



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

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

JUNE 30, 2013

(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, 2013

Table of Contents

| | <u>Page</u> |
|--|-------------|
| Independent Auditors' Report..... | 1 |
| Combined Schedule of Invested Assets..... | 3 |
| Combined Schedule of Investment Income and Changes in Invested Assets..... | 4 |
| Notes to Combined Schedules..... | 5 |



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Independent Auditors' Report

State of Alaska, Department of Revenue
Treasury Division:

Report on the Schedules

We have audited the accompanying combined schedules of invested assets under the investment authority of the Commissioner of Revenue as of June 30, 2013, and of investment income and changes in investment assets for the year then ended, and the related notes to the schedules (collectively referred to as "the Schedules").

Management's Responsibility for the Schedules

Management is responsible for the preparation and fair presentation of the schedules in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the schedules that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedules. The procedures selected depend upon the auditors' judgment, including the assessment of the risks of material misstatement of the schedule, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the schedules of invested assets referred to above presents fairly, in all material respects, the invested assets under the investment authority of the Commissioner of Revenue as of June 30, 2013, and the results of its investment income and changes in its invested assets for the year then ended in accordance with U.S. generally accepted accounting principles.



Emphasis of Matter

We draw attention to Note 1 to the combined schedules, which describes that the accompanying schedules represent only the activity of the funds outlined in Note 1 and were prepared to present the invested assets under the authority of the Commissioner of Revenue and changes therein, and not the complete financial activity of the funds or the State of Alaska as a whole. 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.

KPMG LLP

October 11, 2013

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, 2013 (with memorandum totals for June 30, 2012)
(Expressed in thousands)

| | GENERAL FUND and GeFONSI | CONSTITUTIONAL BUDGET RESERVE FUND | | PUBLIC SCHOOL TRUST FUND | | INVESTMENT LOSS TRUST FUND | GENERAL OBLIGATION BOND FUND | INTERNATIONAL AIRPORTS CONSTRUCTION FUND | INTERNATIONAL AIRPORTS FUND | POWER COST EQUALIZATION ENDOWMENT FUND | RETIREE HEALTH INSURANCE FUND | | MINE RECLAMATION FUND | ALASKA SPORT FISH CONSTRUCTION FUND GENERAL FUND APPROPRIATION | TOTAL INVESTED ASSETS (MEMORANDUM ONLY) | |
|---|--------------------------------|---------------------------------------|------------------|-----------------------------|--------------|----------------------------------|------------------------------------|---|-----------------------------------|---|----------------------------------|-------------------|-----------------------------|---|--|-------------------|
| | | MAIN | SUBACCOUNT | PRINCIPAL | INCOME | | | | | | MAJOR MEDICAL | LONG-TERM CARE | | | 6/30/2013 | 6/30/2012 |
| INVESTMENTS (at Fair Value) (Notes 6 and 7) | | | | | | | | | | | | | | | | |
| Cash and Cash Equivalents | | | | | | | | | | | | | | | | |
| Short-term Fixed Income Pool (Note 3) | 5,237,272 | 1,125,826 | 1,508 | 6,432 | 5,545 | 2,733 | 344,171 | 77,386 | 38,143 | 2 | 13,734 | 54,864 | 751 | 392 | 6,908,759 | 7,276,366 |
| Non-interest Bearing Deposits (Note 4) | 147,288 | - | - | - | - | - | - | - | - | - | - | - | - | - | 147,288 | 110,286 |
| Total Cash and Cash Equivalents | 5,384,560 | 1,125,826 | 1,508 | 6,432 | 5,545 | 2,733 | 344,171 | 77,386 | 38,143 | 2 | 13,734 | 54,864 | 751 | 392 | 7,056,047 | 7,386,652 |
| Marketable Debt Securities | | | | | | | | | | | | | | | | |
| Pooled Investments (Note 3) | | | | | | | | | | | | | | | | |
| Short-term Liquidity Fixed Income Pool | 1,160,680 | - | - | - | - | - | - | - | - | - | - | - | - | - | 1,160,680 | 804,452 |
| Intermediate-term Fixed Income Pool | 5,444,553 | 3,513,685 | - | - | - | - | - | - | 96,965 | - | - | - | - | - | 9,055,203 | 8,616,399 |
| Broad Market Fixed Income Pool | 168,347 | 1,125,037 | 2,130,470 | 276,060 | - | - | - | - | - | 200,148 | - | 146,573 | - | - | 4,046,635 | 3,823,966 |
| U.S. Treasury Fixed Income Pool | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Tobacco Revenue Fixed Income | 22,410 | - | - | - | - | - | - | - | - | - | - | - | - | - | 22,410 | 27,842 |
| Individually Held Debt Securities and Other Instruments | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 67,500 |
| Total Marketable Debt Securities | 6,795,990 | 4,638,722 | 2,130,470 | 276,060 | - | - | - | - | 96,965 | 200,148 | - | 146,573 | - | - | 14,284,928 | 13,340,159 |
| Equity Securities | | | | | | | | | | | | | | | | |
| Domestic Equity (Note 3) | 159,229 | - | 2,371,592 | 140,678 | - | - | - | - | - | 428,020 | - | 69,492 | 178 | - | 3,169,189 | 2,208,373 |
| International Equity Pool (Note 3) | 78,850 | - | 1,296,792 | 77,319 | - | - | - | - | - | 212,045 | - | 35,584 | - | - | 1,700,590 | 1,684,084 |
| Total Equity Securities | 238,079 | - | 3,668,384 | 217,997 | - | - | - | - | - | 640,065 | - | 105,076 | 178 | - | 4,869,779 | 3,892,457 |
| Total Investments | 12,418,629 | 5,764,548 | 5,800,362 | 500,489 | 5,545 | 2,733 | 344,171 | 77,386 | 135,108 | 840,215 | 13,734 | 306,513 | 929 | 392 | 26,210,754 | 24,619,268 |
| Receivables (Payables) | | | | | | | | | | | | | | | | |
| Income Receivable | (2,294) | (527) | (1) | (632) | 627 | (1) | (160) | (35) | (18) | - | (7) | (25) | - | - | (3,073) | 4,112 |
| Total Receivables (Payables) | (2,294) | (527) | (1) | (632) | 627 | (1) | (160) | (35) | (18) | - | (7) | (25) | - | - | (3,073) | 4,112 |
| Net Invested Assets | \$ 12,416,335 | 5,764,021 | 5,800,361 | 499,857 | 6,172 | 2,732 | 344,011 | 77,351 | 135,090 | 840,215 | 13,727 | 306,488 | 929 | 392 | 26,207,681 | 24,623,380 |

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, 2013 (with memorandum totals for the year ended June 30, 2012)
(Expressed in thousands)

| | GENERAL FUND and GeFONSI | CONSTITUTIONAL BUDGET RESERVE FUND | | PUBLIC SCHOOL TRUST FUND | | INVESTMENT LOSS TRUST FUND | GENERAL OBLIGATION BOND FUND | INTERNATIONAL AIRPORTS CONSTRUCTION FUND | INTERNATIONAL AIRPORTS FUND | POWER COST EQUALIZATION ENDOWMENT FUND | RETIREE HEALTH INSURANCE FUND | | MINE RECLAMATION FUND | ALASKA SPORT FISH CONSTRUCTION FUND GENERAL FUND APPROPRIATION | TOTAL INCOME (LOSS) (MEMORANDUM ONLY) | |
|---|--------------------------------|---------------------------------------|------------------|-----------------------------|-----------------|----------------------------------|------------------------------------|---|-----------------------------------|---|----------------------------------|-------------------|-----------------------------|---|--|-------------------------|
| | | MAIN | SUBACCOUNT | PRINCIPAL | INCOME | | | | | | MAJOR MEDICAL | LONG-TERM CARE | | | YEAR ENDED 6/30/2013 | YEAR ENDED 6/30/2012 |
| Investment Income | | | | | | | | | | | | | | | | |
| Short-term Fixed Income Pool | 11,975 | 2,756 | 563 | 16 | 27 | 7 | 347 | 223 | 83 | 4 | 31 | 131 | 2 | 13 | 16,178 | 28,789 |
| Short-term Liquidity Fixed Income Pool | 1,228 | - | - | - | - | - | - | - | - | - | - | - | - | - | 1,228 | 452 |
| Intermediate-term Fixed Income Pool | 20,175 | 12,135 | - | - | - | - | - | - | 393 | - | - | - | - | - | 32,703 | 191,391 |
| Broad Market Fixed Income Pool | (2,914) | (6,716) | (11,482) | (1,756) | - | - | - | - | - | (1,334) | - | (920) | - | - | (25,122) | 281,848 |
| U.S. Treasury Fixed Income Pool | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | (4) |
| Domestic Equity | 11,883 | - | 413,531 | 26,331 | - | - | - | - | - | 77,049 | - | 12,229 | 34 | - | 541,057 | 82,604 |
| International Equity Pool | (796) | - | 207,341 | 13,317 | - | - | - | - | - | 35,769 | - | 5,589 | - | - | 261,220 | (214,055) |
| Tobacco Revenue Fixed Income | 52 | - | - | - | - | - | - | - | - | - | - | - | - | - | 52 | 74 |
| Individually Held Debt Securities and Other Instruments | 1,091 | - | - | - | - | - | - | - | - | - | - | - | - | - | 1,091 | 2,810 |
| Total Investment Income | 42,694 | 8,175 | 609,953 | 37,908 | 27 | 7 | 347 | 223 | 476 | 111,488 | 31 | 17,029 | 36 | 13 | 828,407 | 373,909 |
| Transfer from (to) Other Funds | - | - | - | (12,950) | 12,950 | - | - | - | - | - | - | - | - | - | - | - |
| Net Investment Income | 42,694 | 8,175 | 609,953 | 24,958 | 12,977 | 7 | 347 | 223 | 476 | 111,488 | 31 | 17,029 | 36 | 13 | 828,407 | 373,909 |
| Total Invested Assets, Beginning of Period | 12,057,411 | 5,451,989 | 5,190,408 | 460,561 | 6,831 | 2,725 | 184,333 | 90,298 | 131,556 | 751,780 | 12,538 | 272,704 | 901 | 9,345 | 24,623,380 | 21,019,087 |
| Net Contributions (Withdrawals) | 316,230 | 303,857 | - | 14,338 | (13,636) | - | 159,331 | (13,170) | 3,058 | (23,053) | 1,158 | 16,755 | (8) | (8,966) | 755,894 | 3,230,384 |
| Total Invested Assets, End of Period | \$ 12,416,335 | 5,764,021 | 5,800,361 | 499,857 | 6,172 | 2,732 | 344,011 | 77,351 | 135,090 | 840,215 | 13,727 | 306,488 | 929 | 392 | 26,207,681 | 24,623,380 |

INVESTED ASSETS UNDER THE INVESTMENT AUTHORITY OF THE COMMISSIONER OF REVENUE

Notes to Combined Schedules

June 30, 2013

(1) THE ACCOUNTING ENTITY

The accompanying combined schedules present the financial position and changes therein, as of and for the year ended June 30, 2013, 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. 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, Domestic Equity and the International Equity Pools are managed externally. Treasury manages the Short-term Fixed Income Pool, Short-term Liquidity Fixed Income Pool, Noninterest Bearing Deposits, Intermediate-term Fixed Income Pool, and the Broad Market Fixed Income Pool in addition to acting as oversight manager for all externally managed investments.

General Fund and GeFONSI

The General Fund is the State's operating fund. Most of the assets of the General Fund are commingled with other funds for investment purposes in a pool named the General Fund and Other Nonsegregated Investments (GeFONSI). GeFONSI consists of investments in the Short-term Fixed Income Pool, the Short-term Liquidity 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,

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

Notes to Combined Schedules

June 30, 2013

(1) THE ACCOUNTING ENTITY (Cont.)

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 21st Legislature created a subaccount within the CBRF effective July 1, 2000. The subaccount currently comprises 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 Alaska Statute 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).

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 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. The fund consists of final settlements, part of which is available to repay State moneys, which originally capitalized the fund, and the remaining held in escrow for legal fees and for annuitants with balances backed by investments of the successor company to Executive Life.

General Obligation Bond Funds

The General Obligation Bond 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.

In 2002, two general obligation bond propositions were passed by a majority of the qualified voters in the State, resulting in the 2002 Transportation Bond Act (Chapter 114, SLA 2002) and the 2002 Education Bond Act (Chapter 2 SLA 2002). In April 2003, two series of bonds were sold consisting of Series A for education and certain transportation projects and Series B for transportation projects.

In 2008, one general obligation bond proposition was passed by a majority of the qualified voters in the State, resulting in the 2008 Transportation Bond Act (Chapter 30, SLA 2008). In April 2009, bonds were sold as the 2009 Series A to provide the initial funding of the projects authorized under the Act. In 2011 the Legislature appropriated general fund revenue to replace the balance of the 2008 general obligation bond authorization. At that time the authority to issue additional bonds under the 2008 Transportation Act was extinguished.

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

Notes to Combined Schedules

June 30, 2013

(1) THE ACCOUNTING ENTITY (Cont.)

In 2010, one general obligation bond proposition authorizing the issuance of general obligation bonds was passed by a majority of the qualified voters in the State resulting in the 2010 Education Bond Act (Chapter 95, SLA 2010). In December 2010, three bond issues were sold to take advantage of federal structuring alternatives to lower interest rate and partially fund the authorized project list. The Series 2010 A bonds were sold as taxable Build America Bonds, the Series 2010 B bonds were sold as taxable Qualified School Construction Bonds, and the Series 2010 C bonds were sold as tax exempt bonds. In January 2013, two bond issues were sold to fund the balance of the 2010 Education Act authorization. The Series 2013 A bonds were sold as taxable Qualified School Construction Bonds and the Series 2013 B bonds were sold as tax exempt bonds.

In 2012, one general obligation bond proposition authorizing the issuance of general obligation bonds was passed by a majority of the qualified voters in the State resulting in the 2012 Transportation Bond Act (Chapter, SLA 2012). In March 2013 bonds were sold as the Series 2013 C Bond Anticipation Notes to provide the initial funding of the projects authorized under the Act.

At June 30, 2013, the invested asset balances in the various bond sub-funds were as follows (in thousands):

| | |
|--|-------------------|
| Series 2008, Transportation Projects | \$ 34,991 |
| Series 2010-A, Education Build America | 8,633 |
| Series 2010-B, Education Qualified School | 1,375 |
| Series 2010-C, Education Tax Exempt | 2,705 |
| Series 2013-A, Transportation Projects | 11,950 |
| Series 2013-B, Transportation Projects | 150,976 |
| Series 2013-C, K-12 and University of Alaska | <u>133,381</u> |
| Total General Obligation Bond Fund | <u>\$ 344,011</u> |

International Airports Funds

The International Airports Funds include a 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.

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

Notes to Combined Schedules

June 30, 2013

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, 2013, the invested asset balances in the various construction subfunds were as follows (in thousands):

| | |
|--|------------------|
| Series 2002 Reserve | 15,151 |
| Series 2003 Reserve | 9,711 |
| Series 2006, Alternative Minimum Tax | 348 |
| Series 2006, Non-Alternative Minimum Tax | 21,616 |
| Series 2006 Variable | 6,425 |
| Series 2010A Private Activity Non-Alternative Minimum Tax | 10,651 |
| Series 2010B Taxable BABS | 13,449 |
| Total International Airports Construction Fund | \$ <u>77,351</u> |

Power Cost Equalization Endowment Fund

The Alaska Legislature created the Power Cost Equalization (PCE) Endowment Fund through Chapter 60, SLA 2000 Sections 6 and 7, codified under Alaska Statute 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. 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 some retired employees (Alaska Statute 39.30.090, Alaska Statute 39.30.091, and Alaska Statute 39.30.095). Three insurance plans comprise the Retiree Health Insurance Fund: major medical, long-term care, and dental/visual/audio (assets for the latter plan are held in the GeFONSI). The fund consists of insurance premiums paid by the employer (the State and participating political subdivisions of the State) and retirees for future health-related expenses.

Mine Reclamation Trust Fund

The Alaska Legislature, in Chapter 137, SLA 2004, established a new Article 9 in Alaska Statute 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 Alaska Statute 27.19.040 or Alaska Statute 27.21.160 and earnings on the income account.

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

Notes to Combined Schedules

June 30, 2013

(1) THE ACCOUNTING ENTITY (Cont.)

Alaska Sport Fish Construction Fund

The Alaska Sport Fish Construction Funds held 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 Alaska Statute 16.05.092. The bond proceeds were liquidated during FY2012.

(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.

Noninterest 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.

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 by the Domestic and International Equity investments are paid to the principal assets of the fund. Dividends are then transferred to the income assets of the fund to purchase shares in the Short-term Fixed Income Pool. All realized and unrealized gains and losses of the Public School Trust Fund 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, 2012 is presented for comparative purposes.

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

Notes to Combined Schedules

June 30, 2013

(3) POOLED INVESTMENTS

Short-term Fixed Income Pool

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

Short-term Liquidity Fixed Income Pool

The GeFONSI is the only participant in the State's internally managed Short-term Liquidity Fixed Income Pool. Treasury staff determines the allocation between permissible securities. The pool has a very short time horizon, and a significant need for liquidity. It has a limited need for long-term inflation protection, and is invested at a very low 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. 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.

Intermediate-term Fixed Income Pool

Some funds participate in the State's internally managed Intermediate-term Fixed Income Pool. Treasury staff determines the allocation between permissible securities. The pool has an intermediate time horizon, a more limited need for liquidity than the money invested in the Short-term Fixed Income Pool, a limited need for inflation protection, and can be invested at a moderate risk level. The net asset value per share on any given valuation date is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Ownership in the pool is based on the number of shares held by each participant. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. Not all participants in the pool are funds under the fiduciary responsibility of the Commissioner.

Broad Market Fixed Income Pool

Some funds participate in the State's internally managed Broad Market Fixed Income Pool. 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.

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

Notes to Combined Schedules

June 30, 2013

(3) POOLED INVESTMENTS (Cont.)

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.

U.S. Treasury Fixed Income Pool

The State's internally managed U.S. Treasury Fixed Income Pool was liquidated during FY12. Treasury staff determined the allocation between permissible securities. The pool had 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 could be invested at a moderate risk level. The net asset value per share on any given valuation date was 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 was based on the number of shares held by each participant. Contributions to and withdrawals from the pool were based on the beginning of the day net asset value per share on the day of the transaction.

Domestic Equity Pool

Some funds participate in the State's externally managed Domestic Pool. This pool invests solely in the State Street Global Advisors (SSgA) Russell 3000 Common Trust Fund (Trust), which is a passively managed, commingled index fund. The investment objective of the Trust is to replicate, as closely as possible, the return of the Russell 3000 index, and thus comprises securities included in that index. Ownership in the pool is based on the number of shares held by each participant. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. Not all participants in the pool are funds under the fiduciary responsibility of the Commissioner.

International Equity Pools

Some funds participate in the State's externally managed International Equity Pools. The external managers independently determine 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 each 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, 2013

(4) NON-INTEREST BEARING DEPOSITS

At June 30, 2013, non-interest bearing deposits totaling \$147.3 million comprised various State agency cash held pending redemption of State warrants and compensating balances.

(5) DEPOSIT AND INVESTMENT RISK

At June 30, 2013, the funds' had the following investments:

| Investment Type | Fair Value (in thousands) | | | | | | | Total |
|--|------------------------------|--|-------------------------------------|--------------------------------|------------------------------|--------------|------|------------|
| | Short-term Fixed Income Pool | Short-term Liquidity Fixed Income Pool | Intermediate-term Fixed Income Pool | Broad Market Fixed Income Pool | Tobacco Revenue Fixed Income | Other | | |
| Deposits | \$ 180,221 | \$ - | \$ - | \$ (35) | \$ - | \$ 147,288 | \$ - | 327,474 |
| Money Market | - | - | - | - | 22,410 | - | - | 22,410 |
| Commercial Paper | 351,700 | - | - | - | - | - | - | 351,700 |
| Corporate Bonds | 431,115 | - | 718,136 | 852,913 | - | - | - | 2,002,164 |
| Mortgage Backed | 18,089 | - | 189,159 | 1,364,957 | - | - | - | 1,572,205 |
| Municipal Bonds | 4,220 | - | 1,938 | - | - | - | - | 6,158 |
| Other Asset Backed | 3,598,791 | - | 237,838 | 142,211 | - | - | - | 3,978,840 |
| U.S. Government Agency | - | - | - | - | - | - | - | - |
| Discount Notes | 600 | - | - | - | - | - | - | 600 |
| U.S. Government Agency | - | - | 284,051 | 122,928 | - | - | - | 406,979 |
| Treasury Bills | 3,552,079 | 1,159,880 | 599,439 | - | - | - | - | 5,311,398 |
| Treasury Bonds | - | - | - | 88,016 | - | - | - | 88,016 |
| Treasury Notes | - | - | 6,353,467 | 1,235,575 | - | - | - | 7,589,042 |
| Treasury Strips | - | - | 52,256 | 18,393 | - | - | - | 70,649 |
| Yankees: | | | | | | | | |
| Yankee Corporate | 112,952 | - | 128,108 | 183,495 | - | - | - | 424,555 |
| Yankee Government | - | - | 34,290 | 40,831 | - | - | - | 75,121 |
| Domestic Equity | - | - | - | - | - | 3,279,675 | - | 3,279,675 |
| International Equity | - | - | - | - | - | 1,752,037 | - | 1,752,037 |
| Total Invested Assets | 8,249,767 | 1,159,880 | 8,598,682 | 4,049,284 | 22,410 | 5,179,000 | - | 27,259,023 |
| Pool related net assets (liabilities) | (148,621) | - | (79,418) | (119,104) | - | 693 | - | (346,450) |
| Net Invested Assets before earnings distribution to participants | 8,101,146 | 1,159,880 | 8,519,264 | 3,930,180 | 22,410 | 5,179,693 | - | 26,912,573 |
| Earnings payable to participants | 3,619 | - | - | - | - | - | - | 3,619 |
| Other pool ownership | (719,308) | 800 | 535,939 | 182,570 | - | - | - | 1 |
| Ownership under other fiduciary responsibility | | | | | | | | |
| Alaska Retirement Management Board | (467,172) | - | - | - | - | - | - | (467,172) |
| Exxon Valdez Oil Spill Trustee Council | (3) | - | - | (55,766) | - | (44,399) | - | (100,168) |
| University of Alaska | - | - | - | - | - | - | - | - |
| Alaska Student Loan Corporation | (5,887) | - | - | - | - | - | - | (5,887) |
| Alaska Mental Health Trust Authority | (3,636) | - | - | (10,349) | - | (118,227) | - | (132,212) |
| Total Commissioner's fiduciary responsibility | \$ 6,908,759 | \$ 1,160,680 | \$ 9,055,203 | \$ 4,046,635 | \$ 22,410 | \$ 5,017,067 | \$ - | 26,210,754 |

Interest Rate Risk

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

Short-term Fixed Income Pool

As a means of limiting its exposure to fair value losses arising from increasing interest rates, Treasury's investment policy limits individual fixed rate securities to 14 months to maturity or 14 months expected average life *upon purchase*. Floating rate securities are limited to 3 years to maturity or 3 years expected average life *upon purchase*. These constraints apply to trade date, except for securities bought at new issue, for which settlement date applies. At June 30, 2013, the expected average life of individual fixed rate securities ranged from 3 days to 34 years and the expected average life of floating rate securities ranged from 14 days to 22 years.

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

Notes to Combined Schedules

June 30, 2013

(5) DEPOSIT AND INVESTMENT RISK (Cont.)

Short-term Liquidity Fixed Income Pool

Treasury's investment policy limits individual fixed rate securities to six months to maturity. These constraints apply to trade date, except for securities bought at new issue, for which settlement date applies. At June 30, 2013, the expected average life of fixed rate securities ranged from 46 to 67 days.

Intermediate and Broad Market Fixed Income Pools

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

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

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 Barclays 1-3 Year Government Bond Index. The effective duration for the Barclays 1-3 Year Government Bond Index at June 30, 2013 was 1.87 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, 2013 was 5.49 years.

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

Notes to Combined Schedules

June 30, 2013

(5) DEPOSIT AND INVESTMENT RISK (Cont.)

At June 30, 2013, the effective duration by investment type was as follows:

| | Effective Duration (in years) | |
|-------------------------------------|--|---|
| | Intermediate-term Fixed Income Pool | Broad Market Fixed Income Pool |
| Corporate Bonds | 2.42 | 7.31 |
| Mortgage Backed | 1.45 | 4.13 |
| Municipal Bonds | 4.41 | - |
| Other Asset Backed | 0.59 | 1.37 |
| U.S. Government Agency | 1.70 | 8.23 |
| Treasury Bills | 0.11 | - |
| Treasury Bonds | - | 19.69 |
| Treasury Notes | 2.04 | 5.10 |
| Treasury Strips | 4.43 | 4.89 |
| Yankees: | | |
| Corporate | 1.85 | 3.99 |
| Government | 2.06 | 5.17 |
| Portfolio Effective Duration | 1.77 | 5.23 |

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. Commercial paper must be rated at least P-1 by Moody's and A-1 by Standard and Poor's. Asset-backed and nonagency 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 nonagency mortgage securities may be purchased if only rated by one of these agencies if they are rated AAA.

Short-term Liquidity Pool investments are limited to U.S. Treasury obligations or other U.S. Government securities issued in full faith or guaranteed by agencies and instrumentalities of the U.S. Government, obligations of foreign governments, sovereign states, supranational entities, and their instrumentalities denominated in U.S. dollars, and the State's internally-managed Short-Term Fixed Income Pool.

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

Notes to Combined Schedules

June 30, 2013

(5) DEPOSIT AND INVESTMENT RISK (Cont.)

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 nonagency 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 nonagency mortgage securities may be purchased if only rated by one of these agencies if they are rated AAA.

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, 2013, the Tobacco Revenue Fixed Income Securities consisted of commercial paper rated A-1.

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

Notes to Combined Schedules

June 30, 2013

(5) DEPOSIT AND INVESTMENT RISK (Cont.)

At June 30, 2013, 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>Short-term Liquidity Fixed Income Pool</u> | <u>Intermediate- term Fixed Income Pool</u> | <u>Broad Market Fixed Income Pool</u> |
|------------------------|---------------|---|---|---|---|
| Deposits | Not Rated | 2.22% | - | - | - |
| Commercial Paper | Not Rated | 4.34% | - | - | - |
| Corporate Bonds | AAA | - | - | 0.40% | 0.61% |
| Corporate Bonds | AA | 2.41% | - | 1.73% | 2.85% |
| Corporate Bonds | A | 2.91% | - | 4.80% | 11.79% |
| Corporate Bonds | BBB | - | - | 0.83% | 4.95% |
| Corporate Bonds | BB | - | - | 0.16% | 0.41% |
| Corporate Bonds | Not Rated | - | - | - | 0.12% |
| U.S. Government Agency | AA | - | - | 2.75% | 0.45% |
| U.S. Government Agency | BBB | - | - | - | 0.09% |
| U.S. Government Agency | Not Rated | 0.01% | - | 0.38% | 2.45% |
| Mortgage Backed | AAA | 0.07% | - | 0.80% | 2.88% |
| Mortgage Backed | AA | 0.08% | - | 0.76% | 27.88% |
| Mortgage Backed | A | 0.07% | - | 0.09% | 0.27% |
| Mortgage Backed | BBB | - | - | - | 0.05% |
| Mortgage Backed | Not Rated | - | - | 0.43% | 2.12% |
| Municipal Bonds | AA | 0.05% | - | - | - |
| Municipal Bonds | A | - | - | 0.02% | - |
| Other Asset Backed | AAA | 39.98% | - | 1.86% | 2.33% |
| Other Asset Backed | AA | 0.72% | - | - | 0.56% |
| Other Asset Backed | Not Rated | 3.71% | - | 0.76% | 0.56% |
| Other Pool Ownership | Not Rated | - | 0.07% | 5.92% | 4.44% |
| Treasury Bills | AA | 43.83% | 99.93% | 6.62% | - |
| Treasury Bonds | AA | - | - | - | 2.14% |
| Treasury Notes | AA | - | - | 70.18% | 30.04% |
| Treasury Strips | AA | - | - | 0.58% | 0.45% |
| Yankee Corporate | AAA | - | - | 0.18% | 0.79% |
| Yankee Corporate | AA | 0.55% | - | 0.69% | 1.14% |
| Yankee Corporate | A | 0.84% | - | 0.42% | 1.40% |
| Yankee Corporate | BBB | - | - | 0.13% | 1.13% |
| Yankee Government | AA | - | - | 0.34% | 0.53% |
| Yankee Government | BBB | - | - | - | 0.18% |
| Yankee Government | Not Rated | - | - | 0.04% | 0.28% |
| No Credit Risk | | -1.79% | - | -0.87% | -2.89% |
| | | <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 REVENUE**

Notes to Combined Schedules

June 30, 2013

(5) 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 investment policy requires the State's depository banks to collateralize State deposits to the extent they exceed insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). As part of the Dodd-Frank Wall Street Reform and Consumer Protection Act, unlimited FDIC coverage for noninterest-bearing accounts was in effect through 12/31/2012. Deposits held in noninterest-bearing transaction accounts are now aggregated with interest-bearing deposits and the combined total is insured up to \$250,000. In accordance with Treasury's investment policy, all accounts are required to retain collateral equal to 110% of uninsured deposits at all FDIC insured depository institutions, thereby limiting custodial credit risk.

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, 2013, the State had the following uncollateralized and uninsured deposits:

| | Amount <u>(in thousands)</u> |
|------------------------------|---|
| International Equity Pool \$ | 141 |

Concentration of Credit Risk

Treasury's investment 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.

At June 30, 2013, the Commissioner did not have exposure to any one issuer greater than 5% of invested assets.

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 2013 and invested assets included the following holdings at June 30, 2013, for the funds invested in the International Equity Pool:

| | <u>Policy</u> | <u>Actual</u> |
|--|----------------------|----------------------|
| Constitutional Budget Reserve Fund, Subaccount | 20% +/- 7% | 22.36% |
| Higher Education Fund | 20% +/- 7% | 19.40% |
| Power Cost Equalization Endowment Fund | 26% +/- 5% | 25.24% |
| Retiree Health Insurance Fund, Long-Term Care | 11% +/- 4% | 11.61% |

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

Notes to Combined Schedules

June 30, 2013

(5) DEPOSIT AND INVESTMENT RISK (Cont.)

At June 30, 2013, the funds invested in the International Equity Pool had exposure to foreign currency risk as follows:

| <u>Currency</u> | <u>Fair Value</u> |
|--------------------------------------|-----------------------|
| Deposits | |
| Euro Currency | \$ 1 |
| Japanese Yen | 108,951 |
| Under other fiduciary responsibility | 32,346 |
| | <u>141,298</u> |
| Investments - International Equity | |
| Australian Dollar | 4,055,885 |
| Canadian Dollar | 6,016,708 |
| Danish Krone | 1,664,896 |
| Euro Currency | 46,953,813 |
| Japanese Yen | 33,362,105 |
| New Zeland Dollar | 1,147,384 |
| Norwegian Krone | 1,883,008 |
| Pound Sterling | 42,167,916 |
| Swedish Krona | 9,519,072 |
| Swiss Franc | 10,479,744 |
| Under other fiduciary responsibility | 46,690,046 |
| | <u>203,940,577</u> |
| Total | \$ <u>204,081,875</u> |

(6) FOREIGN EXCHANGE, FOREIGN EXCHANGE CONTRACTS, OFF-BALANCE SHEET RISK, AND DERIVATIVE EXPOSURE

The Commissioner is exposed to credit risk on investment derivative instruments that are in asset positions. The Commissioner has no policy of requiring collateral or other security to support derivative instruments subject to credit risk. Additionally, the Commissioner has no policy regarding entering into netting arrangements when it enters into derivative instrument transactions with a counterparty, nor does the Commissioner have a policy for contingencies. The International Equity Pool investment includes the following income from derivative investments at June 30, 2013:

| <u>Investment</u> <u>Derivatives</u> | <u>Changes in Fair Value</u> | | <u>Fair Value at June 30, 2013</u> | | |
|---|------------------------------|---------------|------------------------------------|---------------|-----------------|
| | <u>Classification</u> | <u>Amount</u> | <u>Classification</u> | <u>Amount</u> | <u>Notional</u> |
| FX Forwards | Investment Revenue | 9,471 | Long-Term Instruments | - | - |
| Rights | Investment Revenue | 16 | Common Stock | - | - |

INVESTED ASSETS UNDER THE INVESTMENT AUTHORITY OF THE COMMISSIONER OF REVENUE

Notes to Combined Schedules

June 30, 2013

Additionally the International Equity Pool had the following income from foreign exchange transactions:

| | | |
|---------------------------------------|----|--------|
| Net realized gain on foreign currency | \$ | 46,660 |
|---------------------------------------|----|--------|

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 nonperformance 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, 2013, the International Equity Pool had no outstanding contracts.

Pursuant to Alaska Statute 37.10.089(d), the Commissioner of Revenue entered into a Standby Bond Purchase Agreement (SBPA), which supports a liquidity facility provided by State Street Bank on Alaska Student Loan Corporation (ASLC) Education Loan Revenue Refunding Bonds-Senior Series 2012. In the event that the bonds have been tendered and cannot be remarketed, the Commissioner has agreed to purchase Bank Bonds held by the Bank upon satisfaction of the conditions set forth in the SBPA. The annual facility fee is 15 basis points payable by the ASLC quarterly through the termination date of September 30, 2016. Bonds outstanding at June 30, 2013 were \$78,435,000.

(7) COMMITMENTS AND CONTINGENCIES

In the 1990 general election, the voters of Alaska adopted an amendment to the Alaska State Constitution creating the 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 monies 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 State General Fund does not pay interest on the money due to the CBRF, unless appropriated. As of June 30, 2013, the General Fund had no outstanding borrowings from the CBRF.