



STATE OF ALASKA  
DEPARTMENT OF REVENUE  
TREASURY DIVISION

INVESTED ASSETS UNDER THE INVESTMENT AUTHORITY OF THE COMMISSIONER OF REVENUE

JUNE 30, 2022

(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, 2022

Table of Contents

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



KPMG LLP  
Suite 600  
701 West Eighth Avenue  
Anchorage, AK 99501

## **Independent Auditors' Report**

State of Alaska, Department of Revenue  
Treasury Division:

### **Report on the Audit of the Schedule**

#### *Opinion*

We have audited the total invested assets column in the accompanying combined schedule of invested assets and the total income (loss) column in the combined schedule of investment income for invested assets under the investment authority of the Commissioner of Revenue as of and for the year ended June 30, 2022, and the related notes to the schedules (collectively referred to as "the Schedules").

In our opinion, the Schedules referred to above presents fairly, in all material respects, the total invested assets and the total investment income for invested assets under the investment authority of the Commissioner of Revenue as of and for the year ended June 30, 2022, in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Schedules section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *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 Annual Comprehensive Financial Report available from the Division of Finance in the Department of Administration.

#### *Responsibilities of Management for the Schedules*

Management is responsible for the preparation and fair presentation of the schedules in accordance with U.S. generally accepted accounting principles and for 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' Responsibilities for the Audit of the Schedules*

Our objectives are to obtain reasonable assurance about whether the schedules as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of



internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the schedules.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the schedules, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the schedules.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the schedules.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

KPMG LLP

Anchorage, Alaska  
September 30, 2022

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, 2022  
(Expressed in thousands)

	GENERAL FUND and GeFONSI	CONSTITUTIONAL BUDGET RESERVE FUND MAIN	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  June 30, 2022
									MAJOR MEDICAL	LONG-TERM CARE		
INVESTMENTS (at Fair Value) (Notes 4 and 5)												
Short-term Fixed Income Pool	\$ 4,585,501	914,133	10,317	3,316	68,521	28,222	133,575	9,928	19,411	12,807	18	5,785,749
Non-interest Bearing Deposits	12,633	-	-	-	-	-	-	-	-	-	-	12,633
Intermediate-term Fixed Income Pool	-	-	-	-	-	-	-	-	-	-	-	-
Broad Market Fixed Income Pool	706,206	-	228,415	-	-	-	22,461	440,684	-	292,410	409	1,690,585
Domestic Equity Pool	162,831	-	261,953	-	-	-	-	289,311	-	207,625	469	922,189
International Equity Pools	104,337	-	176,384	-	-	-	-	189,935	-	138,785	316	609,757
Real Assets	16,910	-	34,873	-	-	-	-	37,552	-	26,132	63	115,530
Total Investments	5,588,418	914,133	711,942	3,316	68,521	28,222	156,036	967,410	19,411	677,759	1,275	9,136,443
Receivables (Payables)												
Income Receivable (Payable)	1,328	367	5	1	24	10	47	6	7	6	-	1,801
Total Receivables (Payables)	1,328	367	5	1	24	10	47	6	7	6	-	1,801
Net Invested Assets	\$ 5,589,746	914,500	711,947	3,317	68,545	28,232	156,083	967,416	19,418	677,765	1,275	9,138,244

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, 2022  
(Expressed in thousands)

	GENERAL FUND and GeFONSI	CONSTITUTIONAL BUDGET RESERVE FUND MAIN	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) YEAR ENDED June 30, 2022
									MAJOR MEDICAL	LONG-TERM CARE		
Investment Income (Loss)												
Short-term Fixed Income Pool	\$ 3,315	1,243	11	4	87	34	148	12	23	14	-	4,891
Intermediate-term Fixed Income Pool	-	-	-	-	-	-	-	-	-	-	-	-
Broad Market Fixed Income Pool	(71,580)	-	(26,596)	-	-	-	(2,573)	(52,024)	-	(34,078)	(48)	(186,899)
Domestic Equity Pool	(25,235)	-	(39,829)	-	-	-	-	(44,456)	-	(32,103)	(72)	(141,695)
International Equity Pool	(25,485)	-	(41,693)	-	-	-	-	(45,275)	-	(32,680)	(74)	(145,207)
Real Assets	(934)	-	(1,992)	-	-	-	-	(2,099)	-	(1,556)	(4)	(6,585)
Total Investment Income	(119,919)	1,243	(110,099)	4	87	34	(2,425)	(143,842)	23	(100,403)	(198)	(475,495)
Net Investment Income	\$ (119,919)	1,243	(110,099)	4	87	34	(2,425)	(143,842)	23	(100,403)	(198)	(475,495)

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

## Notes to Combined Schedules

June 30, 2022

### **(1) THE ACCOUNTING ENTITY**

The accompanying combined schedules present the financial position and changes therein, as of and for the year ended June 30, 2022, 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 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 Annual Comprehensive 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 for which the Commissioner has fiduciary responsibility. Actual investing is performed by investment officers in Treasury or by contracted external investment managers. Specifically, the Tactical Bond, Domestic Equity and the International Equity Pools are managed externally. Treasury manages the Short-term Fixed Income Pool, Short Term Treasury Pool, Real Estate Investment Trust (REIT) Pool, and Broad Market Fixed Income Pool in addition to acting as oversight manager for all externally managed investments.

For detailed information on the funds under the fiduciary authority of the Commissioner of Revenue, please see the Treasury's website at: <https://treasury.dor.alaska.gov/home/investments>.

### **(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.

### **(3) NON-INTEREST BEARING DEPOSITS**

At June 30, 2022, non-interest bearing deposits totaled \$12.6 million, comprised of various State agency cash held pending redemption of State warrants and compensating balances.

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

## Notes to Combined Schedules

June 30, 2022

### (4) FAIR VALUE MEASUREMENTS

Various inputs are used in valuing the investments held by the Commissioner. Generally accepted accounting principles (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 or quoted in less active markets

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, 2022 (in thousands):

Investment by fair value level	Total	Level 1	Level 2	Level 3
Cash Equivalents				
Deposits	\$ 59,887	59,887	-	-
Money Market	3	-	3	-
Repurchase Agreement	766,300	-	766,300	-
Total Cash Equivalents	826,190	59,887	766,303	-
Debt Securities				
Commingled Debt Funds	214	214	-	-
Corporate Bonds	548,873	-	548,873	-
Mortgage Backed	565,936	-	565,936	-
Municipal Bonds	13,932	-	13,932	-
Other Asset Backed	1,856,895	-	1,856,895	-
U.S. Government Agency	55,373	-	55,373	-
U.S. Treasury Bills, Notes, and Bonds	4,081,475	-	4,081,475	-
Yankee Corporate Bonds	290,324	-	290,324	-
Yankee Government Bonds	46,104	-	46,104	-
Total Debt Securities	7,459,126	214	7,458,912	-
Equity				
Commingled Equity Funds	1,877,701	1,877,701	-	-
Real Estate Investment Trust	140,429	140,429	-	-
Total Equity	2,018,130	2,018,130	-	-
Total investments by fair value level	10,303,446	2,078,231	8,225,215	-
Total investments measured at fair value	10,303,446			
Other Fiduciary Responsibility	(807,394)			
Net Receivables / (Payables)	(359,609)			
Total Invested Assets	\$ 9,136,443			

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



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

## Notes to Combined Schedules

June 30, 2022

### (5) DEPOSIT AND INVESTMENT RISK

#### Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. At June 30, 2022 all fixed income securities met the Treasury's compliance metrics related to effective duration.

#### **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.

#### **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 considers 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.

Broad Market Fixed Income Pool -  $\pm 20\%$  of the Barclays Capital U.S. Aggregate Bond Index.

At June 30, 2022, the Commissioner's effective duration by investment type was as follows:

	<b>Effective Duration</b> <b>(in years)</b>
Corporate Bonds	5.20
Mortgage Backed	4.05
Municipal Bonds	7.03
Other Asset Backed	0.27
U.S. Government Agency	3.53
U.S. Treasury Bills, Notes, and Bonds	0.19
Yankee Corporate Bonds	1.41
Yankee Government Bonds	3.60
	<b>0.95</b>

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

## Notes to Combined Schedules

June 30, 2022

### Credit Risk

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

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 Treasury 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 Fund.

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. The Broad Market Fixed Income Pool can hold within its portfolio up to 5% high-yield bonds. 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.

At June 30, 2022, 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, in thousands):

	<b>Short-Term Fixed Income</b>	<b>Broad Market Fixed Income</b>
AAA	\$ 2,009,519	70,686
AA	79,785	61,843
A	249,119	221,276
A-1	5,316	-
BBB	16,985	208,342
BB	-	7,103
U.S. Government Agency	-	55,373
U.S. Treasury Bills, Notes, and Bonds	3,909,936	171,540
Not Rated	638,549	779,045
No Credit Risk	(567,266)	273,778
Other Fiduciary	(556,194)	(158,401)
	<u>\$ 5,785,749</u>	<u>1,690,585</u>

### 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 100% of uninsured deposits.

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

## Notes to Combined Schedules

June 30, 2022

At June 30, 2022, the State had no uncollateralized and uninsured deposits.

### **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, 2022, 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 2022 and invested assets included the following holdings at June 30, 2022, for the funds invested in the International Equity Pool:

<b>Fund Name</b>	<b>Policy</b>	<b>Actual</b>
Education Endowment Fund	25% +/- 5%	24.78%
GeFonsi II	2% -2%/+5%	1.32%
Higher Education Fund	25% +/- 5%	24.76%
Illinois Creek Mine Reclamation Fund	25% +/- 5%	24.78%
Power Cost Equalization Endowment Fund	20% +/- 5%	19.63%
Public School Trust Fund	25% +/- 5%	24.77%
Retiree Health Insurance Fund, Long-Term Care	21% +/- 5%	20.48%

At June 30, 2022, the funds invested in the International Equity Pool had no exposure to foreign currency risk.

### **(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 on contingencies. There was no income from derivative investments as of June 30, 2022.

The International Equity Pool includes 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, 2022, the International Equity Pool had no outstanding contracts.