

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

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

JUNE 30, 2016

(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, 2016

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KPMG LLP
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Anchorage, AK 99501

Independent Auditors' Report

State of Alaska, Department of Revenue
Treasury Division:

We have audited the accompanying combined schedules of invested assets under the investment authority of the Commissioner of Revenue as of June 30, 2016, and of investment income 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 Schedules, 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 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, 2016, and the net investment income for the year then ended in accordance with U.S. generally accepted accounting principles.

Report on Summarized Comparative Information

We have previously audited the combined schedules of invested assets under the investment authority of the Commissioner of Revenue as of June 30, 2015, and of investment income for the year then ended and we expressed an unmodified audit opinion on those audited schedules in our report dated September 30, 2015.



In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited schedules from which it has been derived.

Emphasis of Matter

We draw attention to Note 1 to the 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 related investment income, 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

September 29, 2016

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, 2016 (with memorandum totals for June 30, 2015)
(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	TOTAL INVESTED ASSETS		
			PRINCIPAL	INCOME						MAJOR MEDICAL	LONG-TERM CARE		6/30/2016	6/30/2015	
INVESTMENTS at fair value (Notes 6 and 7)															
Cash and Cash Equivalents															
Short-term Fixed Income Pool (Note 3)	\$ 1,997,692	5,109,322	599	30,036	2,626	239,512	51,498	64,297	\$ 1,830	15,343	2,290	2	7,515,047	7,970,121	
Non-interest Bearing Deposits (Note 4)	30,199	-	-	-	-	-	-	-	-	-	-	-	30,199	42,652	
Total Cash and Cash Equivalents	2,027,891	5,109,322	599	30,036	2,626	239,512	51,498	64,297	1,830	15,343	2,290	2	7,545,246	8,012,773	
Marketable Debt Securities															
Pooled Investments (Note 3)															
Short-term Liquidity Fixed Income Pool	440,509	-	-	-	-	-	-	-	-	-	-	-	440,509	586,602	
Short-term Treasury Fixed Income Pool	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Intermediate-term Fixed Income Pool	1,076,153	-	-	-	-	-	-	-	-	-	-	-	1,076,153	5,319,362	
Broad Market Fixed Income Pool	128,794	1,695,206	260,185	-	-	-	-	21,581	277,177	-	258,699	278	2,641,920	3,221,697	
Tobacco Revenue Fixed Income	16,230	-	-	-	-	-	-	-	-	-	-	-	16,230	16,534	
Total Marketable Debt Securities	1,661,686	1,695,206	260,185	-	-	-	-	21,581	277,177	-	258,699	278	4,174,812	9,144,195	
Equity Securities															
Domestic Equity Pool (Note 3)	207,331	365,353	206,734	-	-	-	-	4,664	446,198	-	103,651	448	1,334,379	928,297	
International Equity Pools (Note 3)	103,016	157,430	106,407	-	-	-	-	1,629	221,733	-	52,813	222	643,250	473,694	
Total Equity Securities	310,347	522,783	313,141	-	-	-	-	6,293	667,931	-	156,464	670	1,977,629	1,401,991	
Total Investments	3,999,924	7,327,311	573,925	30,036	2,626	239,512	51,498	92,171	946,938	15,343	417,453	950	13,697,687	18,558,959	
Receivables (Payables)															
Income Receivable	1,351	4,094	(603)	626	2	75	40	54	-	12	2	-	5,653	1,826	
Total Receivables (Payables)	1,351	4,094	(603)	626	2	75	40	54	-	12	2	-	5,653	1,826	
Net Invested Assets	\$ 4,001,275	7,331,405	573,322	30,662	2,628	239,587	51,538	92,225	946,938	15,355	417,455	950	13,703,340	18,560,785	

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

COMBINED SCHEDULE OF INVESTMENT INCOME

For the year ended June 30, 2016 (with memorandum totals for the year ended June 30, 2015)

(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	TOTAL INCOME (LOSS)	
			PRINCIPAL	INCOME						MAJOR MEDICAL	LONG-TERM CARE		YEAR ENDED 6/30/2016	YEAR ENDED 6/30/2015
Investment Income														
Short-term Fixed Income Pool	\$ 10,554	32,885	1	140	15	581	308	200	1	84	17	-	44,786	21,844
Short-term Liquidity Fixed Income Pool	907	-	-	-	-	-	-	-	-	-	-	-	907	662
Short-term Treasury Fixed Income Pool	62	-	-	-	-	-	-	-	-	-	-	-	62	33
Intermediate-term Fixed Income Pool	16,852	3,051	-	-	-	-	-	(33)	-	-	-	-	19,870	35,815
Broad Market Fixed Income Pool	7,763	120,064	15,648	-	-	-	-	722	16,744	-	15,226	17	176,184	134,618
Domestic Equity Pool	4,903	4,178	5,621	-	-	-	-	(16)	10,965	-	3,309	9	28,969	292,049
International Equity Pools	(9,675)	(21,890)	(9,475)	-	-	-	-	(174)	(18,797)	-	(3,982)	(21)	(64,014)	(65,855)
State Transition Pool	-	-	-	-	-	-	-	-	-	-	-	-	-	(94,397)
Tobacco Revenue Fixed Income	51	-	-	-	-	-	-	-	-	-	-	-	51	18
Total Investment Income	31,417	138,288	11,795	140	15	581	308	699	8,913	84	14,570	5	206,815	324,787
Transfer from (to) Other Funds	-	-	(14,812)	14,812	-	-	-	-	-	-	-	-	-	-
Net Investment Income	\$ 31,417	138,288	(3,017)	14,952	15	581	308	699	8,913	84	14,570	5	206,815	324,787

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

**Notes to Combined Schedules
June 30, 2016**

(1) THE ACCOUNTING ENTITY

The accompanying combined schedules present the financial position and changes therein, as of and for the year ended June 30, 2016, 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, Short-term Treasury 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 Non-segregated 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 Tobacco Settlement Revenues and investment earnings therein. The proceeds and earnings are available for projects prescribed by statute.

Constitutional Budget Reserve Fund

The Constitutional Budget Reserve Fund (CBRF) was established November 6, 1990 when voters approved adding Section 17 to Article IX of the Constitution of the State. All money received by the State after July 1, 1990, through resolution of disputes about the amount of certain mineral-related income, must be deposited in the CBRF. Such deposits may originate from mineral lease bonuses, rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments or bonuses, or taxes imposed on mineral income, production or property. The Legislature may, under certain conditions, appropriate funds from the CBRF to fund the operations of State government. The 21st Legislature created a subaccount within the CBRF effective July 1, 2000. The subaccount was liquidated during FY2015.

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

**Notes to Combined Schedules
June 30, 2016**

(1) THE ACCOUNTING ENTITY (Cont.)

Public School Trust Fund

The Public School Trust Fund was established by the Alaska State Legislature in Alaska Statute 37.14.110 – 37.14.170. The source of funding for the investment portfolio originally consisted of income from the sale or lease of land granted by an Act of Congress on March 15, 1915, but is now composed primarily of one-half of one percent of State receipts from the management of all State lands as prescribed by 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 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.

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 2013A bonds were sold as taxable Qualified School Construction Bonds and the Series 2013 B bonds were sold as tax exempt bonds.

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

**Notes to Combined Schedules
June 30, 2016**

(1) THE ACCOUNTING ENTITY (Cont.)

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 18, SLA 2012). The 2012 Transportation Bond Act authorized a principal amount of not more than \$453,499,200 for the purpose of paying the costs of design and construction of state transportation projects. The initial funding of projects authorized under the Act was provided by the issuance of General Obligation Bond Anticipation Notes (BANs) in 2013, 2014, and 2015, each of which became due within approximately one year. In March of 2016, the Series 2016A general obligation bonds were issued for the purpose of paying the principal of and interest on the 2015 BANs and to pay or to make grants to pay costs of projects authorized under the Act. In June of 2016, the Series 2016B general obligation bonds were issued to pay or to make grants to pay costs of projects authorized under the Act.

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.

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.

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, 2016**

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The combined schedules are prepared using the accrual basis of accounting for investment income (loss). Assets are reported at fair value. Investment purchases and sales are recorded on a trade-date basis.

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.

Newly Adopted Accounting Pronouncements

The Governmental Accounting Standards Board issued Statement No. 72, *Fair Value Measurement and Application* which the State implemented as of July 1, 2015. The statement requires that all investments be recorded at fair value on the combined schedule of invested assets and inputs used for these values be disclosed in the footnotes to the financial statements. Investments are classified as Level 1, 2 or 3, with Level 1 valuations being the most readily available on the open market.

(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.

**INVESTED ASSETS UNDER THE INVESTMENT AUTHORITY OF THE COMMISSIONER OF
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**Notes to Combined Schedules
June 30, 2016**

(3) POOLED INVESTMENTS (Cont.)

Short-term Treasury Fixed Income Pool

The General Fund is the only participant in the State's internally managed Short-term Treasury Fixed Income Pool. Treasury staff determines the allocation between permissible securities. The pool has a very short time horizon, a need for significant liquidity and can accommodate major withdrawals and contributions (exceeding \$500 million in the normal operating environment) and a low risk tolerance. 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.

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.

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 two externally managed International Equity Pools. The external managers independently determine the allocation between permissible securities. 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 pools 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

**INVESTED ASSETS UNDER THE INVESTMENT AUTHORITY OF THE COMMISSIONER OF
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**Notes to Combined Schedules
June 30, 2016**

(3) POOLED INVESTMENTS (Cont.)

net asset value per share on the day of the transaction. Not all participants in these pools are funds under the fiduciary responsibility of the Commissioner.

(4) NON-INTEREST BEARING DEPOSITS

At June 30, 2016, non-interest bearing deposits totaled \$30.2 million, comprised of various State agency cash held pending redemption of State warrants and compensating balances.

(5) DEPOSIT AND INVESTMENT RISK

At June 30, 2016, 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	\$ 11,641	\$ -	\$ (16)	\$ -	\$ -	\$ 30,431	\$ -	\$ 42,056
Corporate Bonds	561,477	-	50,387	651,952	-	-	-	1,263,816
Commercial Paper	-	-	-	-	8,098	-	-	8,098
Money Market	-	-	-	-	8,128	-	-	8,128
Mortgage Backed	635,070	-	28,380	805,953	-	-	-	1,469,403
Municipal Bonds	3,773	-	-	16,486	-	-	-	20,259
Mutual Funds	-	-	-	-	-	10,670	-	10,670
Other Asset Backed	1,922,179	-	32,017	85,496	-	-	-	2,039,692
Repurchase Agreement	2,052,407	-	-	-	-	-	-	2,052,407
U.S. Government Agency	1,120,543	-	-	51,794	-	-	-	1,172,337
U.S. Treasury Bills, Notes, Bonds, and TIPS	1,160,733	439,863	930,577	910,240	-	-	-	3,441,413
Yankees:								
Yankee Corporate	323,794	-	15,618	103,299	-	-	-	442,711
Yankee Government	143,388	-	5,017	33,465	-	-	-	181,870
Domestic Equity Pool	-	-	-	-	-	1,443,549	-	1,443,549
International Equity Pools	-	-	-	-	-	683,073	-	683,073
Total Invested Assets	7,935,005	439,863	1,061,980	2,658,685	16,226	2,167,723	-	14,279,482
Pool related net assets (liabilities)	10,915	626	2,391	(7,793)	4	326	-	6,469
Net Invested Assets before earnings distribution to participants	7,945,920	440,489	1,064,371	2,650,892	16,230	2,168,049	-	14,285,951
Earnings payable to participants	(5,974)	-	-	-	-	-	-	(5,974)
Other pool ownership	(74,888)	20	11,782	63,086	-	-	-	-
Ownership under other fiduciary responsibility								
Alaska Retirement Management Board	(346,072)	-	-	-	-	-	-	(346,072)
Exxon Valdez Oil Spill Trustee Council	(3)	-	-	(60,077)	-	(136,986)	-	(197,066)
Alaska Mental Health Trust Authority	(3,936)	-	-	(11,981)	-	(23,235)	-	(39,152)
Total Commissioner's fiduciary responsibility	\$ 7,515,047	\$ 440,509	\$ 1,076,153	\$ 2,641,920	\$ 16,230	\$ 2,007,828	\$ -	\$ 13,697,687

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, 2016, the expected average life of individual fixed rate securities ranged from 1 day to 1 year and the expected average life of floating rate securities ranged from 12 days to 13.2 years.

**INVESTED ASSETS UNDER THE INVESTMENT AUTHORITY OF THE COMMISSIONER OF
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**Notes to Combined Schedules
June 30, 2016**

(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, 2016, the days to maturity of fixed rate securities ranged from 84 to 92 days.

Short-term Treasury 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, 2016, this pool held no securities or cash.

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, 2016 was 1.82 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, 2016 was 5.39 years.

At June 30, 2016, the effective duration (in years) by investment type was as follows:

	Intermediate-term Fixed Income Pool	Broad Market Fixed Income Pool
Corporate Bonds	2.66	8.64
Mortgage Backed	0.80	2.45
Municipal Bonds	-	15.14
Other Asset Backed	0.23	0.69
U.S. Government Agency	-	8.75
U.S. Treasury Bills, Notes, Bonds, and TIPS	1.90	5.86
Yankee Corporate	2.31	7.00
Yankee Government	1.31	6.88
Portfolio Effective Duration	1.86	5.51

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(5) DEPOSIT AND INVESTMENT RISK (Cont.)

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 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.

Short-term Liquidity and Short-term Treasury Pools' 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.

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.

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, 2016, the Tobacco Revenue Fixed Income Securities consisted of commercial paper rated A-1.

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(5) DEPOSIT AND INVESTMENT RISK (Cont.)

At June 30, 2016, the State's internally managed pools consisted of investments with credit quality ratings issued by nationally recognized statistical rating organizations as follows (using Standard and Poor's Corporation rating scale):

Investment Type	Rating	Short-term Fixed Income Pool	Short-term Liquidity Fixed Income Pool	Intermediate- term Fixed Income Pool	Broad Market Fixed Income Pool
Corporate Bonds	A	4.56 %	- %	2.44 %	9.66 %
Corporate Bonds	AA	2.00	-	0.96	3.21
Corporate Bonds	AAA	0.50	-	-	0.40
Corporate Bonds	BBB	-	-	1.28	8.95
Corporate Bonds	Not Rated	-	-	-	1.80
Deposits	Not Rated	0.15	-	-	-
Mortgage Backed	A	0.72	-	-	0.38
Mortgage Backed	AA	1.57	-	0.83	1.53
Mortgage Backed	AAA	3.14	-	0.40	0.93
Mortgage Backed	BBB	-	-	-	0.02
Mortgage Backed	Not Rated	2.55	-	1.40	26.84
Municipal Bonds	AA	-	-	-	0.61
Municipal Bonds	AAA	0.05	-	-	-
Other Asset Backed	A-1	1.26	-	-	-
Other Asset Backed	AA	0.64	-	-	0.11
Other Asset Backed	AAA	16.02	-	1.23	1.41
Other Asset Backed	Not Rated	6.27	-	1.74	1.63
Other Pool Ownership	Not Rated	-	-	1.09	2.32
Repurchase Agreement	AAA	25.58	-	-	-
Repurchase Agreement	Not Rated	0.25	-	-	-
U.S. Government Agency	AA	14.10	-	-	1.91
U.S. Treasury Bills, Notes, Bonds, and TIPS	Not Rated	14.62	99.86	86.49	33.54
Yankee Corporate	A	1.55	-	0.89	2.18
Yankee Corporate	AA	0.65	-	0.56	0.29
Yankee Corporate	AAA	1.88	-	-	0.30
Yankee Corporate	BBB	-	-	-	1.00
Yankee Corporate	Not Rated	-	-	-	0.04
Yankee Government	A	1.51	-	0.47	-
Yankee Government	AA	0.29	-	-	0.13
Yankee Government	AAA	-	-	-	0.19
Yankee Government	BBB	-	-	-	0.70
Yankee Government	Not Rated	-	-	-	0.21
No Credit Risk		0.14	0.14	0.22	(0.29)
		100.00 %	100.00 %	100.00 %	100.00 %

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 (The FDIC provides \$250,000 of coverage). In accordance with Treasury policy, they are required to retain collateral equal to 110% of uninsured deposits.

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June 30, 2016**

(5) DEPOSIT AND INVESTMENT RISK (Cont.)

Custodial Credit Risk – Deposits (Cont.)

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, 2016, the State had the following uncollateralized and uninsured deposits:

	Amount	
	<u>(in thousands)</u>	
International Equity Pool	\$	232

Concentration of Credit Risk

Treasury's policy with regard to concentration of credit risk is to prohibit the purchase of more than five percent of a pool's holdings in corporate bonds backed by any one company or affiliated group. At June 30, 2016, no pool had exposure to any one issuer greater than 5% of total 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 2016 and invested assets included the following holdings at June 30, 2016, for the funds invested in the International Equity Pool:

	<u>Policy</u>	<u>Actual</u>
Constitutional Budget Reserve Fund	2% -2% /+5%	2.15%
Higher Education Fund	24% +/- 7%	23.44%
Illinois Creek Mine Reclamation Fund	24% +/- 5%	23.39%
AIA Revenue Fund	2% -2% /+5%	1.78%
Power Cost Equalization Endowment Fund	24% +/- 5%	23.42%
Public School Trust Fund, Principal	19% +/- 5%	18.56%
Retiree Health Insurance Fund, Long-Term Care	13% +/- 4%	12.65%

At June 30, 2016, the funds invested in the International Equity Pool had exposure to foreign currency risk as follows (in thousands):

	<u>Deposits</u>	<u>Equity</u>
Australian Dollar	\$ -	\$ 4,031
Canadian Dollar	194	5,924
Danish Krone	-	1,840
Euro Currency	(50)	31,073
Japanese Yen	88	32,410
Norwegian Krone	-	2,231
Pound Sterling	-	34,706
Swedish Krona	-	5,345
Swiss Franc	-	6,285
Total	232	123,845
Other Fiduciary Responsibility	(78)	(41,430)
Total Commissioner Responsibility	\$ <u>154</u>	\$ <u>82,415</u>

**INVESTED ASSETS UNDER THE INVESTMENT AUTHORITY OF THE COMMISSIONER OF
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**Notes to Combined Schedules
June 30, 2016**

(6) FAIR VALUE MEASUREMENTS

Various inputs are used in valuing the investments held by the Commissioner. GAAP establishes a hierarchy of inputs used to value investments emphasizing observable inputs and minimizing unobservable inputs. These inputs are summarized as follows:

Level 1 – Quoted prices for identical assets in an active market

Level 2 – Inputs, other than quoted prices, that are observable for the asset, either directly or indirectly

Level 3 – Unobservable inputs. Unobservable inputs should only be used to the extent that observable inputs are not available for a particular asset.

The Commissioner categorizes fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Commissioner has the following recurring fair value measurements as of June 30, 2016 (in thousands):

Investment by fair value level	Total	Level 1	Level 2	Level 3
Cash Equivalents				
Commercial Paper	\$ 8,098	-	8,098	-
Deposits	42,056	42,056	-	-
Money Market	8,128	-	8,128	-
Repurchase Agreement	2,052,407	-	2,052,407	-
Short-term Investment Fund	6,400	-	6,400	-
Total Cash Equivalents	2,117,089	42,056	2,075,033	-
Debt Securities				
Corporate Bonds	1,263,816	-	1,263,816	-
Mortgage Backed	1,469,403	-	1,469,403	-
Municipal Bonds	20,259	-	20,259	-
Other Asset Backed	2,039,692	-	2,039,692	-
U.S. Government Agency	1,172,337	-	1,172,337	-
U.S. Treasury Bills, Notes, Bonds, and TIPS	3,441,413	-	3,441,413	-
Yankee Corporate	442,711	-	442,711	-
Yankee Government	181,870	-	181,870	-
Total Debt Securities	10,031,501	-	10,031,501	-
Equity				
Common Stock	127,033	127,033	-	-
Depository Receipts	6,612	6,612	-	-
Mutual Funds	1,997,247	1,997,247	-	-
Total Equities	2,130,892	2,130,892	-	-
Total investments by fair value level	14,279,482	2,172,948	12,106,534	-
Total investments measured at fair value	\$ 14,279,482			

Debt and equity securities classified as level 1 are valued using prices quoted in active markets for those securities. Debt securities classified as level 2 are valued using matrix pricing. Pricing is sourced from various sources.

(7) 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

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June 30, 2016

**(7) FOREIGN EXCHANGE, FOREIGN EXCHANGE CONTRACTS, OFF-BALANCE SHEET RISK,
AND DERIVATIVE EXPOSURE (Cont.)**

it enters into derivative instrument transactions with a counterparty, nor does the Commissioner have a policy or contingencies. The International Equity Pool's investments include the following income from derivative investments at June 30, 2016:

<u>Investment Derivatives</u>	<u>Changes in Fair Value</u>		<u>Fair Value at June 30, 2016</u>		
	<u>Classification</u>	<u>Amount</u>	<u>Classification</u>	<u>Amount</u>	<u>Notional</u>
FX Forwards	Investment Revenue	13,635	Long-Term Instruments	-	-

The International Equity Pools include foreign currency forward contracts to buy and sell specified amounts of foreign currencies at specified rates on specified future. 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, 2016, the International Equity Pools had no outstanding contracts.