



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

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

June 30, 2005

(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, 2005

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KPMG LLP
Suite 600
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Anchorage, AK 99501

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, 2005 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 Commissioner of Revenue's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedules. An audit also includes 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, 2005, and the results of its investment income and changes in invested assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

August 25, 2005

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, 2005 (with memorandum totals for June 30, 2004)
(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		TOTAL INVESTED ASSETS (MEMORANDUM ONLY)	
		MAIN	SUBACCOUNT	PRINCIPAL	INCOME	PRINCIPAL	INCOME							MAJOR MEDICAL	LONG TERM CARE	June 30, 2005	June 30, 2004
INVESTMENTS (at Fair Value) (Notes 6 and 7)																	
Cash and Cash Equivalents																	
Short-term Fixed Income Pool (Note 3)	\$ 907,051	377,646	141	2,693	8,349	107	309	2,197	1,735	262,751	23,171	91,005	7	46,943	1,858	1,725,963	1,514,196
Non-interest Bearing Deposits (Note 5)	6,285	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6,285	24,895
Securities Lending Collateral (Note 7)	13,861	48,770	29,357	18,533	79	632	3	21	16	2,484	905	1,443	11,231	7,985	6,289	141,609	822,523
Total Cash and Cash Equivalents	927,197	426,416	29,498	21,226	8,428	739	312	2,218	1,751	265,235	24,076	92,448	11,238	54,928	8,147	1,873,857	2,361,614
Marketable Debt Securities																	
Pooled Investments (Note 3)																	
Intermediate-term Fixed Income Pool	770,227	1,001,178	-	-	-	-	-	-	-	-	98,023	31,875	-	51,343	-	1,952,646	1,665,373
Broad Market Fixed Income Pool	-	351,691	175,321	170,424	-	5,814	-	-	-	-	-	3,312	63,282	66,128	36,133	872,105	810,290
Non-pooled Investments																	
Tobacco Revenue Fixed Income	22,582	-	-	-	-	-	-	-	-	-	-	-	-	-	-	22,582	35,083
Total Marketable Debt Securities	792,809	1,352,869	175,321	170,424	-	5,814	-	-	-	-	98,023	35,187	63,282	117,471	36,133	2,847,333	2,510,746
Equity Securities																	
Domestic Equity (Note 4)	-	-	196,362	135,727	-	4,690	-	-	-	-	-	-	83,268	-	50,459	470,506	434,840
International Equity Pool (Note 3)	-	-	81,798	-	-	-	-	-	-	-	-	-	34,556	-	18,616	134,970	124,319
Total Equity Securities	-	-	278,160	135,727	-	4,690	-	-	-	-	-	-	117,824	-	69,075	605,476	559,159
Total Investments	1,720,006	1,779,285	482,979	327,377	8,428	11,243	312	2,218	1,751	265,235	122,099	127,635	192,344	172,399	113,355	5,326,666	4,608,996
Receivables (Payables)																	
Income Receivable	2,216	977	-	601	21	21	1	6	6	694	53	237	-	150	4	4,987	2,038
Income Earned, but not Transferred from (to) Other Funds	27	-	-	(1,252)	1,252	(43)	43	-	-	-	(27)	-	-	-	-	-	-
Securities Lending Collateral (Note 7)	(13,861)	(48,770)	(29,357)	(18,533)	(79)	(632)	(3)	(21)	(16)	(2,484)	(905)	(1,443)	(11,231)	(7,985)	(6,289)	(141,609)	(822,523)
Total Receivables (Payables)	(11,618)	(47,793)	(29,357)	(19,184)	1,194	(654)	41	(15)	(10)	(1,790)	(879)	(1,206)	(11,231)	(7,835)	(6,285)	(136,622)	2,038
Net Invested Assets	\$ 1,708,388	1,731,492	453,622	308,193	9,622	10,589	353	2,203	1,741	263,445	121,220	126,429	181,113	164,564	107,070	5,190,044	4,611,034

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, 2005 (with memorandum totals for the year ended June 30, 2004)
(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		TOTAL INVESTED ASSETS (MEMORANDUM ONLY)	
		MAIN	SUBACCOUNT	PRINCIPAL	INCOME	PRINCIPAL	INCOME							MAJOR MEDICAL	LONG TERM CARE	YEAR ENDED 6/30/2005	YEAR ENDED 6/30/2004
Investment Income																	
Securities Lending Income	\$ 2,416	4,638	1,145	212	1	7	-	1	-	52	416	199	497	238	253	10,075	6,147
Securities Lending expense	(2,244)	(4,309)	(1,064)	(197)	(1)	(6)	-	(1)	-	(48)	(387)	(185)	(462)	(221)	(235)	(9,360)	(5,095)
Net Securities Lending Income	172	329	81	15	-	1	-	-	-	4	29	14	35	17	18	715	1,052
Short-term Fixed Income Pool	15,509	8,609	2	38	207	1	7	84	64	7,367	424	2,358	-	1,124	34	35,828	17,001
Intermediate-term Fixed Income Pool	18,731	29,948	-	-	-	-	-	-	-	-	2,982	1,179	-	1,171	-	54,011	7,657
Broad Market Fixed Income Pool	-	22,797	11,813	11,473	-	398	-	-	-	-	-	286	4,379	3,586	2,325	57,057	3,757
Domestic Equity	-	-	14,687	10,283	-	355	-	-	-	-	-	-	6,501	-	3,575	35,401	74,737
International Equity Pool	-	-	9,109	-	-	-	-	-	-	-	-	-	4,469	-	2,073	15,651	22,710
Tobacco Revenue Fixed Income	894	-	-	-	-	-	-	-	-	-	-	-	-	-	-	894	2,096
Other Fixed Income	1,553	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,553	1,242
Total Investment Income	36,859	61,683	35,692	21,809	207	755	7	84	64	7,371	3,435	3,837	15,384	5,898	8,025	201,110	130,252
Transfer of Earnings from (to) Other Funds	27	-	-	(10,325)	10,325	(358)	358	-	-	-	(27)	-	-	-	-	-	-
Net Investment Income	36,886	61,683	35,692	11,484	10,532	397	365	84	64	7,371	3,408	3,837	15,384	5,898	8,025	201,110	130,252
Total Invested Assets, Beginning of Period	1,163,437	1,646,276	417,930	287,243	11,230	10,045	256	6,484	2,553	387,047	114,397	177,980	179,303	119,070	87,783	4,611,034	4,649,057
Net Contributions (Withdrawals)	508,065	23,533	-	9,466	(12,140)	147	(268)	(4,365)	(876)	(130,973)	3,415	(55,388)	(13,574)	39,596	11,262	377,900	(168,275)
Total Invested Assets, End of Period	\$ 1,708,388	1,731,492	453,622	308,193	9,622	10,589	353	2,203	1,741	263,445	121,220	126,429	181,113	164,564	107,070	5,190,044	4,611,034

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

Notes to Combined Schedules

June 30, 2005

(1) THE ACCOUNTING ENTITY

The accompanying combined schedules present the financial position and changes therein, as of and for the year ended June 30, 2005, 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, 2005

(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, 2005, 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 State Pension Investment 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.

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

Notes to Combined Schedules

June 30, 2005

(1) THE ACCOUNTING ENTITY (Cont.)

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, 2005, 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	\$ 103,856
Series 2002A, Transportation Projects	89,921
Series 2002B, Accelerated Alaska Transportation Projects	<u>69,668</u>
Total General Obligation Bond Fund	<u>\$ 263,445</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, 2005, the invested asset balances in the various construction sub-funds were as follows (in thousands):

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

Notes to Combined Schedules

June 30, 2005

Series 1999A Alternative Minimum Tax	\$ 7,763
Series 1999B Non-Alternative Minimum Tax	5,046
Series 1999C Alternative Minimum Tax	2,135
Series 2002A Alternative Minimum Tax	6,360
Series 2002B Non-Alternative Minimum Tax	56,791
Series 2002 Reserve	12,889
Series 2003A Alternative Minimum Tax	18,958
Series 2003B Non-Alternative Minimum Tax	12,771
Series 2003 Reserve	<u>3,716</u>
 Total International Airports Construction Fund	 \$ <u><u>126,429</u></u>

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

Notes to Combined Schedules

June 30, 2005

(1) THE ACCOUNTING ENTITY (Cont.)

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.

(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

Marketable debt 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 mid-point between the bid and asked price or at prices for securities of comparable maturity, quality and type.

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 at fair value in accordance with generally accepted valuation principles.

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.

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

Notes to Combined Schedules

June 30, 2005

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

Income Allocation

Income in the fixed income and international equity pools is 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 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, 2004, 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.

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, 2005, was \$1,852. 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.

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

Notes to Combined Schedules

June 30, 2005

(3) POOLED INVESTMENTS (Cont.)

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, 2005, was \$2,143. 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, 2005, was \$963. 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. It has a very limited need for liquidity, a high need for 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. 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.

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

Notes to Combined Schedules

June 30, 2005

(5) NON-INVESTMENT BEARING DEPOSITS

At June 30, 2005, 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, 2005, the funds' had the following investments:

Investment Type	Fair Value (in thousands)					
	Short-term Fixed Income Pool	Intermediate- term Fixed Income Pool	Broad Market Fixed Income Pool	Tobacco Revenue Fixed Income	Other	Total
Deposits	\$ -	\$ -	\$ -	\$ 2	\$ 6,394	\$ 6,396
Overnight Sweep Account	2,618	-	-	-	-	2,618
Money Market	-	-	-	-	145,851	145,851
Commercial Paper	154,690	-	-	22,580	-	177,270
U.S. Treasury Bills	113,918	-	-	-	-	113,918
U.S. Treasury Notes	98,938	902,177	60,929	-	-	1,062,044
U.S. Treasury Bonds	-	-	66,662	-	-	66,662
U.S. Treasury Strips	-	18,883	13,594	-	-	32,477
U.S. Government Agency Discount Notes	25,163	127,553	2,294	-	-	155,010
U.S. Government Agency	-	245,093	48,484	-	-	293,577
Mortgage-backed	287,526	384,278	467,342	-	-	1,139,146
Other Asset-backed	806,353	96,559	32,868	-	-	935,780
Corporate Bonds	365,707	291,343	219,415	-	-	876,465
Yankees:						
Government	-	-	3,914	-	-	3,914
Corporate	14,000	755	4,728	-	-	19,483
Domestic Equity	-	-	-	-	470,506	470,506
International Equity	-	-	-	-	164,561	164,561
Total Invested Assets	1,868,913	2,066,641	920,230	22,582	787,312	5,665,678
Pool related net assets (liabilities)	18,627	(115,703)	(14,723)	-	889	(110,910)
Net Invested Assets before earnings distribution to participants	1,887,540	1,950,938	905,507	22,582	788,201	5,554,768
Earnings payable to participants	(5,157)	162	213	-	-	(4,782)
Other pool ownership	(61,952)	27,122	34,830	-	-	-
Other fiduciary responsibility	(94,468)	(25,576)	(68,445)	-	(34,831)	(223,320)
Commissioner's fiduciary responsibility	\$ 1,725,963	\$ 1,952,646	\$ 872,105	\$ 22,582	\$ 753,370	\$ 5,326,666

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

Notes to Combined Schedules

June 30, 2005

(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, 2005, the expected average life of individual fixed rate securities ranged from one day to ten months and the expected average life of floating rate securities ranged from less than one year to three years.

Intermediate-term 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 year Government Bond Index. The effective duration for the Merrill Lynch 1-5 year Government Bond Index at June 30, 2005, was 2.31 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, 2005, was 4.16 years.

At June 30, 2005, 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	2.26	3.91
U.S. Treasury Bonds	-	10.39
U.S. Treasury Strips	0.86	15.97
U.S. Government Agency	3.01	7.00
Mortgage-backed	2.01	2.41
Other Asset-backed	0.84	1.31
Corporate Bonds	2.60	5.39
Yankees:		
Government	-	6.50
Corporate	3.09	9.86
Portfolio Effective Duration	2.10	4.10

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

Notes to Combined Schedules

June 30, 2005

(6) DEPOSIT AND INVESTMENT RISK (Cont.)

Interest Rate Risk (Cont.)

Intermediate-term and Broad Market Fixed Income Pools (Cont.)

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.

Treasury has no policy with regard to interest rate risk for the money market balance held in the International Equity Pool.

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 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.

Treasury has no policy with regard to credit risk for the money market balance held in the International Equity Pool.

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

Notes to Combined Schedules

June 30, 2005

(6) DEPOSIT AND INVESTMENT RISK (Cont.)

Credit Risk (Cont.)

At June 30, 2005, the 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>Rating¹</u>	<u>Short-term Fixed Income Pool</u>	<u>Intermediate- term Fixed Income Pool</u>	<u>Broad Market Fixed Income Pool</u>	<u>International Equity Pool</u>
Money Market	AAA	-	-	-	3%
Commercial Paper	A	8%	-	-	-
U.S. Government Agency Discount Notes	Not Rated	1%	7%	-	-
U.S. Government Agency	Not Rated		13%	6%	-
Mortgage-backed	AAA	15%	6%	11%	-
Mortgage-backed (Agency)	Not Rated	-	11%	41%	-
Other Asset-backed	AAA	39%	4%	3%	-
Other Asset-backed	A	3%	1%	-	-
Corporate Bonds	AAA	1%	1%	2%	-
Corporate Bonds	AA	11%	2%	2%	-
Corporate Bonds	A	9%	6%	7%	-
Corporate Bonds	BBB	-	6%	12%	-
Yankees - Corporate	A	1%	-	-	-
No Credit Exposure		12%	43%	16%	97%
		<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

¹Rating modifiers are not disclosed.

At June 30, 2005, the Tobacco Revenue Fixed Income consisted of commercial paper rated A and the securities lending collateral was invested in a registered 2(a)-7 money market fund that was not rated.

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

Notes to Combined Schedules

June 30, 2005

(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, 2005, the funds' had the following uncollateralized and uninsured deposits:

	Amount (in thousands)
Non-interest Bearing Deposits	\$ 11
International Equity Pool	87
Tobacco Revenue Fixed Income	3
	\$ 101

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. At June 30, 2005, 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 (in thousands)	Percent of Total Pool Investments
Intermediate-term Fixed Income Pool		
Federal Home Loan Mortgage Corporation	\$ 241,532	12%
Federal National Mortgage Association	\$ 355,034	18%
Broad Market Fixed Income Pool		
Federal Home Loan Mortgage Corporation	\$ 113,048	12%
Federal National Mortgage Association	\$ 295,006	31%

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

Notes to Combined Schedules

June 30, 2005

(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 2005 and invested assets included the following holdings at June 30, 2005, for the funds invested in the International Equity Pool:

	Policy	Actual
Constitutional Budget Reserve Fund, Subaccount	16% ± 5%	18.03%
Power Cost Equalization Endowment Fund	17% ± 5%	19.08%
Retiree Health Insurance Fund, Long Term Care	18% ± 4%	17.39%

At June 30, 2005, the funds invested in the International Equity Pool had exposure to foreign currency risk as follows:

	Currency	Fair Value (in thousands)
Deposits:		
	Japanese Yen	\$ 87
	Under other fiduciary responsibility	22
		109
Investments - International Equity		
	Euro Currency	54,851
	Japanese Yen	28,868
	Norwegian Krone	1,547
	Pound Sterling	30,544
	Singapore Dollar	1,500
	Swiss Franc	13,494
	Under other fiduciary responsibility	33,757
		164,561
Total		\$ 164,670

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

Notes to Combined Schedules

June 30, 2005

(7) SECURITIES LENDING

Alaska Statute 37.10.071 authorizes the Commissioner to lend assets, under an agreement and for a fee, against deposited collateral of equivalent fair value. 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, 2005, the fair value of securities on loan totaled \$138 million 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	\$ 15,868
Intermediate-term Fixed Income Pool	13,155
Broad Market Fixed Income Pool	92,710
International Equity Pool	<u>16,287</u>
Total	<u>\$ 138,020</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, which is valued at amortized cost. 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. Securities collateral may be pledged or sold upon borrower default. Since the Commissioner does not have the ability to pledge or sell the securities collateral unless the borrower defaults, they are not recorded on the combined schedules. Securities on loan, cash collateral and cash collateral payable are recorded on the combined schedules. 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, 2005, 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.

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

Notes to Combined Schedules

June 30, 2005

(8) 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 is approximately \$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.