



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

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

**COMBINED SCHEDULES**

**FOR THE YEAR ENDED JUNE 30, 2009**

**(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, 2009**

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701 West Eighth Avenue  
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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, 2009 and of investment income (loss) 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, 2009, 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**

October 9, 2009

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, 2009 (with memorandum totals for June 30, 2008)  
(Expressed in thousands)

	GENERAL FUND and GeFONSI	CONSTITUTIONAL BUDGET RESERVE FUND		PUBLIC SCHOOL TRUST FUND		ALASKA CHILDREN'S TRUST		INVESTMENT LOSS TRUST FUND	GENERAL OBLIGATION BOND FUND	INTERNATIONAL AIRPORTS FUND	INTERNATIONAL AIRPORTS CONSTRUCTION FUND	POWER COST EQUALIZATION ENDOWMENT FUND	RETIREE HEALTH INSURANCE FUND		MINE RECLAMATION FUND	ALASKA SPORT FISH CONSTRUCTION FUNDS		TOTAL INVESTED ASSETS (MEMORANDUM ONLY)		
		MAIN	SUBACCOUNT	PRINCIPAL	INCOME	PRINCIPAL	INCOME						MAJOR MEDICAL	LONG TERM CARE		BOND PROCEEDS	GENERAL FUND APPROPRIATION	June 30, 2009	June 30, 2008	
<b>INVESTMENTS (at Fair Value) (Notes 6 and 7)</b>																				
<b>Cash and Cash Equivalents</b>																				
Short-term Fixed Income Pool (Note 3)	\$ 2,629,737	177,132	-	4,737	5,515	12	559	3,322	185,317	7,523	123,961	13	20,062	1,155	686	53,095	69,603	3,282,429	3,485,023	
Non-interest Bearing Deposits (Note 5)	28,911	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	28,911	23,410	
Total Cash and Cash Equivalents	2,658,648	177,132	-	4,737	5,515	12	559	3,322	185,317	7,523	123,961	13	20,062	1,155	686	53,095	69,603	3,311,340	3,508,433	
<b>Marketable Debt Securities</b>																				
Pooled Investments (Note 3)																				
Intermediate-term Fixed Income Pool	4,203,893	2,469,908	-	-	-	-	-	-	-	119,654	-	-	-	-	-	-	-	-	6,793,455	5,779,486
Broad Market Fixed Income Pool	-	669,830	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	669,830	2,294,469
Conservative Broad Market Fixed Income Pool	-	-	1,143,977	174,294	-	1,508	-	-	-	-	-	110,728	-	41,681	-	-	-	-	1,472,188	-
Emerging Income Plus Debt Pool	-	-	78,063	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	78,063	-
Non-pooled Investments																				
Tobacco Revenue Fixed Income	70,729	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	70,729	135,164
Total Marketable Debt Securities	4,274,622	3,139,738	1,222,040	174,294	-	1,508	-	-	-	119,654	-	110,728	-	41,681	-	-	-	-	9,084,265	8,009,119
<b>Equity Securities</b>																				
Domestic Equity (Note 4)	-	-	1,783,269	149,146	-	4,747	-	-	-	-	-	141,032	-	78,278	149	-	-	-	2,156,621	2,284,448
International Equity Pool (Note 3)	-	-	791,558	-	-	1,927	-	-	-	-	-	51,581	-	34,459	-	-	-	-	879,525	1,000,955
Total Equity Securities	-	-	2,574,827	149,146	-	6,674	-	-	-	-	-	192,613	-	112,737	149	-	-	-	3,036,146	3,285,403
Total Investments	6,933,270	3,316,870	3,796,867	328,177	5,515	8,194	559	3,322	185,317	127,177	123,961	303,354	20,062	155,573	835	53,095	69,603	15,431,751	14,802,954	
<b>Receivables (Payables)</b>																				
Income Receivable	8,484	587	-	825	19	30	2	11	620	70	440	-	68	8	2	180	236	11,582	7,158	
Transferred from (to) Other Funds	-	-	-	(825)	825	(34)	34	-	-	-	-	-	-	-	-	-	-	-	-	
Total Receivables (Payables)	8,484	587	-	-	844	(4)	36	11	620	70	440	-	68	8	2	180	236	11,582	7,158	
Net Invested Assets	\$ 6,941,754	3,317,457	3,796,867	328,177	6,359	8,190	595	3,333	185,937	127,247	124,401	303,354	20,130	155,581	837	53,275	69,839	15,443,333	14,810,112	

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, 2009 (with memorandum totals for the year ended June 30, 2008)  
(Expressed in thousands)

	GENERAL FUND and GeFONSI	CONSTITUTIONAL BUDGET RESERVE FUND		PUBLIC SCHOOL TRUST FUND		ALASKA CHILDREN'S TRUST		INVESTMENT LOSS TRUST FUND	GENERAL OBLIGATION BOND FUND	INTERNATIONAL AIRPORTS FUND	INTERNATIONAL AIRPORTS CONSTRUCTION FUND	POWER COST EQUALIZATION ENDOWMENT FUND	RETIREE HEALTH INSURANCE FUND		MINE RECLAMATION FUND	ALASKA SPORT FISH CONSTRUCTION FUNDS		TOTAL INCOME (LOSS) (MEMORANDUM ONLY)		
		MAIN	SUBACCOUNT	PRINCIPAL	INCOME	PRINCIPAL	INCOME						MAJOR MEDICAL	LONG TERM CARE		BOND PROCEEDS	GENERAL FUND APPROPRIATION	YEAR ENDED 6/30/2009	YEAR ENDED 6/30/2008	
Investment Income																				
Short-term Fixed Income Pool	29,248	3,802	-	68	89	-	7	39	1,711	184	1,637	-	276	17	8	635	773	38,494	77,981	
Intermediate-term Fixed Income Pool	270,275	111,583	-	-	-	-	-	-	-	7,793	-	-	-	-	-	-	-	389,651	318,302	
Broad Market Fixed Income Pool	-	28,286	9,342	1,135	9	-	-	-	-	-	-	807	-	303	-	-	-	39,882	60,566	
Conservative Broad Market Fixed Income Pool	-	46,767	5,991	-	54	-	-	-	-	-	3,595	-	-	1,678	-	-	-	58,085	-	
Emerging Income Plus Debt Pool	-	(1,937)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,937)	-	
Domestic Equity	-	-	(476,191)	(35,710)	-	(1,566)	-	-	-	-	(34,983)	-	(17,988)	(39)	-	-	-	(566,477)	(195,800)	
International Equity Pool	-	-	(248,293)	-	-	(695)	-	-	-	-	(18,514)	-	(8,165)	-	-	-	-	(275,667)	(80,467)	
Tobacco Revenue Fixed Income	1,891	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,891	7,550	
Other Fixed Income	3,046	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,046	9,634	
<b>Total Investment Income</b>	<b>304,460</b>	<b>143,671</b>	<b>(670,312)</b>	<b>(28,516)</b>	<b>89</b>	<b>(2,198)</b>	<b>7</b>	<b>39</b>	<b>1,711</b>	<b>7,977</b>	<b>1,637</b>	<b>(49,095)</b>	<b>276</b>	<b>(24,155)</b>	<b>(31)</b>	<b>635</b>	<b>773</b>	<b>(313,032)</b>	<b>201,419</b>	
Transfer from (to) Other Funds	-	-	-	(5,072)	5,072	(207)	207	-	-	-	-	-	-	-	-	-	-	-	-	
<b>Net Investment Income</b>	<b>304,460</b>	<b>143,671</b>	<b>(670,312)</b>	<b>(33,588)</b>	<b>5,161</b>	<b>(2,405)</b>	<b>214</b>	<b>39</b>	<b>1,711</b>	<b>7,977</b>	<b>1,637</b>	<b>(49,095)</b>	<b>276</b>	<b>(24,155)</b>	<b>(31)</b>	<b>635</b>	<b>773</b>	<b>(313,032)</b>	<b>201,419</b>	
<b>Total Invested Assets, Beginning of Period</b>	<b>7,797,998</b>	<b>1,134,053</b>	<b>4,467,179</b>	<b>349,067</b>	<b>15,636</b>	<b>10,689</b>	<b>736</b>	<b>3,466</b>	<b>35,952</b>	<b>137,433</b>	<b>250,762</b>	<b>368,706</b>	<b>8,467</b>	<b>165,660</b>	<b>893</b>	<b>63,415</b>	<b>-</b>	<b>14,810,112</b>	<b>8,958,778</b>	
Net Contributions (Withdrawals)	(1,160,704)	2,039,733	-	12,698	(14,438)	(94)	(355)	(172)	148,274	(18,163)	(127,998)	(16,257)	11,387	14,076	(25)	(10,775)	69,066	946,253	5,649,915	
<b>Total Invested Assets, End of Period</b>	<b>\$ 6,641,754</b>	<b>3,317,457</b>	<b>3,796,867</b>	<b>328,177</b>	<b>6,359</b>	<b>8,190</b>	<b>595</b>	<b>3,333</b>	<b>185,937</b>	<b>127,247</b>	<b>124,401</b>	<b>303,354</b>	<b>20,130</b>	<b>155,581</b>	<b>837</b>	<b>53,275</b>	<b>69,839</b>	<b>15,443,333</b>	<b>14,810,112</b>	

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

## Notes to Combined Schedules

June 30, 2009

### (1) THE ACCOUNTING ENTITY

The accompanying combined Schedules present the financial position and changes therein, as of and for the year ended June 30, 2009, 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 Manual. 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, Emerging Income Plus Debt Pool, 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, Broad Market Fixed Income Pool, U.S. Treasury Fixed Income Pool, and the Conservative 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

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

## Notes to Combined Schedules

June 30, 2009

### (1) THE ACCOUNTING ENTITY (Cont.)

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.

#### **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.

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

**Notes to Combined Schedules**

**June 30, 2009**

**(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. In 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. In 2008 one general obligation bond proposition was passed by the majority.

At June 30, 2009, the invested asset balances in the various bond sub-funds were as follows (in thousands):

Series 2003A, Educational and Museum Facility Design, Construction and Major Maintenance	\$ 10,966
Series 2003A, Transportation Projects	5,018
Series 2003B, Accelerated Alaska Transportation Projects	3,830
Series 2008, Transportation Projects	<u>166,123</u>
Total General Obligation Bond Fund	<u>\$ 185,937</u>

**International Airports Funds**

The International Airports Funds includes a revenue fund, which includes a repair and replacement reserve account, a development account, 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.

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

**Notes to Combined Schedules**

**June 30, 2009**

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

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, 2009, the invested asset balances in the various construction sub-funds were as follows (in thousands):

Series 1999A, Alternative Minimum Tax	\$ 1,810
Series 1999B, Non-Alternative Minimum Tax	1,721
Series 1999C, Alternative Minimum Tax	183
Series 2002A, Alternative Minimum Tax	1,279
Series 2002B, Non-Alternative Minimum Tax	7,479
Series 2002 Reserve	14,806
Series 2003A, Alternative Minimum Tax	4,248
Series 2003B, Non-Alternative Minimum Tax	8,069
Series 2003 Reserve	2,377
Series 2006 Alternative Minimum Tax	28,952
Series 2006 Non-Alternative Minimum Tax	43,602
Series 2006 Variable Rate	9,875
Total International Airports Construction Fund	\$ <u>124,401</u>

**Power Cost Equalization Endowment Fund**

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

**Retiree Health Insurance Fund**

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

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

**Notes to Combined Schedules**

**June 30, 2009**

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

**Mine Reclamation Trust Fund**

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

**Alaska Sport Fish Construction Funds**

The Alaska Sport Fish Construction Funds hold 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; as well as funds from General Fund appropriation 63(d) of Chapter 29 SLA 2008. The General Fund appropriation and the bonds were issued to finance the construction and renovation of sport fishing facilities under AS 16.05.092.

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

**Basis of Accounting**

The combined schedules are prepared using the accrual basis of accounting for investment income. Assets are reported at fair value. Investment purchases and sales are recorded on a trade-date basis. Net contributions (withdrawals) are recorded on a cash basis. Net contributions (withdrawals) represent legislative appropriations, mineral-related royalties/leases/taxes, gifts and donations, bond proceeds, various payments for certain State services, and/or contributions from employers and employees net of benefits paid to participants as well as administrative and investment management expenses.

**Valuation**

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

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

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

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

**Notes to Combined Schedules**

**June 30, 2009**

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

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 ask prices.

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

**Combined Schedule Presentation**

Total columns in the combined schedules are captioned "memorandum only" to indicate they are presented only to facilitate financial analysis. Interfund eliminations have not been made in the aggregation of this data. The financial information for the year ended June 30, 2008, 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, Broad Market, and U.S. Treasury 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 startup share price of \$1,000. The share price at June 30, 2009 was \$2,257. 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, 2009**

**(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 startup share price of \$1,000. The share price at June 30,

2009, was \$2,529. 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.

**US Treasury Fixed Income Pool**

Only one fund, the Conservative Broad Market Fixed Income Pool, invests in the US Treasury Fixed Income Pool. The US Treasury Fixed Income Pool was established July 1, 2008 with a startup share price of \$1,000. The share price at June 30, 2009, was \$1,050.

**Conservative Broad Market Fixed Income Pool**

Some funds participate in the State's internally managed Conservative Broad Market Fixed Income Pool which was established July 1, 2008, with a startup share price of \$1,000. The share price at June 30, 2009, was \$1,050. This pool is made up of shares of the US Treasury and Broad Market Fixed Income Pools. 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. At June 30, 2009 all participants in the pool are funds under the fiduciary responsibility of the Commissioner.

**Emerging Income Plus Debt Pool**

Some funds participate in the State's externally managed Emerging Markets Debt Pool which was established in September 2008 with a startup share price of \$1,000. The share price at June 30, 2009, was \$902. This pool is made up of shares of the Lazard Emerging Income Plus Fund, a commingled investment fund which includes other, non-State institutional investors. 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. 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. The only participant in this pool is the Constitutional Budget Reserve's Subaccount.

**INVESTED ASSETS UNDER THE INVESTMENT AUTHORITY OF THE COMMISSIONER OF  
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**June 30, 2009**

**(3) POOLED INVESTMENTS (Cont.)**

**International Equity Pool**

Some funds participate in the State's externally managed International Equity Pool which was established in April 2000 with a startup share price of \$1,000. The share price at June 30, 2009,

was \$1,005. The external manager independently determines the allocation between permissible securities. The pool has a time horizon that is longer than any of the fixed income investment pools, limited liquidity, long term inflation protection and a high risk tolerance. The net asset value per share on any given valuation date is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Ownership in the pool is based on the number of shares held by each participant. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. Not all participants in the pool are funds under the fiduciary responsibility of the Commissioner.

**(4) DOMESTIC AND INTERNATIONAL EQUITY WORLD COMMON TRUST FUNDS**

Some funds participate in the State's externally managed Domestic and International Equity accounts. The participants in these accounts hold shares in the State Street Global Advisors (SSgA) Russell 3000 and SSgA Morgan Stanley Capital International (Europe, Australasia and Far East (MSCI EAFE), Common Trust Funds (Trusts) which are passively managed, commingled index funds. Other, non-State institutional investors participate in the trusts. The investment objectives of the Trusts is to replicate, as closely as possible, the return of the stock indices the Trusts are targeting, and thus are comprised of securities included in those indices. The net asset value per share on any given valuation date is determined by dividing the total fair value of the net assets 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 trusts are based on the beginning of the day net asset value per share on the day of the transaction.

**(5) NON-INTEREST BEARING DEPOSITS**

At June 30, 2009, non-interest bearing deposits totaling \$28.9 million was comprised of various State agency cash held pending redemption of State warrants and compensating balances.

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**Notes to Combined Schedules**

**June 30, 2009**

**(6) DEPOSIT AND INVESTMENT RISK**

At June 30, 2009, the funds' had the following investments:

Investment Type	Fair Value (in thousands)							Total
	Short-term Fixed Income Pool	Intermediate-term Fixed Income Pool	Broad Market Fixed Income Pool	U.S. Treasury Fixed Income Pool	Conservative Broad Market Fixed Income Pool	Tobacco Revenue Fixed Income	Other	
Deposits	\$ 11,399	-	-	-	-	-	28,911	\$ 40,310
Short-term Investment Fund	-	-	-	-	-	-	4,730	4,730
Money Market	-	-	-	-	-	70,729	-	70,729
Commercial Paper	228,582	-	-	-	-	-	-	228,582
U.S. Treasury Bills	1,289,654	-	-	-	-	-	-	1,289,654
U.S. Treasury Notes	-	-	330,917	109,270	-	-	-	440,187
U.S. Treasury Bonds	-	2,994,122	37,858	17,502	-	-	-	3,049,482
U.S. Government Agency	100,011	1,951,156	72,319	10,170	-	-	-	2,133,656
Mortgage-backed	143,859	618,484	1,009,543	-	-	-	-	1,771,886
Mutual Fund	-	-	-	-	-	-	30,555	30,555
Other Asset-backed	455,433	40,668	25,238	-	-	-	-	521,339
Corporate Bonds	1,231,217	720,349	403,756	11,975	-	-	-	2,367,297
Yankees:								
Government	-	51,429	5,654	-	-	-	-	57,083
Corporate	265,039	283,766	81,418	-	-	-	-	630,223
Emerging Debt	-	-	-	-	-	-	78,063	78,063
Domestic Equity	-	-	-	-	-	-	2,292,112	2,292,112
International Equity	-	-	-	-	-	-	895,686	895,686
Total Invested Assets	3,725,194	6,659,974	1,966,703	148,917	-	70,729	3,330,057	15,901,574
Pool related net assets (liabilities)	3,405	18,120	(37,175)	708	-	-	998	(13,944)
Net Invested Assets before earnings distribution to participants	3,728,599	6,678,094	1,929,528	149,625	-	70,729	3,331,055	15,887,630
Earnings payable to participants	(12,110)	-	-	-	-	-	-	(12,110)
Other pool ownership	(250,051)	126,208	(1,198,720)	(149,625)	1,472,188	-	-	-
Ownership under other fiduciary responsibility	(184,009)	(10,847)	(60,978)	-	-	-	(187,935)	(443,769)
Total Commissioner's fiduciary responsibility	\$ 3,282,429	6,793,455	669,830	-	1,472,188	70,729	3,143,120	\$ 15,431,751

**Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

**INVESTED ASSETS UNDER THE INVESTMENT AUTHORITY OF THE COMMISSIONER OF  
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**Notes to Combined Schedules**

**June 30, 2009**

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

**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 to maturity or fourteen months expected average life upon purchase. Floating rate securities are limited to

three years to maturity or three years expected average life *upon purchase*. Treasury utilizes the actual maturity date for commercial paper and twelve-month prepay speeds for other securities. At June 30, 2009, the expected average life of individual fixed rate securities ranged from one day to six and one-half years and the expected average life of floating rate securities ranged from one day to eight years.

**Intermediate, Broad Market, and U.S. Treasury Fixed Income Pools**

Duration is a measure of interest rate risk. It measures a security's sensitivity to a 100-basis point change in interest rates. The duration of a pool is the average fair value weighted duration of each security in the pool taking into account all related cash flows.

Treasury uses industry-standard analytical software developed by The Yield Book Inc. to calculate effective duration. The software takes into account various possible future interest rates, historical and estimated prepayment rates, call options and other variable cash flows for purposes of the effective duration calculation.

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, 2009, was 2.54 years.

Broad Market Fixed Income Pool -  $\pm$  20% of the Barclays Capital U.S. Aggregate Bond Index. The effective duration for the Barclays Capital U.S. Aggregate Bond Index at June 30, 2009, was 4.30 years.

U.S. Treasury Fixed Income Pool -  $\pm$  20% of the Barclays Capital U.S. Aggregate Treasury Index. The effective duration for the Barclays Capital U.S. Aggregate Treasury Index at June 30, 2009, was 5.13 years.

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**Notes to Combined Schedules**

**June 30, 2009**

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

At June 30, 2009, the effective duration by investment type was as follows:

	<b>Effective Duration (in years)</b>		
	<b>Intermediate-term</b>	<b>Broad Market Fixed</b>	<b>US Treasury Fixed</b>
	<b>Fixed Income Pool</b>	<b>Income Pool</b>	<b>Income Pool</b>
Corporate Bonds	2.10	-	2.57
Mortgage-Backed	2.42	-	-
Other Asset-Backed	0.71	-	-
U.S. Treasury Bonds	-	12.81	9.58
U.S. Treasury Notes	3.07	6.01	4.70
US. Government and Agency Securities	2.02	6.92	8.95
Yankees:			
Corporate	2.81	4.80	-
Government	2.73	11.37	-
<b>Portfolio Effective Duration</b>	<b>2.52</b>	<b>4.19</b>	<b>5.12</b>

**Other Fixed Income**

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

**Credit Risk**

Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations.

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

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 P-1 or equivalent. Asset-backed and non-agency mortgage securities must be rated A3 or equivalent. The A3 rating is defined as the median rating of the following three rating agencies: Standard & Poor's Corporation, Moody's and Fitch. Asset-backed and non-agency mortgage securities may be purchased if only rated by one of these agencies if they are rated AAA.

Intermediate-term 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 P-1 or equivalent. Asset-backed and non-agency mortgage securities must be rated investment grade. The investment grade rating is defined as the median rating of the following three rating agencies: Standard & Poor's Corporation, Moody's and Fitch. Asset-backed and non-agency mortgage securities may be purchased if only rated by one of these agencies if they are rated AAA.

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**June 30, 2009**

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

In the U.S. Treasury Fixed Income Pool commercial paper must be rated at least P-1 by Moody's and A-1 by Standard and Poor's Corporation. In addition, corporate, asset-backed and non-agency mortgage securities must be rated investment grade. The investment grade rating is defined as the median rating of the following three rating agencies: Standard & Poor's Corporation, Moody's and Fitch. In addition, asset-backed and non-agency mortgage securities may be purchased if only rated by one of these agencies if they are rated AAA. Corporate bonds may be purchased if rated by two of these agencies.

The Conservative Broad Market Fixed Income pool does not have its own investment policy because it invests only in existing pools, which do have established policies.

The Commissioner does not have policies with regard to credit risk in the SSgA Russell 3000 and SSgA MSCI EAFE Index Common Trust Funds (Trusts).

The bond indentures governing the investment of tobacco revenue related bond proceeds limit the investment in commercial paper to only those securities rated A-1 or equivalent. At June 30, 2009, the Tobacco Revenue Fixed Income Securities consisted of commercial paper rated A-1.

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**Notes to Combined Schedules**

**June 30, 2009**

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

At June 30, 2009, the State's internally managed Pools consisted of investments with credit quality ratings issued by nationally recognized statistical rating organizations as follows (using Standard and Poor's Corporation rating scale):

<u>Investment Type</u>	<u>Rating</u>	<u>Short-term Fixed Income Pool</u>	<u>Intermediate Term Fixed Income Pool</u>	<u>Broad Market Fixed Income Pool</u>	<u>U.S. Treasury Pool</u>
Commercial Paper	A-1	1.10 %	- %	- %	- %
Commercial Paper	Not Rated	5.05	-	-	-
U. S. Treasury Notes	AAA	-	44.00	16.18	69.34
U. S. Treasury Bills	AAA	34.70	-	-	-
U. S. Treasury Bonds	AAA	-	-	1.85	11.11
U.S. Government Agency	AAA	2.69	27.68	2.36	-
U.S. Government Agency	Not Rated	-	1.00	1.18	6.45
Mortgage-backed	AAA	3.46	7.42	45.46	-
Mortgage-backed	A	0.11	-	-	-
Mortgage-backed	BBB	0.18	-	-	-
Mortgage-backed	Not Rated	0.30	1.67	3.89	-
Other Asset-backed	AAA	10.87	0.39	0.82	-
Other Asset-backed	AA	0.85	0.05	0.09	-
Other Asset-backed	A	0.35	0.15	0.26	-
Other Asset-backed	BBB	-	-	0.06	-
Corporate Bonds	AAA	19.33	4.49	1.85	7.60
Corporate Bonds	AA	6.16	1.36	2.63	-
Corporate Bonds	A	7.64	2.92	9.11	-
Corporate Bonds	BBB	-	1.81	5.96	-
Corporate Bonds	Not Rated	-	-	0.19	-
Yankees:					
Government	AA	-	0.76	-	-
Government	BBB	-	-	0.17	-
Government	Not Rated	-	-	0.10	-
Corporate	AAA	1.61	2.56	0.81	-
Corporate	AA	4.29	0.91	0.29	-
Corporate	A	1.24	0.48	1.94	-
Corporate	BBB	-	0.17	0.94	-
Corporate	Not Rated	-	0.05	-	-
No Credit Exposure		0.07	2.12	3.85	5.50
		<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>

**INVESTED ASSETS UNDER THE INVESTMENT AUTHORITY OF THE COMMISSIONER OF  
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**Notes to Combined Schedules**

**June 30, 2009**

**(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, do not establish policy with regard to custodial credit risk. At June 30, 2009, the State had the following uncollateralized and uninsured deposits:

	<u>Amount</u> (in thousands)
International Equity Pool \$	34

**Concentration of Credit Risk**

At June 30, 2009, the funds invested in the Intermediate-term Fixed Income Pool, Broad Market Fixed Income Pool, and U.S. Treasury Pool had more than five percent of their investments in Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Federal Home Loan Bank, and Resolution Funding Corporation as follows:

	<u>Fair Value</u> (in thousands)	<u>Percent of Total</u> <u>Pool Investments</u>
<b>Intermediate-term Fixed Income Pool</b>		
Federal Home Loan Mortgage Corporation	\$ 705,507	10%
Federal National Mortgage Association	\$ 709,755	10%
Federal Home Loan Bank	\$ 670,836	10%
<b>Broad Market Fixed Income Pool</b>		
Federal Home Loan Mortgage Corporation	\$ 119,728	6%
Federal National Mortgage Association	\$ 648,314	32%
<b>U.S. Treasury Fixed Income Pool</b>		
Resolution Funding Corporation	\$ 10,170	6%

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 backed by any one company or affiliated group. However, such prohibition does not apply to securities backed by the full faith and credit of the U.S. Government.

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**Notes to Combined Schedules**

**June 30, 2009**

**(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 some of 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 2009 and invested assets included the following holdings at June 30, 2009, for the funds invested in the International Equity Pool:

	<u>Policy</u>	<u>Actual</u>
Alaska Children's Trust Fund	24% ± 5%	23.51%
Constitutional Budget Reserve Fund, Subaccount	19% ± 5%	20.85%
Power Cost Equalization Endowment Fund	18% ± 5%	17.00%
Retiree Health Insurance Fund, Long Term Care	21% ± 4%	22.15%

At June 30, 2009, the funds invested in the International Equity Pool had exposure to foreign currency risk as follows:

<u>Currency</u>	<u>Fair Value</u> (in thousands)
<b>Deposits</b>	
Japanese Yen	\$ 28
Pound Sterling	(28)
	<u>-</u>
<b>Investments - International Equity</b>	
Canadian Dollar	2,067
Danish Krone	1,541
Euro	52,668
Hong Kong Dollar	1,261
Japanese Yen	26,881
Pound Sterling	35,041
Singapore Dollar	3,083
Swedish Krona	1,942
Swiss Franc	15,034
Under other fiduciary responsibility	29,210
	<u>168,728</u>
<b>Total</b>	<u>\$ 168,728</u>

**INVESTED ASSETS UNDER THE INVESTMENT AUTHORITY OF THE COMMISSIONER OF  
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**Notes to Combined Schedules**

**June 30, 2009**

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

The International Equity Pool investment income includes the following at June 30, 2009:

Net realized gain on foreign currency	\$	97,406
Net realized (loss) on foreign exchange contracts		(21,130)

The International Equity Pool includes foreign currency forward contracts to buy and sell specified amounts of foreign currencies at specified rates on specified future dates for the purpose of hedging existing security positions. The 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. At June 30, 2009 the International equity had no outstanding contracts. The International Equity Pool had no unrealized gains (losses) with respect to forward contracts at June 30, 2009.

**(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. During FY09 the General Fund repaid all outstanding borrowings to the CBRF. The State General Fund does not pay interest on the money due to the CBRF, unless appropriated. Chapter 28, SLA 2008, appropriated unrestricted interest earnings on general fund investments for the year ended June 30, 2009, to the CBRF to compensate the CBRF for lost earnings caused by use of the CBRF's balance.