



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

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

JUNE 30, 2011

(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, 2011

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KPMG LLP
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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, 2011 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Division of Treasury's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedules, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the Schedules. 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. The presentation of the Schedules 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, 2011, and the results of its investment income and changes in invested assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

October 17, 2011

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, 2011 (with memorandum totals for June 30, 2010)
(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 CONSTRUCTION FUND	INTERNATIONAL AIRPORTS FUND	POWER COST EQUALIZATION ENDOWMENT FUND	RETIREE HEALTH INSURANCE FUND		MINE RECLAMATION TRUST FUND	ALASKA SPORT FISH CONSTRUCTION FUNDS		TOTAL INVESTED ASSETS (MEMORANDUM ONLY)	
		MAIN	SUBACCOUNT	PRINCIPAL	INCOME	PRINCIPAL	INCOME						MAJOR MEDICAL	LONG TERM CARE		BOND PROCEEDS	GENERAL FUND APPROPRIATION	June 30, 2011	June 30, 2010
INVESTMENTS (at Fair Value) (Notes 6 and 7)																			
Cash and Cash Equivalents																			
Short-term Fixed Income Pool (Note 3)	4,469,398	679,970	47,075	7,032	10,580	23	421	3,496	277,363	110,544	19,383	2,714	11,618	31,747	720	2,920	22,218	5,697,222	4,151,781
Non-interest Bearing Deposits (Note 5)	84,277	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	84,277	231,728
Total Cash and Cash Equivalents	4,553,675	679,970	47,075	7,032	10,580	23	421	3,496	277,363	110,544	19,383	2,714	11,618	31,747	720	2,920	22,218	5,781,499	4,383,509
Marketable Debt Securities																			
Pooled Investments (Note 3)																			
Intermediate-term Fixed Income Pool	4,413,651	3,455,531	-	-	-	-	-	-	-	-	102,214	-	-	64,728	-	-	-	8,036,124	7,254,312
Broad Market Fixed Income Pool	-	1,028,502	1,831,250	189,448	-	1,828	-	-	-	-	-	107,207	-	86,001	-	-	-	3,244,236	2,618,962
Conservative Broad Market Fixed Income Pool	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
US Treasury Fixed Income Pool	-	-	75,509	22,381	-	111	-	-	-	-	-	10,296	-	-	-	-	-	108,297	184,761
Emerging Income Plus Debt Pool	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	87,327
Non-pooled Investments																			
Tobacco Revenue Fixed Income	36,188	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	36,188	50,446
Individually held debt securities and other instruments	73,500	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	73,500	63,000
Total Marketable Debt Securities	4,523,339	4,484,033	1,906,759	211,829	-	1,939	-	-	-	-	102,214	117,503	-	150,729	-	-	-	11,498,345	10,258,808
Equity Securities																			
Domestic Equity (Note 3 and 4)	-	-	2,359,725	200,012	-	4,451	-	-	-	-	-	177,311	-	41,687	156	-	-	2,783,342	2,194,516
International Equity Pool (Note 3)	-	-	728,239	-	-	1,134	-	-	-	-	-	51,411	-	22,445	-	-	-	803,229	945,101
Total Equity Securities	-	-	3,087,964	200,012	-	5,585	-	-	-	-	-	228,722	-	64,132	156	-	-	3,586,571	3,139,617
Total Investments	9,077,014	5,164,003	5,041,798	418,873	10,580	7,547	421	3,496	277,363	110,544	121,597	348,939	11,618	246,608	876	2,920	22,218	20,866,415	17,781,934
Receivables (Payables)																			
Income Receivable	1,728	39	-	968	1	24	-	-	24	10	1	-	1	2	-	-	2	2,800	5,576
Receivable from pending sales	-	-	124,183	10,077	-	-	-	-	-	-	-	15,590	-	-	22	-	-	149,872	-
Transferred from (to) Other Funds	-	-	-	(1,487)	1,487	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Receivables (Payables)	1,728	39	124,183	9,558	1,488	24	-	-	24	10	1	15,590	1	2	22	-	2	152,672	5,576
Net Invested Assets	\$ 9,078,742	5,164,042	5,165,981	428,431	12,068	7,571	421	3,496	277,387	110,554	121,598	364,529	11,619	246,610	898	2,920	22,220	21,019,087	17,787,510

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, 2011 (with memorandum totals for the year ended June 30, 2010)
(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 CONSTRUCTION FUND	INTERNATIONAL AIRPORTS FUND	POWER COST EQUALIZATION ENDOWMENT FUND	RETIREE HEALTH INSURANCE FUND		MINE RECLAMATION TRUST FUND	ALASKA SPORT FISH CONSTRUCTION FUNDS		TOTAL INCOME (LOSS) (MEMORANDUM ONLY)	
		MAIN	SUBACCOUNT	PRINCIPAL	INCOME	PRINCIPAL	INCOME						MAJOR MEDICAL	LONG TERM CARE		BOND PROCEEDS	GENERAL FUND APPROPRIATION	YEAR ENDED 6/30/2011	YEAR ENDED 6/30/2010
Investment Income																			
Short-term Fixed Income Pool	14,530	2,380	-	14	67	-	2	16	1,043	502	74	-	79	42	3	23	208	18,983	39,985
Intermediate-term Fixed Income Pool	101,345	85,434	-	-	-	-	-	-	-	-	2,449	-	-	624	-	-	-	189,852	333,007
Broad Market Fixed Income Pool	-	38,104	59,140	7,459	-	94	-	-	-	-	-	4,426	-	2,669	-	-	-	111,892	153,632
Conservative Broad Market Fixed Income Pool	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	80,366
US Treasury Fixed Income Pool	-	-	4,333	616	-	5	-	-	-	-	-	314	-	84	-	-	-	5,352	8,452
Emerging Income Plus Debt Pool	-	-	9,321	-	-	-	-	-	-	-	-	-	-	-	-	-	-	9,321	9,265
Domestic Equity	-	-	647,634	53,847	-	1,437	-	-	-	-	-	48,935	-	30,630	47	-	-	782,530	339,375
International Equity Pool	-	-	180,598	-	-	297	-	-	-	-	-	13,975	-	8,060	-	-	-	202,930	54,559
Tobacco Revenue Fixed Income	81	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	81	199
Individually held debt securities and other instruments	3,198	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,198	2,527
Total Investment Income	119,154	125,918	901,026	61,936	67	1,833	2	16	1,043	502	2,523	67,650	79	42,109	50	23	208	1,324,139	1,021,367
Transfer from (to) Other Funds	-	-	-	(10,096)	10,096	(72)	72	-	-	-	-	-	-	-	-	-	-	-	-
Net Investment Income	119,154	125,918	901,026	51,840	10,163	1,761	74	16	1,043	502	2,523	67,650	79	42,109	50	23	208	1,324,139	1,021,367
Total Invested Assets, Beginning of Period	7,808,963	4,398,917	4,264,955	363,415	11,021	8,904	594	2,978	126,727	83,928	111,662	320,714	17,629	189,173	873	11,551	65,506	17,787,510	15,443,333
Net Contributions (Withdrawals)	1,150,625	639,207	-	13,176	(9,116)	(3,094)	(247)	502	149,617	26,124	7,413	(23,835)	(6,089)	15,328	(25)	(8,654)	(43,494)	1,907,438	1,322,810
Total Invested Assets, End of Period	\$ 9,078,742	5,164,042	5,165,981	428,431	12,068	7,571	421	3,496	277,387	110,554	121,598	364,529	11,619	246,610	898	2,920	22,220	21,019,087	17,787,510

INVESTED ASSETS UNDER THE INVESTMENT AUTHORITY OF THE COMMISSIONER OF REVENUE

Notes to Combined Schedules

June 30, 2011

(1) THE ACCOUNTING ENTITY

The accompanying Combined Schedules present the financial position and changes therein, as of and for the year ended June 30, 2011, 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 Emerging Income Plus Debt Pool, 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, Broad Market Fixed Income Pool, and the U.S. Treasury Fixed Income Pool in addition to acting as oversight manager for all externally managed investments.

General Fund and GeFONSI

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

Constitutional Budget Reserve Fund

The Constitutional Budget Reserve Fund (CBRF) was established November 6, 1990 when voters approved adding Section 17 to Article IX of the Constitution of the State. All money received by the State after July 1, 1990, through resolution of disputes about the amount of certain mineral-related income, must be deposited in the CBRF. Such deposits may originate from mineral lease

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

Notes to Combined Schedules

June 30, 2011

(1) THE ACCOUNTING ENTITY (Cont.)

bonuses, rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments or bonuses, or taxes imposed on mineral income, production or property. The Legislature may, under certain conditions, appropriate funds from the CBRF to fund the operations of state government. The twenty-first Legislature created a subaccount within the CBRF effective July 1, 2000. The subaccount is currently comprised of appropriations by the Legislature. The subaccount is managed in accordance with Alaska Statute 37.10.430(c). Investment earnings of the subaccount are retained therein.

Public School Trust Fund

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

Alaska Children's Trust

The Alaska Children's Trust was established by the Alaska State Legislature in Alaska Statute 37.14.200 – 37.14.270. The purpose of the trust is to provide grants to community-based programs and projects that aid in the prevention of child abuse and neglect. The principal of the trust and any capital gains or losses realized on the principal were retained perpetually in the trust for investment with the exception of up to \$150,000 per year which could be appropriated from the principal of the trust for the administrative expenses of the Alaska Children's Trust Board. The balance of the trust was appropriated as of July 1, 2011, and the trust was liquidated.

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. 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.

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

Notes to Combined Schedules

June 30, 2011

(1) THE ACCOUNTING ENTITY (Cont.)

General Obligation Bond Fund

The General Obligation Bond Fund holds proceeds from the sale of bonds issued pursuant to Article IX, Section 8 of the Alaska Constitution and Alaska Statute 37.15, the State Bonding Act. In 2002, two general obligation bond propositions were passed by a majority of the qualified voters in the State, the Transportation Bond Act (Chapter 114, SLA 2002) and the Education Bond Act (Chapter 2 SLA 2002). These bonds were issued to finance educational and museum facilities and transportation projects. In 2008, one general obligation bond proposition was passed by the majority and in 2010, three bond issuances were passed and issued, one for Build America projects and two for educational projects.

At June 30, 2011, 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	\$ 487
Series 2003A, Transportation Projects	788
Series 2003B, Accelerated Alaska Transportation Projects	493
Series 2008, Transportation Projects	93,724
Series 2010-A, Education Build America	102,920
Series 2010-B, Education Qualified School	43,447
Series 2010-C, Education Tax Exempt	<u>35,528</u>
Total General Obligation Bond Fund	<u>\$ 277,387</u>

International Airports Funds

The International Airports Funds include a revenue fund and a construction fund. The revenue fund, codified under Alaska Statute 37.15.430, was established to facilitate the construction and maintenance of the Anchorage and Fairbanks International Airports. The revenue fund receives all revenues, fees, charges and rentals derived by the State from the ownership, lease, use and operation of the two airports.

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

June 30, 2011

(1) THE ACCOUNTING ENTITY (Cont.)

The construction fund holds proceeds from the sale of bonds issued to build airport facilities (Alaska Statute 37.15.420). Bonds issued to finance improvements at the airports have a first lien on the gross revenue from airport operations which are deposited into the revenue fund. At June 30, 2011, the invested asset balances in the various construction sub-funds were as follows (in thousands):

Series 1999A, Alternative Minimum Tax	\$	629
Series 1999B, Non-Alternative Minimum Tax		317
Series 1999C, Alternative Minimum Tax		186
Series 2002A, Alternative Minimum Tax		1,300
Series 2002B, Non-Alternative Minimum Tax		2,162
Series 2002 Reserve		15,052
Series 2003A, Alternative Minimum Tax		5,238
Series 2003B, Non-Alternative Minimum Tax		5,788
Series 2003 Reserve		3,672
Series 2006 Alternative Minimum Tax		7,559
Series 2006 Non-Alternative Minimum Tax		32,237
Series 2006 Variable Rate		6,507
Series 2010-C Prive Activity Non-AMT		13,141
Series 2010-D Taxable BABS		16,766
Total International Airports Construction Fund	\$	<u>110,554</u>

Power Cost Equalization Endowment Fund

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

Retiree Health Insurance Fund

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

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

June 30, 2011

(1) THE ACCOUNTING ENTITY (Cont.)

Mine Reclamation Trust Fund

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

Alaska Sport Fish Construction Funds

The Alaska Sport Fish Construction Funds hold proceeds from the sale of bonds issued pursuant to Article IX, Section 8 of the Alaska Constitution and Alaska Statute 37.15, the State Bonding Act; as well as funds from General Fund appropriation 63(d) of Chapter 29 SLA 2008. The General Fund appropriation and the bonds were issued to finance the construction and renovation of sport fishing facilities under AS 16.05.092.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

Valuation

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

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

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

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.

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

June 30, 2011

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

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

Combined Schedule Presentation

Total columns in the combined schedules are captioned “memorandum only” to indicate they are presented only to facilitate financial analysis. Interfund eliminations have not been made in the aggregation of this data. The financial information for the year ended June 30, 2010, is presented for comparative purposes.

(3) POOLED INVESTMENTS

Short-term Fixed Income Pool

Some funds participate in the State’s internally managed Short-term Fixed Income Pool. 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 and Broad Market Fixed Income Pools and a number of other funds, some of which are not under the fiduciary responsibility of the Commissioner.

Intermediate-term Fixed Income Pool

Some funds participate in the State’s internally managed Intermediate-term Fixed Income Pool. 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.

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

June 30, 2011

(3) POOLED INVESTMENTS (Cont.)

Broad Market Fixed Income Pool

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

US Treasury Fixed Income Pool

Some funds participate in the State's internally managed US Treasury Fixed Income Pool. 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.

Emerging Income Plus Debt Pool

This pool is made up of shares of the Lazard Emerging Income Plus Fund, a commingled investment fund which includes other, non-State institutional investors. The net asset value per share on any given valuation date is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. The only participant in this pool is the Constitutional Budget Reserve's Subaccount. At June 30, 2011, all investments in this pool had been liquidated.

International Equity Pool

Some funds participate in the State's externally managed International Equity Pool. 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

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

June 30, 2011

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

(4) DOMESTIC AND INTERNATIONAL EQUITY WORLD COMMON TRUST FUNDS

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

(5) NON-INTEREST BEARING DEPOSITS

At June 30, 2011, non-interest bearing deposits totaling \$84.3 million was 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
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June 30, 2011

(6) DEPOSIT AND INVESTMENT RISK

At June 30, 2011, the funds' had the following investments:

Investment Type	Fair Value (in thousands)						
	Short-term Fixed Income Pool	Intermediate- term Fixed Income Pool	Broad Market Fixed Income Pool	U.S. Treasury Fixed Income Pool	Tobacco Revenue Fixed Income	Other	Total
Deposits	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 84,277	84,277
Overnight Sweep Account (LMCS)	65,255	-	-	-	-	-	65,255
Money Market	-	-	-	-	36,188	-	36,188
ACPE Note	-	-	-	-	-	67,500	67,500
AMBBA Note	-	-	-	-	-	6,000	6,000
Commercial Paper	546,880	25,033	-	-	-	-	571,913
Corporate Bonds	2,419,075	1,278,861	675,663	-	-	-	4,373,599
Mortgage-backed	112,309	252,933	1,202,240	-	-	-	1,567,482
Mutual Fund	-	-	-	-	-	1,419	1,419
Other Asset-backed	2,427,073	118,857	87,710	-	-	-	2,633,640
U.S. Government Agency							
Discount Notes	199,997	-	30,000	-	-	-	229,997
U.S. Government Agency	134,966	333,862	121,353	-	-	-	590,181
U.S. Treasury Bills	1,143,412	-	-	-	-	-	1,143,412
U.S. Treasury Bonds	-	-	75,835	-	-	-	75,835
U.S. Treasury Notes	-	4,994,584	937,067	108,000	-	-	6,039,651
U.S. Treasury Strips	-	4,573	-	-	-	-	4,573
Yankees:							
Corporate	47,756	56,588	160,354	-	-	-	264,698
Government	-	211,784	32,979	-	-	-	244,763
Domestic Equity	-	-	-	-	-	2,942,403	2,942,403
International Equity	-	-	-	-	-	859,003	859,003
Total Invested Assets	7,096,723	7,277,075	3,323,201	108,000	36,188	3,960,602	21,801,789
Pool related net assets (liabilities)	3,482	126,126	(480,621)	135	-	35	(350,843)
Net Invested Assets before earnings distribution to participants	7,100,205	7,403,201	2,842,580	108,135	36,188	3,960,637	21,450,946
Earnings payable to participants	(427)	-	-	-	-	-	(427)
Other pool ownership	(1,105,800)	635,153	470,485	162	-	-	-
Ownership under other fiduciary responsibility	(296,756)	(2,230)	(68,829)	-	-	(216,289)	(584,104)
Total Commissioner's fiduciary responsibility	\$ 5,697,222	\$ 8,036,124	\$ 3,244,236	\$ 108,297	\$ 36,188	\$ 3,744,348	\$ 20,866,415

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June 30, 2011

(6) 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.

Short-term Fixed Income Pool

As a means of limiting its exposure to fair value losses arising from increasing interest rates, Treasury's investment policy limits individual fixed rate securities to fourteen months to maturity or fourteen months expected average life *upon purchase*. Floating rate securities are limited to three years to maturity or three years expected average life *upon purchase*. Treasury utilizes the actual maturity date for commercial paper and twelve-month prepay speeds for other securities. At June 30, 2011, the expected average life of individual fixed rate securities ranged from one day to one year and the expected average life of floating rate securities ranged from eight days to fourteen years.

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

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

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

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

Intermediate-term Fixed Income Pool - $\pm 20\%$ of the Merrill Lynch 1-5 year Government Bond Index. The effective duration for the Merrill Lynch 1-5 year Government Bond Index at June 30, 2011, was 2.54 years.

Broad Market Fixed Income Pool - $\pm 20\%$ of the Barclays Capital U.S. Aggregate Bond Index. The effective duration for the Barclays Capital U.S. Aggregate Bond Index at June 30, 2011, was 5.19 years.

U.S. Treasury Fixed Income Pool - $\pm 20\%$ of the Barclays Capital U.S. Intermediate Aggregate Treasury Index. The effective duration for the Barclays Capital U.S. Intermediate Aggregate Treasury Index at June 30, 2011, was 3.94 years.

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June 30, 2011

(6) DEPOSIT AND INVESTMENT RISK (Cont.)

At June 30, 2011, the effective duration by investment type was as follows:

	Effective Duration (in years)		
	Intermediate-term Fixed Income Pool	Broad Market Fixed Income Pool	US Treasury Fixed Income Pool
Commercial Paper	0.05	-	-
Corporate Bonds	2.01	5.93	-
Mortgage-Backed	1.52	3.25	-
Other Asset-Backed	1.08	0.97	-
U.S. Treasury Bonds	-	14.64	-
U.S. Treasury Notes	3.09	4.74	3.89
U.S. Treasury Strip	6.37	-	-
US. Government Agency	2.65	5.74	-
US. Government Agency Discount Notes	-	0.01	-
Yankees:			
Corporate	2.28	-	-
Government	1.92	6.38	-
Portfolio Effective Duration	2.53	4.46	3.89

Other Fixed Income

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

Credit Risk

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

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

Short-term Fixed Income Pool investments are limited to instruments with a long-term credit rating of at least A3 or equivalent and instruments with a short-term credit rating of at least P-1 or equivalent. Asset-backed and non-agency mortgage securities must be rated A3 or equivalent. The A3 rating is defined as the median rating of the following three rating agencies: Standard & Poor's Corporation, Moody's and Fitch. Asset-backed and non-agency mortgage securities may be purchased if only rated by one of these agencies if they are rated AAA.

Intermediate-term and Broad Market Fixed Income Pool investments are limited to securities with a long-term credit rating of at least Baa3 or equivalent and securities with a short-term credit rating of at least P-1 or equivalent. Asset-backed and non-agency mortgage securities must be rated investment grade. The investment grade rating is defined as the median rating of the following three

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June 30, 2011

(6) DEPOSIT AND INVESTMENT RISK (Cont.)

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.

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

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

The bond indentures governing the investment of tobacco revenue related bond proceeds limit the investment in commercial paper to only those securities rated A-1 or equivalent. At June 30, 2011, the Tobacco Revenue Fixed Income Securities consisted of commercial paper rated A-1.

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June 30, 2011

(6) DEPOSIT AND INVESTMENT RISK (Cont.)

At June 30, 2011, the State's internally managed Pools consisted of investments with credit quality ratings issued by nationally recognized statistical rating organizations as follows (using Standard and Poor's Corporation rating scale):

<u>Investment Type</u>	<u>Rating</u>	<u>Short-term Fixed Income Pool</u>	<u>Intermediate Term Fixed Income Pool</u>	<u>Broad Market Fixed Income Pool</u>	<u>U.S. Treasury Pool</u>
Commercial Paper	A-1	6.95 %	- %	- %	- %
Commercial Paper	Not Rated	0.75	0.31	-	-
Corporate Bonds	AAA	23.65	10.25	1.88	-
Corporate Bonds	AA	1.45	1.07	2.71	-
Corporate Bonds	A	3.20	3.20	9.37	-
Corporate Bonds	BBB	-	1.39	6.38	-
Corporate Bonds	Not Rated	5.78	-	0.04	-
Mortgage-backed	AAA	1.58	2.79	18.90	-
Mortgage-backed	AA	-	0.06	0.75	-
Mortgage-backed	A	-	0.02	0.57	-
Mortgage-backed	BBB	-	-	0.02	-
Mortgage-backed	CCC	-	-	0.04	-
Mortgage-backed	Not Rated	-	0.28	16.01	-
Other Asset-backed	AAA	30.49	1.32	2.36	-
Other Asset-backed	A	0.07	-	-	-
Other Asset-backed	CCC	-	0.02	-	-
Other Asset-backed	Not Rated	3.62	-	0.29	-
U. S. Treasury Bills	AAA	16.10	-	2.29	-
U. S. Treasury Notes	AAA	-	62.13	28.31	99.73
U.S. Government Agency	AAA	1.90	3.47	3.66	-
U.S. Government Agency Discount Notes	Not Rated	2.82	0.69	0.91	-
U.S. Government Agency	A	-	-	-	-
U.S. Government Agency	Not Rated	-	-	-	-
U.S. Treasury Strip	AAA	-	0.06	-	-
Yankees:					
Corporate	AAA	-	0.98	1.09	-
Corporate	AA	0.49	1.02	0.71	-
Corporate	A	0.11	0.40	1.73	-
Corporate	BBB	-	0.23	1.09	-
Corporate	Not Rated	0.07	-	0.21	-
Government	AA	-	0.65	0.50	-
Government	A	-	0.01	0.15	-
Government	BBB	-	-	0.34	-
Government	Not Rated	-	0.05	-	-
No Credit Exposure		0.97	9.60	(0.31)	0.27
		<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>

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

June 30, 2011

(6) DEPOSIT AND INVESTMENT RISK (Cont.)

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that deposits may not be returned in the event of a bank failure. The Commissioner does not have a policy in relation to custodial credit risk for deposits; however, any uninvested U.S Cash held in accounts is fully insured by the Federal Deposit Insurance Corporation (FDIC) under section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act effective December 31, 2010. This section of the Act provides temporary unlimited deposit insurance coverage for noninterest-bearing transaction accounts through December 31, 2012, at all FDIC insured depository institutions thereby limiting custodial credit risk.

For interest-bearing accounts, Treasury's policy with regard to custodial credit risk is to collateralize state deposits to the extent possible. The bond indentures governing the investment of tobacco revenue related bond proceeds, do not establish policy with regard to custodial credit risk. At June 30, 2011, the State had the following uncollateralized and uninsured deposits:

	Amount <u>(in thousands)</u>
International Equity Pool	\$ 351

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, 2011, the funds invested in the Broad market Fixed Income Pool had more than five percent of their investments in Federal National Mortgage Association as follows:

	Fair Value <u>(in thousands)</u>	Percent of Total <u>Pool Investments</u>
Broad Market Fixed Income Pool		
Federal National Mortgage Association	\$ 888,961	27%

Federal National Mortgage Association securities are not classified as corporate bonds, are backed by the full faith and credit of the U.S. Government and therefore may be held in higher concentration.

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June 30, 2011

(6) DEPOSIT AND INVESTMENT RISK (Cont.)

Foreign Currency Risk

The Commissioner of Revenue formally adopts asset allocation policies for each fund at the beginning of each fiscal year 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 2011 and invested assets included the following holdings at June 30, 2011, for the funds invested in the International Equity Pool:

	<u>Policy</u>	<u>Actual</u>
Alaska Children's Trust Fund	11% ± 5%	15%
Constitutional Budget Reserve Fund, Subaccount	9% ± 5%	14%
Power Cost Equalization Endowment Fund	10% ± 5%	15%
Retiree Health Insurance Fund, Long Term Care	9% ± 5%	9%

At June 30, 2011, the funds invested in the International Equity Pool had exposure to foreign currency risk as follows:

<u>Currency</u>	<u>Fair Value</u>
Deposits	
Euro Currency	\$ 8,112
Hong Kong Dollar	28,067
Japanese Yen	221,211
Under other fiduciary responsibility	93,170
	<u>350,560</u>
Investments - International Equity	
Australian Dollar	5,243,969
Canadian Dollar	2,637,004
Euro Currency	38,206,799
Hong Kong Dollar	1,642,231
Japanese Yen	27,816,335
New Zeland Dollar	1,850,013
Norwegian Krone	1,142,126
Pound Sterling	39,264,904
Singapore Dollar	3,041,177
Swiss Franc	8,145,024
Under other fiduciary responsibility	46,691,585
	<u>175,681,167</u>
Total	<u>\$ 176,031,727</u>

INVESTED ASSETS UNDER THE INVESTMENT AUTHORITY OF THE COMMISSIONER OF REVENUE

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June 30, 2011

(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 it enters into derivative instrument transactions with a counterparty, nor does the Commissioner have a policy for contingencies. The International Equity Pool investment includes the following income from derivative investments at June 30, 2011:

	<u>Changes in Fair Value</u>		<u>Fair Value at June 30, 2011</u>		
	<u>Classification</u>	<u>Amount</u>	<u>Classification</u>	<u>Amount</u>	<u>Notional</u>
FX Forwards	Investment Revenue	(53,536)	Long Term Instruments	-	-
Rights	Investment Revenue	45,917	Common Stock	-	-

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

Net realized gain on foreign currency	\$3,714,296
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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, 2011, the International Equity Pool had no outstanding contracts.

(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 State General Fund does not pay interest on the money due to the CBRF, unless appropriated. As of June 30, 2011, the General Fund no outstanding borrowings from the CBRF.