,160
Total	<u>\$ 1,045,593</u>

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

**Notes to Combined Schedules**

**June 30, 2006**

**(8) SECURITIES LENDING (CONT.)**

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 in the amount of \$1,064,177,000 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 in the amount of \$842,598 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, 2006, there were no losses incurred as a result of securities lending transactions and there were no significant violations of legal or contractual provisions or failures by any borrowers to return loaned securities.

**(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, 2005 was \$5.2 billion. The State General Fund does not pay interest on the money due to the CBRF, unless appropriated.

Chapter 4, SLA 2005, appropriated unrestricted interest earnings on general fund investments for the year ended June 30, 2006, 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.