

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

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

June 30, 2008

(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, 2008

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Independent Auditors' Report

State of Alaska, Department of Revenue
Division of Treasury:

We have audited the accompanying combined schedules of invested assets under the investment authority of the Commissioner of Revenue as of June 30, 2008 and of investment income and changes in invested assets for the year then ended (Schedules). These Schedules are the responsibility of the Division of Treasury's management. Our responsibility is to express an opinion on these Schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying Schedules were prepared to present the invested assets under the Authority of the Commissioner of Revenue and changes therein and is not intended to be a complete presentation of the assets and liabilities of the Department of Revenue.

In our opinion, the Schedules referred to above present fairly, in all material respects, the invested assets under the investment authority of the Commissioner of Revenue as of June 30, 2008, and the investment income and changes in invested assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

November 7, 2008

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, 2008 (with memorandum totals for June 30, 2007)
(Expressed in thousands)

	GENERAL FUND and GeFONSI	CONSTITUTIONAL BUDGET RESERVE FUND		PUBLIC SCHOOL TRUST FUND		ALASKA CHILDREN'S TRUST		INVESTMENT LOSS TRUST FUND	GENERAL OBLIGATION BOND FUND	INTERNATIONAL AIRPORTS FUND	INTERNATIONAL AIRPORTS CONSTRUCTION FUND	POWER COST EQUALIZATION ENDOWMENT FUND	RETIREE HEALTH INSURANCE FUND		MINE RECLAMATION FUND	ALASKA SPORT FISH CONSTRUCTION FUND	TOTAL INVESTED ASSETS (MEMORANDUM ONLY)		
		MAIN	SUBACCOUNT	PRINCIPAL	INCOME	PRINCIPAL	INCOME						MAJOR MEDICAL	LONG TERM CARE			June 30, 2008	June 30, 2007	
INVESTMENTS (at Fair Value) (Notes 6 and 7)																			
Cash and Cash Equivalents																			
Short-term Fixed Income Pool (Note 3)	\$ 3,044,470	46,878	2	6,759	13,994	2	686	3,458	35,866	7,573	250,144	2	8,447	2,762	730	63,249	3,485,023	2,687,402	
Non-interest Bearing Deposits (Note 5)	23,410	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	23,410	31,029	
Securities Lending Collateral (Note 7)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	888,467	
Total Cash and Cash Equivalents	3,067,880	46,878	2	6,759	13,994	2	686	3,458	35,866	7,573	250,144	2	8,447	2,762	730	63,249	3,508,433	3,606,898	
Marketable Debt Securities																			
Pooled Investments (Note 3)																			
Intermediate-term Fixed Income Pool	4,589,618	860,026	-	-	-	-	-	-	-	129,842	-	-	-	-	-	-	5,579,486	4,066,638	
Broad Market Fixed Income Pool	-	227,044	1,654,066	195,868	-	1,828	-	-	-	-	-	160,824	-	54,839	-	-	2,294,469	1,013,862	
Non-pooled Investments																			
Tobacco Revenue Fixed Income	135,164	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	135,164	178,182	
Total Marketable Debt Securities	4,724,782	1,087,070	1,654,066	195,868	-	1,828	-	-	-	129,842	-	160,824	-	54,839	-	-	8,009,119	5,258,682	
Equity Securities																			
Domestic Equity (Note 4)	-	-	1,916,260	147,328	-	6,238	-	-	-	-	-	137,785	-	76,676	161	-	2,284,448	738,157	
International Equity Pool (Note 3)	-	-	896,851	-	-	2,633	-	-	-	-	-	70,095	-	31,376	-	-	1,000,955	231,012	
Total Equity Securities	-	-	2,813,111	147,328	-	8,871	-	-	-	-	-	207,880	-	108,052	161	-	3,285,403	969,169	
Total Investments	7,792,662	1,133,948	4,467,179	349,955	13,994	10,701	686	3,458	35,866	137,415	250,144	368,706	8,447	165,653	891	63,249	14,802,954	9,834,749	
Receivables (Payables)																			
Income Receivable	5,336	105	-	723	31	36	2	8	86	18	618	-	20	7	2	166	7,158	12,495	
Transferred from (to) Other Funds	-	-	-	(1,611)	1,611	(48)	48	-	-	-	-	-	-	-	-	-	-	-	
Securities Lending Collateral (Note 7)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(888,467)	
Total Receivables (Payables)	5,336	105	-	(888)	1,642	(12)	50	8	86	18	618	-	20	7	2	166	7,158	(875,972)	
Net Invested Assets	\$ 7,797,998	1,134,053	4,467,179	349,067	15,636	10,689	736	3,466	35,952	137,433	250,762	368,706	8,467	165,660	893	63,415	14,810,112	8,958,777	

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

COMBINED SCHEDULE OF INVESTMENT INCOME AND CHANGES IN INVESTED ASSETS
For the year ended June 30, 2008 (with memorandum totals for the year ended June 30, 2007)
(Expressed in thousands)

	GENERAL FUND and G&FONSI	CONSTITUTIONAL BUDGET RESERVE FUND		PUBLIC SCHOOL TRUST FUND		ALASKA CHILDREN'S TRUST		INVESTMENT LOSS TRUST FUND	GENERAL OBLIGATION BOND FUND	INTERNATIONAL AIRPORTS FUND	INTERNATIONAL AIRPORTS CONSTRUCTION FUND	POWER COST EQUALIZATION ENDOWMENT FUND	RETIREE HEALTH INSURANCE FUND		MINE RECLAMATION FUND	ALASKA SPORT FISH CONSTRUCTION FUND	TOTAL INVESTED ASSETS (MEMORANDUM ONLY)		
		MAIN	SUBACCOUNT	PRINCIPAL	INCOME	PRINCIPAL	INCOME						MAJOR MEDICAL	LONG TERM CARE			YEAR ENDED 6/30/2008	YEAR ENDED 6/30/2007	
Investment Income																			
Securities Lending Income	\$ 19,124	11,240	659	297	-	12	-	-	-	831	-	484	18	190	-	-	-	32,855	38,759
Securities Lending expense	(16,981)	(10,002)	(582)	(270)	-	(11)	-	-	-	(744)	-	(428)	(17)	(167)	-	-	-	(29,202)	(38,196)
Net Securities Lending income	2,143	1,238	77	27	-	1	-	-	-	87	-	56	1	23	-	-	-	3,653	563
Short-term Fixed Income Pool	55,708	5,137	-	83	516	1	19	113	1,792	250	9,517	-	2,741	73	22	2,009	77,981	116,396	
Intermediate-term Fixed Income Pool	200,387	108,682	-	-	-	-	-	-	-	9,233	-	-	-	-	-	-	-	318,302	174,427
Broad Market Fixed Income Pool	-	25,302	10,544	11,470	-	118	-	-	-	-	-	9,250	670	3,212	-	-	-	60,566	57,031
Domestic Equity	-	-	(141,187)	(21,462)	-	(908)	-	-	-	-	-	(21,097)	(736)	(10,387)	(23)	-	-	(195,800)	116,831
International Equity Pool	-	-	(69,911)	-	-	(262)	-	-	-	-	-	(6,960)	(287)	(3,047)	-	-	-	(80,467)	40,994
Tobacco Revenue Fixed Income	7,550	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	7,550	8,336
Other Fixed Income	9,634	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	9,634	6,719
Total Investment Income	275,422	140,359	(200,477)	(9,882)	516	(1,050)	19	113	1,792	9,570	9,517	(18,751)	2,389	(10,126)	(1)	2,009	201,419	521,297	
Transfer from (to) Other Funds	-	-	-	(14,094)	14,094	(348)	348	-	-	-	-	-	-	-	-	-	-	-	-
Net Investment Income	275,422	140,359	(200,477)	(23,976)	14,610	(1,398)	367	113	1,792	9,570	9,517	(18,751)	2,389	(10,126)	(1)	2,009	201,419	521,297	
Total Invested Assets, Beginning of Period	4,627,128	1,980,659	567,656	357,252	13,272	12,189	602	6,020	88,649	140,545	328,301	400,250	207,482	162,861	899	65,013	8,958,777	6,658,392	
Net Contributions (Withdrawals)	2,895,448	(986,965)	4,100,000	15,791	(12,246)	(102)	(233)	(2,667)	(54,489)	(12,682)	(87,056)	(12,793)	(201,404)	12,925	(5)	(3,607)	5,649,915	1,779,088	
Total Invested Assets, End of Period	\$ 7,797,998	1,134,053	4,467,179	349,067	15,636	10,689	736	3,466	35,952	137,433	250,762	368,706	8,467	165,660	893	63,415	14,810,112	8,958,777	

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

Notes To Combined Schedules

June 30, 2008

(1) THE ACCOUNTING ENTITY

The accompanying combined Schedules present the financial position and changes therein, as of and for the year ended June 30, 2008, for the invested assets of funds under the investment authority of the Commissioner of Revenue (Commissioner). The Commissioner is responsible for all deposits and investments of the State of Alaska (State) except where the Legislature has delegated that responsibility to other individuals or boards. As the fiduciary, the Commissioner has the statutory authority to invest the assets under the prudent investor rule. Alaska Statutes 37.10.070 and 37.10.071 provide that investments shall be made with the judgment and care under circumstances then prevailing that an institutional investor of ordinary professional prudence, discretion and intelligence exercises in managing large investment portfolios.

These Schedules represent only the investment activity of the funds described below, and not the complete financial activity of the funds or the State as a whole. A complete description of the investment policy for each fund's invested assets is included in the Department of Revenue, Treasury Division, Policies and Procedures Manual. The complete financial activity of the funds is shown in the Comprehensive Annual Financial Report available from the Division of Finance in the Department of Administration.

The Department of Revenue, Treasury Division (Treasury) has created a pooled environment by which it manages the investments the Commissioner has fiduciary responsibility for. Actual investing is performed by investment officers in Treasury or by contracted external investment managers. Specifically, the Securities Lending Collateral, Tobacco Revenue Fixed Income, Domestic Equity and the International Equity Pool are managed externally. Treasury manages the Short-term Fixed Income Pool, Non-Interest Bearing Deposits, Intermediate-term Fixed Income Pool, and the Broad Market Fixed Income Pool, in addition to acting as oversight manager for all externally managed investments.

General Fund and GeFONSI

The General Fund is the State's operating fund. Most of the assets of the General Fund are commingled with other funds for investment purposes in a pool named the General Fund and Other Non-segregated Investments (GeFONSI). GeFONSI consists of investments in the Short-term Fixed Income Pool and the Intermediate-term Fixed Income Pool. GeFONSI investment income is distributed to pool participants if prescribed by statute or if appropriated by the state legislature. The Tobacco Revenue Fixed Income assets represent the investment of proceeds received from the sale of anticipated Tobacco Settlement Revenues and investment earnings therein. The proceeds and earnings are available for projects prescribed by statute.

Constitutional Budget Reserve Fund

The Constitutional Budget Reserve Fund (CBRF) was established November 6, 1990 when voters approved adding Section 17 to Article IX of the Constitution of the State. All money received by the State after July 1, 1990, through resolution of disputes about the amount of certain mineral-related income, must be deposited in the CBRF. Such deposits may originate from mineral lease bonuses, rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments or bonuses, or taxes imposed on mineral income, production or property. The Legislature may, under certain conditions, appropriate funds from the CBRF to fund the operations of state government. The twenty-first Legislature created a subaccount within the CBRF effective July 1, 2000. The subaccount is currently comprised of appropriations by the Legislature. The subaccount is managed in accordance with Alaska Statute 37.10.430(c). Investment earnings of the subaccount are retained therein.

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

Notes To Combined Schedules

June 30, 2008

(1) THE ACCOUNTING ENTITY (Cont.)

Public School Trust Fund

The Public School Trust Fund was established by the Alaska State Legislature in Alaska Statute 37.14.110 – 37.14.170. The source of funding for the investment portfolio originally consisted of income from the sale or lease of land granted by an Act of Congress on March 15, 1915, but is now composed primarily of one-half of one percent of State receipts from the management of all State lands as prescribed by AS 37.14.150. The principal of the fund, and all capital gains/losses thereon, are perpetually retained in the fund (AS 37.14.110) and the remaining net income of the fund must be used for the State public school program (AS 37.14.140).

Alaska Children's Trust

The Alaska Children's Trust was established by the Alaska State Legislature in Alaska Statute 37.14.200 – 37.14.270. The purpose of the trust is to provide grants to community-based programs and projects that aid in the prevention of child abuse and neglect. The principal of the trust and any capital gains or losses realized on the principal are retained perpetually in the trust for investment. However, up to \$150,000 per year may be appropriated from the principal of the trust for the administrative expenses of the Alaska Children's Trust Board. The remaining income of the trust may be used for grants for the prevention of child abuse and neglect, certain fund raising activities, and the costs of establishing and maintaining the trust.

Investment Loss Trust Fund

The Investment Loss Trust Fund, codified under Alaska Statute 37.14.300, was established into law on June 14, 1991. The purpose of the fund is to provide financial security to participants in the State supplemental annuity plan established under Alaska Statute 39.30.150 – 39.30.180 and other annuity holders who may be harmed by the possible default on guaranteed investment and annuity contracts of Executive Life Insurance Company of California (Executive Life). The fund originally consisted of moneys appropriated to it by the Alaska Legislature. At June 30, 2004, the fund consisted of final settlements, part of which is available to repay State moneys which originally capitalized the fund, and the remaining held in escrow for legal fees and for annuitants with balances backed by investments of the successor company to Executive Life.

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

Notes To Combined Schedules

June 30, 2008

(1) THE ACCOUNTING ENTITY (Cont.)

General Obligation Bond Fund

The General Obligation Bond Fund holds proceeds from the sale of bonds issued pursuant to Article IX, Section 8 of the Alaska Constitution and Alaska Statute 37.15, the State Bonding Act. On November 5, 2002, two general obligation bond propositions were passed by a majority of the qualified voters in the State, the Transportation Bond Act (Chapter 114, SLA 2002) and the Education Bond Act (Chapter 2 SLA 2002). These bonds were issued to finance educational and museum facilities and transportation projects.

At June 30, 2008, the invested asset balances in the various bond sub-funds were as follows (in thousands):

Series 2003A, Educational and Museum Facility Design, Construction and Major Maintenance	\$ 11,173
Series 2003A, Transportation Projects	12,457
Series 2003B, Accelerated Alaska Transportation Projects	<u>12,322</u>
Total General Obligation Bond Fund	<u>\$ 35,952</u>

International Airports Funds

The International Airports Funds includes a revenue fund, which includes a repair and replacement reserve account and a development account, and a construction fund. The revenue fund, codified under Alaska Statute 37.15.430, was established to facilitate the construction and maintenance of the Anchorage and Fairbanks International Airports. The revenue fund receives all revenues, fees, charges and rentals derived by the State from the ownership, lease, use and operation of the two airports. The repair and replacement reserve account is used for the costs of extraordinary repairs, renewals and replacement of airport facilities. The development account is used for development projects approved by the legislature.

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, 2008, the invested asset balances in the various construction sub-funds were as follows (in thousands):

Series 1999A Alternative Minimum Tax	\$ 2,661
Series 1999B Non-Alternative Minimum Tax	2,927
Series 1999C Alternative Minimum Tax	181
Series 2002A Alternative Minimum Tax	2,523
Series 2002B Non-Alternative Minimum Tax	44,068
Series 2002 Reserve	14,631
Series 2003A Alternative Minimum Tax	4,293
Series 2003B Non-Alternative Minimum Tax	9,131
Series 2003 Reserve	2,349
Series 2006 Alternative Minimum Tax	61,214
Series 2006 Non-Alternative Minimum Tax	53,126
Series 2006 Variable Rate	<u>53,658</u>
Total International Airports Construction Fund	<u>\$ 250,762</u>

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

Notes To Combined Schedules

June 30, 2008

(1) THE ACCOUNTING ENTITY (Cont.)

Power Cost Equalization Endowment Fund

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

Retiree Health Insurance Fund

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

Mine Reclamation Trust Fund

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

Alaska Sport Fish Construction Fund

The Alaska Sport Fish Construction Fund holds proceeds from the sale of bonds issued pursuant to Article IX, Section 8 of the Alaska Constitution and Alaska Statute 37.15, the State Bonding Act. These bonds were issued to finance the construction and renovation of sport fishing facilities under AS 16.05.092.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The combined schedules are prepared using the accrual basis of accounting for investment income. Assets are reported at fair value in accordance with Governmental Accounting Standards Board (GASB) Statement No. 31. 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.

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

Notes To Combined Schedules

June 30, 2008

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

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.

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

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

Securities expressed in terms of foreign currencies are translated into U.S. dollars at the prevailing exchange rates. Forward currency contracts are valued at the mid-point of representative quoted bid and asked prices.

Income Allocation

Income in the fixed income and international equity pools are allocated to pool participants daily on a pro rata basis.

Domestic Equity income is credited and allocated in accordance with the participants pro rata share of the fund when received.

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

Combined Schedule Presentation

Total columns in the combined schedules are captioned "memorandum only" to indicate they are presented only to facilitate financial analysis. Interfund eliminations have not been made in the aggregation of this data. The financial information for the year ended June 30, 2007, is presented for comparative purposes.

(2) POOLED INVESTMENTS

Short-term Fixed Income Pool

Some funds participate in the State's internally managed Short-term Fixed Income Pool which was established March 15, 1993, with a start up and maintained share price of \$1. Treasury staff determine 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 Fixed Income and Broad Market Fixed Income Pools and a number of other funds, some of which are not under the fiduciary responsibility of the Commissioner.

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

Notes To Combined Schedules

June 30, 2008

(2) POOLED INVESTMENTS (Cont.)

Intermediate-term Fixed Income Pool

Some funds participate in the State's internally managed Intermediate-term Fixed Income Pool which was established July 1, 1994, with a start up share price of \$1,000. The share price at June 30, 2008 was \$2,126. Treasury staff determine 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 which was established July 1, 1994, with a start up share price of \$1,000. The share price at June 30, 2008, was \$2,411. Treasury staff determine 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.

International Equity Pool

Some funds participate in the State's externally managed International Equity Pool which was established in April 2000 with a start up share price of \$1,000. The share price at June 30, 2008, was \$1,344. The external manager independently determines the allocation between permissible securities. The pool has a time horizon that is longer than any of the fixed income investment pools, limited liquidity, long term inflation protection and a high risk tolerance. The net asset value per share on any given valuation date is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Ownership in the pool is based on the number of shares held by each participant. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. Not all participants in the pool are funds under the fiduciary responsibility of the Commissioner.

(3) DOMESTIC AND INTERNATIONAL EQUITY TRUST FUNDS

Some funds participate in the State's externally managed Domestic and International Equity funds. The participants in these accounts hold shares in the State Street Global Advisors (SSgA) Russell 3000 and SSGA Morgan Stanley Capital International (MSCI) Europe, Australasia and Far East (EAFE), Index Common Trust Funds (Trusts), passively managed commingled index funds. The Trusts includes other, non-State institutional investors. The investment objective of the Trusts is to replicate, as closely as possible, the return of the Russell 3000 Stock Index and the MSCI EAFE Stock Index and thus are comprised of securities

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

Notes To Combined Schedules

June 30, 2008

included in those indices. The net asset value per share on any given valuation date is determined by dividing the total fair value of the net assets of the common trust by the number of shares outstanding on the valuation date. Ownership in the common trust is based on the number of shares held by each participant. Contributions to and withdrawals from the common trusts are based on the beginning of the day net asset value per share on the day of the transaction.

(4) NON-INVESTMENT BEARING DEPOSITS

At June 30, 2008, non-interest bearing deposits totaling \$23.4 million was comprised of various State agency cash held pending redemption of State warrants and compensating balances.

(5) DEPOSIT AND INVESTMENT RISK

At June 30, 2008, the funds' had the following investments:

Investment Type	Fair Value (in thousands)					Total
	Short-term Fixed Income Pool	Intermediate- term Fixed Income Pool	Broad Market Fixed Income Pool	Tobacco Revenue Fixed Income	Other	
Deposits	\$ -	-	-	-	23,410	\$ 23,410
Overnight Sweep Account (LMCS)	8,899	-	-	-	-	8,899
Short-term Investment Fund	-	-	-	-	6,038	6,038
Money Market	-	-	-	135,164	-	135,164
Commercial Paper	284,755	-	-	-	-	284,755
U.S. Treasury Notes	-	2,903,424	179,883	-	-	3,083,307
U.S. Treasury Bonds	-	-	72,859	-	-	72,859
U.S. Government Agency	1,900,545	702,264	37,559	-	-	2,640,368
Mortgage-backed	152,694	723,371	1,341,176	-	-	2,217,241
Municipal Bonds	-	-	263	-	-	263
Mutual Fund	-	-	-	-	24,330	24,330
Other Asset-backed	885,350	191,145	122,160	-	-	1,198,655
Corporate Bonds	838,019	430,377	509,004	-	-	1,777,400
Yankees:						
Government	-	52,033	5,646	-	-	57,679
Corporate	251,261	150,275	63,029	-	-	464,565
Domestic Equity	-	-	-	-	2,444,708	2,444,708
International Equity	-	-	-	-	1,023,262	1,023,262
Total Invested Assets	4,321,523	5,152,889	2,331,579	135,164	3,521,748	15,462,903
Pool related net assets (liabilities)	5,967	31,315	(151,132)	-	3,117	(110,733)
Net Invested Assets before earnings distribution to participants	4,327,490	5,184,204	2,180,447	135,164	3,524,865	15,352,170
Earnings payable to participants	(8,316)	-	-	-	-	(8,316)
Other pool ownership	(591,887)	395,282	196,605	-	-	-
Ownership under other fiduciary responsibility	(242,264)	-	(82,583)	-	(216,053)	(540,900)
Total Commissioner's fiduciary responsibility	\$ 3,485,023	5,579,486	2,294,469	135,164	3,308,812	\$ 14,802,954

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Notes To Combined Schedules

June 30, 2008

(5) DEPOSIT AND INVESTMENT RISK (Cont.)

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 fourteen months in maturity or fourteen months expected average life. Floating rate securities are limited to three years in maturity or three years expected average life. Treasury utilizes the actual maturity date for commercial paper and twelve-month prepay speeds for other securities. At June 30, 2008, the expected average life of fixed income securities ranged from eight days to less than three months.

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.

Intermediate and Broad Market Fixed Income Pools

Through its investment policy, Treasury manages its exposure to fair value losses arising from increasing interest rates by limiting the effective duration of its other fixed income pool portfolios to the following:

Intermediate-term Fixed Income Pool - $\pm 20\%$ of the Merrill Lynch 1-5 year Government Bond Index. The effective duration for the Merrill Lynch 1-5 year Government Bond Index at June 30, 2008, was 2.29 years.

Broad Market Fixed Income Pool - $\pm 20\%$ of the Lehman Brothers Aggregate Bond Index. The effective duration for the Lehman Brothers Aggregate Bond Index at June 30, 2008, was 4.68 years.

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June 30, 2008

(5) DEPOSIT AND INVESTMENT RISK (Cont.)

At June 30, 2008, the effective duration by investment type was as follows:

	<u>Effective Duration (in years)</u>	
	<u>Intermediate-term Fixed Income Pool</u>	<u>Broad Market Fixed Income Pool</u>
U.S. Treasury Notes	2.71	7.24
U.S. Treasury Bonds	-	13.48
U.S. Government Agency	2.46	4.85
Municipal Bonds	-	10.96
Mortgage-backed	2.18	4.37
Other Asset-backed	0.65	2.58
Corporate Bonds	2.38	4.91
Yankees		
Government	3.56	11.93
Corporate	2.52	5.48
Portfolio Effective Duration	2.32	4.57

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:

With the exception of the sweep account, Short-term Fixed Income Pool investments are limited to instruments with a long-term credit rating of at least A3 or equivalent and instruments with a short-term credit rating of at least P-1 or equivalent. Asset-backed and non-agency mortgage securities that are not rated by either Standard & Poor's or Moody's may be purchased if they have an AAA rating by two of the following: Standard & Poor's, Moody's or Fitch. Unexpected daily cash surpluses that arise in this pool are invested overnight in the custodian's repurchase agreement sweep account. Treasury does not have a policy to limit credit risk associated with the sweep account.

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 that are not rated by either Standard & Poor's or Moody's may be purchased if they have a AAA rating by two of the following: Standard & Poor's, Moody's, or Fitch.

SSgA Russell 3000 and SSgA MSCI EAFE Index Common Trust Funds (Trusts), passively managed commingled index funds, may lend assets or transfer securities to broker agents or other entities for collateral in

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June 30, 2008

(5) DEPOSIT AND INVESTMENT RISK (Cont.)

Credit Risk (Cont.)

the form of cash or securities and simultaneously agree to return the collateral for the same securities in the future. The credit risk associated with the lending transactions is that an issuer or other counterparty to an investment does not fulfill its obligations and a loss results from counterparty failure or default on a loaned security.

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, 2008, the State's internally managed Pools consisted of investments with credit quality ratings issued by nationally recognized statistical rating organizations as follows (using Standard and Poor's Corporation rating scale):

<u>Investment Type</u>	<u>Rating</u>	<u>Short-term Fixed Income Pool</u>	<u>Intermediate Term Fixed Income Pool</u>	<u>Broad Market Fixed Income Pool</u>
Commercial Paper	Not Rated	6.80 %	-	-
U. S. Treasury Notes	AAA	-	52.06	7.57
U. S. Treasury Bonds		-	-	3.07
U.S. Government Agency	AAA	44.00	12.55	1.33
U.S. Government Agency	Not Rated	-	0.03	0.25
Municipal Bonds	AA	-	-	0.01
Mortgage-backed	AAA	2.99	9.41	45.66
Mortgage-backed	AA	0.20	-	-
Mortgage-backed	A	0.12	-	-
Mortgage-backed	BBB	-	0.02	-
Mortgage-backed	Not Rated	0.24	3.53	10.76
Other Asset-backed	AAA	16.17	2.03	2.88
Other Asset-backed	AA	0.63	0.08	0.32
Other Asset-backed	A	2.53	1.12	1.12
Other Asset-backed	BBB	0.24	0.09	0.34
Other Asset-backed	BB	0.92	0.11	0.48
Corporate Bonds	AAA	2.01	1.09	1.88
Corporate Bonds	AA	12.20	2.58	4.97
Corporate Bonds	A	4.10	1.86	8.83
Corporate Bonds	BBB	-	1.39	4.70
Corporate Bonds	Not Rated	1.09	0.79	1.03
Yankees:				
Government	AA	-	0.93	-
Government	BBB	-	-	0.15
Government	Not Rated	-	-	0.09
Corporate	AAA	-	0.94	-
Corporate	AA	3.81	1.06	0.61
Corporate	A	1.26	0.09	1.04
Corporate	BBB	-	0.39	0.78
Corporate	Not Rated	0.74	0.20	0.22
No Credit Exposure		(0.05)	7.65	1.91
		<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, 2008

(5) DEPOSIT AND INVESTMENT RISK (Cont.)

Custodial Credit Risk – Deposits

At June 30, 2008, the Tobacco Revenue Fixed Income Securities consisted of commercial paper rated A-1 which was invested in a registered 2(a)-7 money market fund that was not rated.

Custodial credit risk is the risk that deposits may not be returned in the event of a bank failure. Treasury's policy with regard to custodial credit risk is to collateralize state deposits to the extent possible. The bond indentures governing the investment of tobacco revenue related bond proceeds, does not establish policy with regard to custodial credit risk. At June 30, 2008, the funds' had the following uncollateralized and uninsured deposits:

		Amount	
		<u>(in thousands)</u>	
Non-interest Bearing Deposits	\$	5,197	
International Equity Pool		347	
	\$	<u>5,545</u>	

Concentration of Credit Risk

At June 30, 2008, the funds invested in the Intermediate-term Fixed Income Pool and the Broad Market Fixed Income Pool had more than five percent of their funds' investments in Federal Home Loan Mortgage Corporation and Federal National Mortgage Association as follows:

		Fair Value	Percent of
		<u>(in thousands)</u>	Total Pool
			Investments
Intermediate-term Fixed Income Pool			
Federal Home Loan Mortgage Corporation	\$	432,120	8%
Broad Market Fixed Income Pool			
Federal Home Loan Mortgage Corporation	\$	161,006	7%
Federal National Mortgage Association	\$	726,686	31%

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 of any one company or affiliated group. Federal National Mortgage Association and Federal Home Loan Mortgage Corporation securities are not classified as corporate bonds.

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Notes To Combined Schedules

June 30, 2008

(5) DEPOSIT AND INVESTMENT RISK (Cont.)

Foreign Currency Risk

The Commissioner of Revenue formally adopts asset allocation policies for each fund at the beginning of each fiscal year 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 2008 and invested assets included the following holdings at June 30, 2008, for the funds invested in the International Equity Pool:

	<u>Policy</u>	<u>Actual</u>
Alaska Children's Trust Fund	24% ± 5%	24.61%
Constitutional Budget Reserve Fund, Subaccount	19% ± 5%	20.08%
Power Cost Equalization Endowment Fund	17% ± 5%	19.01%
Retiree Health Insurance Fund, Long Term Care	21% ± 4%	18.94%

At June 30, 2008, the funds invested in the International Equity Pool had exposure to foreign currency risk as follows:

<u>Currency</u>	<u>Fair Value (in thousands)</u>
Deposits:	
Euro Currency	\$ 81
Japanese Yen	209
Under other fiduciary responsibility	<u>57</u>
	<u>347</u>
Investments - International Equity	
Canadian Dollar	3,739
Euro Currency	55,348
Japanese Yen	23,981
Norwegian Krone	1,617
Pound Sterling	35,729
Singapore Dollar	4,919
Swedish Krona	1,406
Swiss Franc	20,151
Under other fiduciary responsibility	<u>28,749</u>
	<u>175,639</u>
Total	<u>\$ 175,986</u>

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

Notes To Combined Schedules

June 30, 2008

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

The International Equity Pool investment income includes the following at June 30, 2008:

Net realized gain on foreign currency	\$	10,153,199
Net unrealized gain on foreign currency		23,855
Net realized gain on foreign exchange contracts		3,382

The International Equity Pool includes foreign currency forward contracts to buy and sell specified amounts of foreign currencies at specified rates on specified future dates for the purpose of hedging existing security positions. The counterparties to the foreign currency forward contracts consist of a diversified group of financial institutions. Credit risk exposure exists to the extent of non-performance by these counterparties; however, the risk of default is considered to be remote. The market risk is limited to the difference between contractual rates and forward rates at the balance sheet date. At June 30, 2008 the International equity had no outstanding contracts. The International Equity Pool had no unrealized gains (losses) with respect to forward contracts at June 30, 2008.

(7) SECURITIES LENDING

Alaska Statute 37.10.071 authorizes the Commissioner to lend assets, under an agreement and for a fee, against deposited collateral. In February 2008, the Commissioner suspended the securities lending agreement with State Street Corporation (the Bank) which lent equity and domestic fixed income securities. Prior to suspension, the Bank, acting as the Commissioner's agent under the agreement, transferred securities to broker agents or other entities for collateral in the form of cash or securities and simultaneously agreed to return the collateral for the same securities in the future.

While the securities lending agreement was active there was no limit to the amount that can be loaned and the Commissioner was able to sell securities on loan. International equity security loans were collateralized at not less than 105 percent of their fair value. All other security loans were collateralized at not less than 102 percent of their fair value. Loaned securities and collateral were marked to market daily and collateral is received or delivered the following day to maintain collateral levels.

Cash collateral was invested in a registered 2(a)-7 money market fund. Maturities of investments in the money market fund generally did not match the maturities of the loaned securities because the lending agreements were terminable at will. Collateral securities could have been pledged or sold upon borrower default. Since the Commissioner did not have the ability to pledge or sell the collateral securities unless the borrower defaulted, they were not recorded on the combined schedules in prior years. Securities under loan, cash collateral and cash collateral payable were recorded on the combined schedules at fair value. The Bank and participating funds received a fee from earnings on invested collateral. The Bank and participating funds shared a fee paid by the borrower for loans not collateralized with cash.

There was limited credit risk associated with the lending transactions since the Commissioner was indemnified by the Bank against any loss resulting from counterparty failure or default on a loaned security or its related income distributions. The Bank further indemnified the Commissioner against loss due to borrower rebates in excess of earnings on cash collateral. Indemnifications were subject to limitation relating to war, civil unrest or revolution, or beyond the reasonable control of the Bank.

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

Notes To Combined Schedules

June 30, 2008

(7) SECURITIES LENDING (Cont.)

For the year ended June 30, 2008, there were no losses incurred as a result of securities lending transactions and there were no significant violations of legal or contractual provisions nor failures by any borrowers to return loaned securities.

(8) COMMITMENTS AND CONTINGENCIES

In the 1990 general election, the voters of Alaska adopted an amendment to the Alaska State Constitution creating the Constitutional Budget Reserve Fund (CBRF). All money received by the State after July 1, 1990 as a consequence of the resolution of disputes about the amount of mineral lease bonuses, royalties or taxes must be deposited in the CBRF. The Legislature may appropriate funding from the CBRF to pay for the operations of State government only under certain conditions. If, at any time, the amount of funding from other sources available to the Alaska Legislature for appropriation is less than the amount appropriated for government operations for the previous fiscal year, the Legislature may appropriate from the CBRF with a simple majority vote. When the amount of funding from other sources exceeds the amount appropriated for the previous fiscal year, the Legislature may appropriate from the CBRF for any public purpose with a three-fourths vote of the members of each house. The State constitutional provision governing the operation of the CBRF requires the State General Fund repay the moneys that have been appropriated from the CBRF if there is a surplus in the State General Fund at the end of any fiscal year. The amount due the CBRF from the State General Fund for past appropriations at June 30, 2008 is approximately \$2.5 billion. The State General Fund does not pay interest on the money due to the CBRF, unless appropriated. Chapter 28, SLA 2007, appropriated unrestricted interest earnings on general fund investments for the year ended June 30, 2008, to the CBRF to compensate the CBRF for lost earnings caused by use of the CBRF's balance.