



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

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

June 30, 2004

(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, 2004

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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, 2004 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 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, 2004, 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

September 10, 2004

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, 2004 (with memorandum totals for June 30, 2003)
(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, 2004	June 30, 2003
INVESTMENTS (at Fair Value) (Notes 7, 8, 9)																	
Cash and Cash Equivalents																	
Short-term Fixed Income Pool (Note 3)	\$ 564,045	361,093	57	871	10,027	52	214	6,478	2,550	386,669	19,205	122,633	4	38,623	1,675	1,514,196	1,394,571
Non-interest Bearing Deposits (Note 5)	24,895															24,895	25,444
Total Cash and Cash Equivalents	588,940	361,093	57	871	10,027	52	214	6,478	2,550	386,669	19,205	122,633	4	38,623	1,675	1,539,091	1,420,015
Marketable Debt Securities																	
Pooled Investments (Note 3)																	
Intermediate-term Fixed Income Pool	538,752	954,720									95,177	42,701		34,023		1,665,373	1,860,886
Broad Market Fixed Income Pool		330,194	163,509	159,004		5,593						12,525	61,544	46,392	31,529	810,290	834,736
Non-pooled Investments																	
Tobacco Revenue Fixed Income	35,083															35,083	59,493
Total Marketable Debt Securities	573,835	1,284,914	163,509	159,004	-	5,593	-	-	-	-	95,177	55,226	61,544	80,415	31,529	2,510,746	2,755,115
Equity Securities																	
Non-retirement Domestic Equity (Note 4)			181,676	128,038		4,424							82,667		38,035	434,840	371,017
State International Equity Pool (Note 3)			72,688										35,088		16,543	124,319	100,623
Total Equity Securities	-	-	254,364	128,038	-	4,424	-	-	-	-	-	-	117,755	-	54,578	559,159	471,640
Total Investments	1,162,775	1,646,007	417,930	287,913	10,027	10,069	214	6,478	2,550	386,669	114,382	177,859	179,303	119,038	87,782	4,608,996	4,646,770
Receivables (Payables)																	
Income Receivable	662	269	-	523	10	18	-	6	3	378	15	121	-	32	1	2,038	2,287
Income Earned, but not Transferred from (to) Other Funds				(1,193)	1,193	(42)	42									-	-
Total Receivables (Payables)	662	269	-	(670)	1,203	(24)	42	6	3	378	15	121	-	32	1	2,038	2,287
Total Invested Assets	\$ 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

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

COMBINED SCHEDULE OF INVESTMENT INCOME (LOSS) AND CHANGES IN INVESTED ASSETS
For the year ended June 30, 2004 (with memorandum totals for the year ended June 30, 2003)
(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 6/30/2004	YEAR ENDED 6/30/2003
Investment Income (Loss) (Note 6)																	
Short-term Fixed Income Pool	\$ 6,142	3,705	1	9	101	1	2	78	26	4,981	196	1,476		361	12	17,091	19,348
Intermediate-term Fixed Income Pool	3,726	3,629									712	196		194		8,457	130,020
Broad Market Fixed Income Pool		710	1,099	1,161		51						84	228	326	173	3,832	91,625
Non-retirement Domestic Equity			30,841	22,835		758							14,033		6,357	74,824	6,616
State International Equity Pool			13,283										6,415		3,012	22,710	(2,267)
Tobacco Revenue Fixed Income	2,096															2,096	3,499
Other Fixed Income	1,242															1,242	-
Total Investment Income	13,206	8,044	45,224	24,005	101	810	2	78	26	4,981	908	1,756	20,676	881	9,554	130,252	248,841
Transfer of Earnings from (to) Other Funds				(9,602)	9,602	(341)	341									-	-
Net Investment Income	13,206	8,044	45,224	14,403	9,703	469	343	78	26	4,981	908	1,756	20,676	881	9,554	130,252	248,841
Total Invested Assets, Beginning of Period	1,137,622	1,719,710	372,706	265,693	14,208	9,392	203	9,396	1,546	459,163	112,911	205,901	166,654	106,395	67,557	4,649,057	4,499,740
Net Contributions (Withdrawals)	12,609	(81,478)		7,147	(12,681)	184	(290)	(2,990)	981	(77,097)	578	(29,677)	(8,027)	11,794	10,672	(168,275)	(99,524)
Total Invested Assets, End 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

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

Notes to Combined Schedules

June 30, 2004

(1) THE ACCOUNTING ENTITY

The accompanying combined schedules present the financial position and changes therein, as of and for the year ended June 30, 2004, 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 Tobacco Revenue Fixed Income, Non-retirement Domestic Equity and the State International Equity Pool are managed externally. Treasury manages the Short-term Fixed Income Pool, 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, 2004

(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 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, 2004

(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, 2004, 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	\$ 178,032
Series 2002A, Transportation Projects	116,189
Series 2002B, Accelerated Alaska Transportation Projects	<u>92,826</u>
Total General Obligation Bond Fund	\$ <u><u>387,047</u></u>

International Airports Funds

The International Airports Funds includes a revenue fund, a repair and replacement reserve 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 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, 2004 the invested asset balances in the various construction sub-funds were as follows (in thousands):

Series 1999A Alternative Minimum Tax	\$ 9,510
Series 1999B Non-Alternative Minimum Tax	5,413
Series 1999C Alternative Minimum Tax	2,935
Series 2002A Alternative Minimum Tax	8,072
Series 2002B Non-Alternative Minimum Tax	73,502
Series 2002 Reserve	12,525
Series 2003A Alternative Minimum Tax	46,663
Series 2003B Non-Alternative Minimum Tax	15,688
Series 2003 Reserve	<u>3,672</u>
Total International Airports Construction Fund	\$ <u><u>177,980</u></u>

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

Notes to Combined Schedules

June 30, 2004

(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. 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.

In fiscal year 2004, Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposits and Investment Risk Disclosures* was implemented. GASB Statement No. 40 addresses disclosures on deposits and investments, focusing on common investment risks related to interest rate risk, credit risk, custodial credit risk, concentration of credit risk and foreign currency risk.

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

The Non-interest bearing investments and the Tobacco Revenue Fixed Income are reported at cost, which approximates fair value.

The Non-retirement domestic equity securities are valued each business day by the Trustee Committee in good faith and pursuant to procedures established by the Trustee.

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

Notes to Combined Schedules

June 30, 2004

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

Valuation (Cont.)

International equity securities are valued each business day using prices obtained from a pricing service or prices quoted by one or more independent brokers. Equity securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates or, in the absence of a sale, at the last reported bid price.

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, which includes interest and realized and unrealized gains and losses, in the fixed income pools is allocated to pool participants daily on a pro rata basis.

Income, which includes interest, dividends and realized and unrealized gains and losses, in the State International Equity Pool 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 Non-retirement 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, 2003, is presented for comparative purposes.

Reclassification

Certain reclassifications not affecting net changes in invested assets have been made to 2003 amounts in order to conform them to 2004 presentation.

(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. Individual fixed rate securities in this pool are limited to 14 months in maturity. Floating rate securities are limited to three years in maturity. 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, 2004

(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, 2004 was \$1,795. 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 pool's duration, as measured by the weighted average time of cash flows for the underlying securities, will generally be close to that of the Merrill Lynch 1-5 year Government Index. The net asset value per share on any given valuation date is determined by dividing the total market 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, 2004 was \$1,999. 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. Investment securities in this pool have no maturity constraints. The net asset value per share on any given valuation date is determined by dividing the total market 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.

State 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, 2004 was \$856. The external manager independently determines the allocation between equities and other permissible securities. The assets of the pool are comprised of international equity securities and cash and cash equivalents (including foreign currencies). 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. Investment securities in this pool have no maturity constraints. The net asset value per share on any given valuation date is determined by dividing the total market 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) NON-RETIREMENT DOMESTIC EQUITY

Some funds participate in the State's externally managed Non-retirement 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

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

Notes to Combined Schedules

June 30, 2004

(4) NON-RETIREMENT DOMESTIC EQUITY (Cont.)

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 market 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.

(5) NON-INVESTMENT BEARING DEPOSITS

At June 30, 2004, non-interest bearing deposits totaling \$24.9 million was comprised of various State agency deposits-in-transit, cash held pending redemption of State warrants and compensating balances.

(6) INVESTMENT INCOME

For the year ended June 30, 2004, investment income for each fund includes the following components (stated in thousands):

	Interest and/or dividends	Net increase (decrease) in the fair value of investment	Total
<u>General Fund and GeFONSI</u>			
Short-term Fixed Income Pool	\$ 6,142	\$ -	\$ 6,142
Intermediate-term Fixed Income Pool	20,150	(16,424)	3,726
Tobacco Revenue Fixed Income	2,096	-	2,096
Other Fixed Income	77	1,165	1,242
Total General Fund and GeFONSI	\$ 28,465	\$ (15,259)	\$ 13,206
<u>Constitutional Budget Reserve Fund</u>			
Main			
Short-term Fixed Income Pool	\$ 3,705	\$ -	\$ 3,705
Intermediate-term Fixed Income Pool	38,149	(34,520)	3,629
Broad Market Fixed Income Pool	16,276	(15,566)	710
Subtotal	58,130	(50,086)	8,044
Subaccount			
Short-term Fixed Income Pool	1	-	1
Broad Market Fixed Income Pool	8,474	(7,375)	1,099
Non-retirement Domestic Equity	2,841	28,000	30,841
State International Equity Pool	1,730	11,553	13,283
Subtotal	13,046	32,178	45,224
Total Constitutional Budget Reserve Fund	\$ 71,176	\$ (17,908)	\$ 53,268

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

Notes to Combined Schedules

June 30, 2004

(6) INVESTMENT INCOME (Cont.)

	<u>Interest and/or dividends</u>	<u>Net increase (decrease) in the fair value of investment</u>	<u>Total</u>
<u>Public School Trust Fund</u>			
Principal			
Short-term Fixed Income Pool	\$ 9	\$ -	\$ 9
Broad Market Fixed Income Pool	8,092	(6,931)	1,161
Non-retirement Domestic Equity	<u>2,047</u>	<u>20,788</u>	<u>22,835</u>
Subtotal	10,148	13,857	24,005
Income			
Short-term Fixed Income Pool	<u>101</u>	<u>-</u>	<u>101</u>
Total Public School Trust Fund	<u>\$ 10,249</u>	<u>\$ 13,857</u>	<u>\$ 24,106</u>
<u>Alaska Children's Trust</u>			
Principal			
Short-term Fixed Income Pool	\$ 1	\$ -	\$ 1
Broad Market Fixed Income Pool	290	(239)	51
Non-retirement Domestic Equity Pool	<u>70</u>	<u>688</u>	<u>758</u>
Subtotal	361	449	810
Income			
Short-term Fixed Income Pool	<u>2</u>	<u>-</u>	<u>2</u>
Total Alaska Children's Trust	<u>\$ 363</u>	<u>\$ 449</u>	<u>\$ 812</u>
<u>Investment Loss Trust Fund</u>			
Short-term Fixed Income Pool	<u>\$ 78</u>	<u>\$ -</u>	<u>\$ 78</u>
<u>Supplemental Benefits Trust Fund</u>			
Short-term Fixed Income Pool	<u>\$ 26</u>	<u>\$ -</u>	<u>\$ 26</u>
<u>General Obligation Bond Fund</u>			
Short-term Fixed Income Pool	<u>\$ 4,981</u>	<u>\$ -</u>	<u>\$ 4,981</u>
<u>International Airports Fund</u>			
Revenue Fund			
Short-term Fixed Income Pool	\$ 190	\$ -	\$ 190
Intermediate-term Fixed Income Pool	<u>4,237</u>	<u>(3,525)</u>	<u>712</u>
Subtotal	<u>4,427</u>	<u>(3,525)</u>	<u>902</u>
Repair and Replacement Reserve Account			
Short-term Fixed Income Pool	<u>6</u>	<u>-</u>	<u>6</u>
Total International Airports Fund	<u>\$ 4,433</u>	<u>\$ (3,525)</u>	<u>\$ 908</u>

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

Notes to Combined Schedules

June 30, 2004

(6) INVESTMENT INCOME (Cont.)

	<u>Interest and/or dividends</u>	<u>Net increase (decrease) in the fair value of investment</u>	<u>Total</u>
<u>International Airports Construction Fund</u>			
Series 1999A Alternative Minimum Tax Short-term Fixed Income Pool	\$ 295	\$ -	\$ 295
Series 1999B Non-Alternative Minimum Tax Short-term Fixed Income Pool	67	-	67
Series 1999C Alternative Minimum Tax Short-term Fixed Income Pool	140	-	140
Series 2002A Alternative Minimum Tax Short-term Fixed Income Pool	48	-	48
Intermediate-term Fixed Income Pool	195	(170)	25
Subtotal	<u>243</u>	<u>(170)</u>	<u>73</u>
Series 2002B Non-Alternative Minimum Tax Short-term Fixed Income Pool	465	-	465
Intermediate-term Fixed Income Pool	1,900	(1,729)	171
Subtotal	<u>2,365</u>	<u>(1,729)</u>	<u>636</u>
Series 2002 Reserve Broad Market Fixed Income Pool	649	(565)	84
Series 2003A Alternative Minimum Tax Short-term Fixed Income Pool	308	-	308
Series 2003B Non-Alternative Minimum Tax Short-term Fixed Income Pool	129	-	129
Series 2003 Reserve Short-term Fixed Income Pool	24	-	24
Total International Airports Construction Fund	<u>\$ 4,220</u>	<u>\$ (2,464)</u>	<u>\$ 1,756</u>

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

Notes to Combined Schedules

June 30, 2004

(6) INVESTMENT INCOME (Cont.)

	<u>Interest and/or dividends</u>	<u>Net increase (decrease) in the fair value of investment</u>	<u>Total</u>
<u>Power Cost Equalization Endowment Fund</u>			
Broad Market Fixed Income Pool	\$ 3,278	\$ (3,050)	\$ 228
Non-retirement Domestic Equity	1,293	12,740	14,033
State International Equity Pool	835	5,580	6,415
Total Power Cost Equalization Endowment Fund	<u>\$ 5,406</u>	<u>\$ 15,270</u>	<u>\$ 20,676</u>
<u>Retiree Health Insurance Fund</u>			
Major Medical Insurance			
Short-term Fixed Income Pool	\$ 361	\$ -	\$ 361
Intermediate-term Fixed Income Pool	1,353	(1,159)	194
Broad Market Fixed Income Pool	2,342	(2,016)	326
Subtotal	<u>4,056</u>	<u>(3,175)</u>	<u>881</u>
Long Term Care Insurance			
Short-term Fixed Income Pool	12	-	12
Broad Market Fixed Income Pool	1,391	(1,218)	173
Non-retirement Domestic Equity	595	5,762	6,357
State International Equity Pool	392	2,620	3,012
Subtotal	<u>2,390</u>	<u>7,164</u>	<u>9,554</u>
Total Retiree Health Insurance Fund	<u>\$ 6,446</u>	<u>\$ 3,989</u>	<u>\$ 10,435</u>

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

Notes to Combined Schedules

June 30, 2004

(7) DEPOSIT AND INVESTMENT RISK

At June 30, 2004, the funds' had the following investments (stated in thousands):

	<u>Short-term Fixed Income Pool</u>	<u>Intermediate- term Fixed Income Pool</u>	<u>Broad Market Fixed Income Pool</u>	<u>Tobacco Revenue Fixed Income</u>	<u>Equity</u>	<u>Total</u>
Commercial Paper	\$ 356,409	\$ -	\$ -	\$ 17,367	\$ -	\$ 373,776
U.S. Treasury Notes	132,644	506,309	58,641	-	-	697,594
U.S. Treasury Bonds	-	-	46,656	-	-	46,656
U.S. Treasury Strips	-	-	11,902	-	-	11,902
U.S. Government Agency	39,932	119,615	32,514	-	-	192,061
Mortgage-related	154,138	377,226	422,022	-	-	953,386
Asset-backed	805,164	129,770	26,313	-	-	961,247
Corporate	466,513	356,470	212,609	-	-	1,035,592
Yankees	-	51,675	7,208	-	-	58,883
Investment Agreement	-	-	-	17,619	-	17,619
International Equity	-	-	-	-	150,840	150,840
Total Fair Value of Securities	<u>1,954,800</u>	<u>1,541,065</u>	<u>817,865</u>	<u>34,986</u>	<u>150,840</u>	<u>4,499,556</u>
Net pending security receivables (payables)	(14,419)	7,052	(32,734)	-	1,471	(38,630)
Deposits	14,240	138,603	90,345	97	2,960	246,245
Non-retirement						
Domestic Equity	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>434,840</u>	<u>434,840</u>
Total net assets at fair value before earnings distribution to participants	<u>1,954,621</u>	<u>1,686,720</u>	<u>875,476</u>	<u>35,083</u>	<u>590,111</u>	<u>5,142,011</u>
Earnings payable to participants	(1,828)	-	-	-	-	(1,828)
Ownership by other investment pools:						
Intermediate-term	(138,603)	-	-	-	-	(138,603)
Broad Market	(90,345)	-	-	-	-	(90,345)
Ownership by funds under other fiduciary responsibility	<u>(209,649)</u>	<u>(21,347)</u>	<u>(65,186)</u>	<u>-</u>	<u>(30,952)</u>	<u>(327,134)</u>
Total under Commissioner's fiduciary responsibility	<u>\$ 1,514,196</u>	<u>\$ 1,665,373</u>	<u>\$ 810,290</u>	<u>\$ 35,083</u>	<u>\$ 559,159</u>	<u>\$ 4,584,101</u>

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

Notes to Combined Schedules

June 30, 2004

(7) DEPOSIT AND INVESTMENT RISK (Cont.)

Interest Rate Risk

Short-term Fixed Income Pool

As a means of limiting its exposure to fair value losses arising from increasing interest rates in the Short-term Fixed Income Pool, 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. When evaluating fixed rate securities, Treasury utilizes the actual maturity date for commercial paper and twelve month prepay speeds for other fixed rate securities and floating rate securities. At June 30, 2004, the expected average life of individual fixed rate securities in the Short-term Fixed Income Pool ranged from one to six months and the expected average life of floating rate securities ranged from less than one year to 2.85 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 internal investment 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, 2004 was 2.40 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, 2004 was 4.77 years.

At June 30, 2004, 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	2.62	3.77
U.S. Treasury Bonds	-	8.16
U. S. Treasury Strips	-	20.58
U. S. Government Agency	2.71	5.15
Mortgage-related	2.26	3.92
Asset-backed	1.17	1.69
Corporate	2.25	5.50
Yankees	1.52	10.25
Portfolio Effective Duration	2.11	4.56

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

Notes to Combined Schedules

June 30, 2004

(7) DEPOSIT AND INVESTMENT RISK (Cont.)

Interest Rate Risk (Cont.)

Intermediate and Broad Market Fixed Income Pools (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.

Credit Risk

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

Short-term Fixed Income Pool investments are limited to securities with a long-term credit rating of at least A3 or equivalent and securities with a short-term credit rating of at least P1 or equivalent.

Intermediate-term Fixed Income Pool and Broad Market Fixed Income Pool investments are limited to securities with a long-term credit rating of at least BAA3 or equivalent and securities with a short-term credit rating of at least P1 or equivalent.

In addition, Treasury's investment policy limits investments with regard to credit risk for the following investment types:

- Corporate debt must be investment grade and comprise those issued in the U.S. capital market by U.S. companies, Euro-dollar debt, or Yankee debt;
- Asset-backed securities must be investment grade; and
- Mortgage-related securities must be those issued or securitized by one of the following U.S. Government Agencies for the Short-term and Intermediate-term Fixed Income Pools: Government National Mortgage Association; Federal National Mortgage Association; or the Federal Home Loan Mortgage Corporation.

Other investment types have no credit risk limitations.

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

Notes to Combined Schedules

June 30, 2004

(7) DEPOSIT AND INVESTMENT RISK (Cont.)

Credit Risk (Cont.)

At June 30, 2004, the State's internally managed Pools consisted of investments with credit quality ratings issued by nationally recognized statistical rating organizations as follows:

	<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>State International Equity Pool</u>
Government Money Market Fund (Deposit)	AAA	-	-	-	2%
Short-term Investment Account (Deposit)	Not Rated	1%	-	-	-
Commercial Paper	A	18%	-	-	-
U.S. Government Agency	AAA	2%	7%	4%	-
Mortgage-related	AAA	7%	20%	38%	-
Mortgage-related Asset-backed	Not Rated ²	-	-	3%	-
Corporate	AAA	41%	7%	3%	-
Corporate	AAA	2%	5%	3%	-
Corporate	AA	8%	4%	2%	-
Corporate	A	14%	9%	7%	-
Corporate	BAA	-	4%	10%	-
Yankees	AAA	-	3%	-	-
Yankees	BAA	-	-	1%	-
Investments with no credit exposure		7%	41%	29%	98%

¹Rating modifiers are not disclosed.

²TBA's issued by U.S. Government Agencies allowed by policy.

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

Notes to Combined Schedules

June 30, 2004

(7) DEPOSIT AND INVESTMENT RISK (Cont.)

Credit Risk (Cont.)

At June 30, 2004, the State's Tobacco Revenue Fixed Income consisted of investments with credit quality ratings issued by nationally recognized statistical rating organizations as follows:

	<u>Fair Value</u> <u>(in thousands)</u>	<u>Rating</u> ¹
Money Market Fund	\$ 1	AAA
Commercial Paper	17,367	A
Investment Agreement	17,619	Not Rated
Total Fair Value	<u>\$ 34,987</u>	

¹Rating modifiers are not disclosed.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the deposits may not be returned. Treasury does not have a formal policy for custodial credit risk. At June 30, 2004, the funds' had the following uncollateralized and uninsured deposits:

	<u>Amount</u> <u>(in thousands)</u>
Non-interest bearing deposits	\$ 13,922
State International Equity Pool, net of \$8 under other fiduciary responsibility	34
Tobacco Revenue Fixed Income	96
Total	<u>\$ 14,052</u>

Subsequent to year end, \$13.9 million of the Non-interest bearing deposits was transferred from a compensating balance account and invested in the GeFONSI.

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

Notes to Combined Schedules

June 30, 2004

(7) DEPOSIT AND INVESTMENT RISK (Cont.)

Concentration of Credit Risk

Treasury does not have a formal policy with regard to concentration of credit risk. At June 30, 2004, 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:

	<u>Fair Value</u> (in thousands)	<u>Percent of</u> <u>Total Pool</u> <u>Investments</u>
Intermediate-term Fixed Income Pool		
Federal Home Loan Mortgage Corporation	\$ 144,677	10%
Federal National Mortgage Association	\$ 234,785	15%
Broad Market Fixed Income Pool		
Federal Home Loan Mortgage Corporation	\$ 87,322	12%
Federal National Mortgage Association	\$ 236,114	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 2004 and invested assets included the following holdings at June 30, 2004, for the funds invested in the State International Equity Pool:

	<u>Policy</u>	<u>Actual</u>
Constitutional Budget Reserve Fund, Subaccount	17% \pm 5%	17.39%
Power Cost Equalization Endowment Fund	19% \pm 5%	19.57%
Retiree Health Insurance Fund, Long Term Care	20% \pm 4%	18.84%

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

Notes to Combined Schedules

June 30, 2004

(7) DEPOSIT AND INVESTMENT RISK (Cont.)

Foreign Currency Risk (Cont.)

At June 30, 2004, the funds invested in the State's International Equity Pool had exposure to foreign currency risk as follows:

	<u>Currency</u>	<u>Fair Value</u> (in thousands)
Deposits:		
	Australian Dollar	\$ 5
	Japanese Yen	57
		<u>62</u>
Investments - Equity:		
	European Euro	68,434
	Hong Kong Dollar	1,492
	Japanese Yen	25,492
	Norwegian Krone	1,635
	Pound Sterling	42,335
	Singapore Dollar	1,841
	Swiss Franc	9,611
		<u>150,840</u>
Total Deposits and Investments		\$ <u><u>150,902</u></u>

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

Notes to Combined Schedules

June 30, 2004

(8) 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 market value. In January 2001, 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, 2004, the fair value of securities on loan totaled \$802 million which is attributable on a pro rata basis to the funds described in Note 1. 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 fully collateralized at not less than 105 percent of their fair value. All other security loans are fully collateralized at not less than 102 percent of their fair value. The Bank invests the cash collateral in a commingled investment pool; maturities of these investments generally did not match the maturities of the loaned securities because the lending agreements are terminable at will. The Bank may pledge or sell collateral upon borrower default. Since the Commissioner does not have the ability to pledge or sell the collateral unless the borrower defaults, no assets or liabilities are recorded on the combined schedules. 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 subject to limitation relating to war, civil unrest or revolution, or beyond the reasonable control of the Bank. The Bank and the borrower receive a fee from earnings on invested collateral.

For the year ended June 30, 2004, 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.

(9) FOREIGN EXCHANGE CONTRACTS AND OFF-BALANCE SHEET RISK

The State International Equity Pool includes foreign currency forward contracts to sell specified amounts of foreign currencies at specified rates on specified future dates for the purpose of hedging existing security positions. The contracts each had maturity periods of six days. Net unrealized gains with respect to such contracts, calculated using forward rates at June 30, are attributable on a pro rata basis to the funds described in Note 1, if invested in the State International Equity Pool, as follows:

	Amount (in thousands)
Contract Sales	\$ 957
Less: Fair Value	<u>954</u>
Net unrealized gains on contracts	<u><u>3</u></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.

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

Notes to Combined Schedules

June 30, 2004

(10) 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, 2004 is approximately \$5.2 billion. The State General Fund does not pay interest on the money due to the CBRF, unless appropriated.

Chapter 82, SLA 2003, as amended by Chapter 159, SLA 2004, appropriated unrestricted interest earnings on general fund investments for the year ended June 30, 2004, 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. The amount due the CBRF from the State General Fund for lost earnings in fiscal year 2004 was \$4.9 million at June 30, 2004.