



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

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

JUNE 30, 2012

(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, 2012

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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, 2012 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, Schedules of Invested Assets 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, 2012, 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 16, 2012

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, 2012 (with memorandum totals for June 30, 2011)
(Expressed in thousands)

GENERAL FUND and ODFORSI	CONSTITUTIONAL BUDGET RESERVE FUND		PUBLIC SCHOOL TRUST FUND		ALASKA CHILDRENS TRUST		INVESTMENT LOSS TRUST FUND	GENERAL OBLIGATION BOND FUND	INTERNATIONAL AIRPORTS CONSTRUCTION FUND	INTERNATIONAL AIRPORTS FUND	POWER COST EQUALIZATION ENDOWMENT FUND	RETIREMENT HEALTH INSURANCE FUND		MINE RECLAMATION FUND	ALASKA SPORT FISH CONSTRUCTION FUNDS		TOTAL INVESTED ASSETS (MEMORANDUM ONLY)		
	MAJ	SUBACCOUNT	PRINCIPAL	INCOME	PRINCIPAL	INCOME						MAJOR MEDICAL	LONG-TERM CARE		BOND PROCEEDS	GENERAL FUND APPROPRIATION	June 30, 2012	June 30, 2011	
INVESTMENTS (at Fair Value) (Notes 6 and 7)																			
Cash and Cash Equivalents																			
Short-term Fixed Income Pool (Note 4)	5,751,414	1,115,297	444	7,859	6,222	-	2,724	184,261	90,262	35,071	5	12,533	60,194	739	-	9,341	7,276,346	5,697,222	
Non-interest Bearing Deposits (Note 5)	119,266	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	119,266	64,377	
Total Cash and Cash Equivalents	5,870,680	1,115,297	444	7,859	6,222	-	2,724	184,261	90,262	35,071	5	12,533	60,194	739	-	9,341	7,395,612	5,761,600	
Marketable Debt Securities																			
Pooled Investments (Note 3)																			
Short-term Liquidity Fixed Income Pool	804,452	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	804,452	-	
Intermediate-term Fixed Income Pool	5,293,378	3,227,559	-	-	-	-	-	-	99,471	-	-	-	-	-	-	-	6,516,309	6,036,124	
Broad Market Fixed Income Pool	-	1,108,729	2,073,691	245,751	-	-	-	-	-	-	244,653	-	145,142	-	-	-	3,653,966	3,244,236	
US Treasury Fixed Income Pool	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	108,297	
Emerging Income Plus Side Pool	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Non-pooled Investments																			
Tobacco Revenue Fixed Income	27,842	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	27,842	36,188	
Individually held debt securities and other instruments	87,509	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	87,509	73,509	
Total Marketable Debt Securities	6,196,172	4,336,279	2,073,691	245,751	-	-	-	-	99,471	-	-	-	145,142	-	-	-	13,246,139	13,496,345	
Equity Securities																			
Domestic Equity (Note 4)	-	-	1,695,513	207,555	-	-	-	-	-	-	348,086	-	47,657	162	-	-	2,208,373	2,783,342	
International Equity Pools (Note 3)	-	-	1,524,760	-	-	-	-	-	-	-	159,030	-	20,288	-	-	-	1,684,038	853,229	
Total Equity Securities	-	-	3,120,273	207,555	-	-	-	-	-	-	507,116	-	67,945	162	-	-	3,892,411	3,636,571	
Total Investments	12,053,872	5,451,576	5,190,408	451,185	6,222	-	2,724	184,261	90,262	137,542	751,780	12,533	272,881	901	-	9,341	24,619,268	20,866,415	
Receivables (Payables)																			
Income Receivable	3,539	413	-	3	2	-	1	72	36	14	-	5	23	-	-	-	4,112	2,800	
Receivables from pending sales	-	-	-	(607)	607	-	-	-	-	-	-	-	-	-	-	-	-	149,872	
Transferred from (to) Other Funds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total Receivables (Payables)	3,539	413	(607)	610	609	-	1	72	36	14	-	5	23	-	-	-	4,112	152,672	
Net Invested Assets	5	12,057,411	5,451,809	5,190,408	6,831	-	2,725	184,333	90,298	137,556	751,786	12,538	272,754	901	-	9,346	24,623,380	21,019,087	

STATE OF ALASKA
DEPARTMENT OF REVENUE - TREASURY DIVISION
INVESTED ASSETS UNDER THE INVESTMENT AUTHORITY OF THE COMMISSIONER OF REVENUE
COMBINED SCHEDULE OF INVESTMENT INCOME (LOSS) AND CHANGES IN INVESTED ASSETS
For the year ended June 30, 2012 (with memorandum totals for the year ended June 30, 2011)
(Expressed in thousands)

	GENERAL FUND and GIFONIS	CONSTITUTIONAL BUDGET RESERVE FUND		PUBLIC SCHOOL TRUST FUND		ALASKA CHILDRENS 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 FUND	ALASKA SPORT FISH CONSTRUCTION FUNDS		TOTAL INCOME (LOSS) (MEMORANDUM ONLY)		
		MAN	SUBACCOUNT	PRINCIPAL	INCOME	PRINCIPAL	INCOME						MAJOR MEDICAL	LONG-TERM CARE		BOND PROCEEDS	GENERAL FUND APPROPRIATION	YEAR ENDED 6/30/2012	YEAR ENDED 6/30/2011	
Investment Income																				
Short-term Fixed Income Pool	22,332	4,172	393	21	52	1	-	11	925	412	129	-	50	240	3	5	43	28,789	18,983	
Short-term Liquidity Fixed Income Pool	452	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	452	-	
Intermediate-term Fixed Income Pool	106,869	82,264	-	-	-	-	-	-	-	-	2,258	-	-	-	-	-	-	191,391	169,852	
Broad Market Fixed Income Pool	-	80,227	156,528	17,782	-	17	-	-	-	-	-	17,236	-	10,058	-	-	-	281,848	111,892	
US Treasury Fixed Income Pool	-	-	(9)	(1)	-	-	-	-	-	-	-	-	-	-	-	-	-	(4)	5,362	
Emerging Income Plus Debt Pool	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	9,321	
Domestic Equity	-	-	61,284	7,543	-	(53)	-	-	-	-	-	11,791	-	2,833	6	-	-	82,604	782,530	
International Equity Pool	-	-	(193,775)	-	-	(44)	-	-	-	-	-	(18,079)	-	(2,157)	-	-	-	(214,055)	202,930	
Tobacco Revenue Fixed Income	74	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	74	81	
Individually held debt securities and other instruments	2,810	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,810	3,198	
Total Investment Income (Loss)	132,537	166,663	24,427	25,345	59	(79)	-	11	925	412	2,387	10,948	50	10,174	9	5	43	373,909	1,324,139	
Transfer from (to) Other Funds	-	-	-	(8,842)	8,842	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Net Investment Income (Loss)	132,537	166,663	24,427	16,503	6,894	(79)	-	11	925	412	2,387	10,948	50	10,174	9	5	43	373,909	1,324,139	
Total Invested Assets, Beginning 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	808	2,920	22,220	21,019,087	17,767,510	
Net Contributions (Withdrawals)	2,846,132	121,284	-	15,627	(14,131)	(7,492)	(421)	(782)	(93,979)	(20,648)	7,571	376,303	869	15,920	(8)	(2,925)	(12,918)	3,230,384	1,907,438	
Total Invested Assets, End of Period	\$ 12,087,411	\$ 5,451,989	\$ 5,190,499	460,961	6,831	-	-	2,725	184,333	90,298	131,556	751,789	12,538	272,724	991	-	9,345	24,923,180	21,979,087	

INVESTED ASSETS UNDER THE INVESTMENT AUTHORITY OF THE COMMISSIONER OF REVENUE

Notes to Combined Schedules

June 30, 2012

(1) THE ACCOUNTING ENTITY

The accompanying combined schedules present the financial position and changes therein, as of and for the year ended June 30, 2012, for the invested assets of funds under the investment authority of the Commissioner of Revenue (Commissioner). The Commissioner is responsible for all deposits and investments of the State of Alaska (State) except where the Legislature has delegated that responsibility to other individuals or boards. As the fiduciary, the Commissioner has the statutory authority to invest the assets under the prudent investor rule. Alaska Statutes 37.10.070 and 37.10.071 provide that investments shall be made with the judgment and care under circumstances then prevailing that an institutional investor of ordinary professional prudence, discretion and intelligence exercises in managing large investment portfolios.

These schedules represent only the investment activity of the funds described below, and not the complete financial activity of the funds or the State as a whole. The complete financial activity of the funds is shown in the Comprehensive Annual Financial Report available from the Division of Finance in the Department of Administration.

The Department of Revenue, Treasury Division (Treasury) has created a pooled environment by which it manages the investments the Commissioner has fiduciary responsibility for. Actual investing is performed by investment officers in Treasury or by contracted external investment managers. Specifically, the Tobacco Revenue Fixed Income, Domestic Equity, and the International Equity Pools are managed externally. Treasury manages the Short-term Fixed Income Pool, Individually Held Debt Securities, Short-term Liquidity 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, the Short-term Liquidity Fixed Income Pool and the Intermediate-term Fixed Income Pool. GeFONSI investment income is distributed to pool participants if prescribed by statute or if appropriated by the state legislature. The Tobacco Revenue Fixed Income assets represent the investment of proceeds received from the sale of anticipated Tobacco Settlement Revenues and investment earnings therein. The proceeds and earnings are available for projects prescribed by statute.

Constitutional Budget Reserve Fund

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

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

Notes to Combined Schedules

June 30, 2012

(1) THE ACCOUNTING ENTITY (Cont.)

twenty-first Legislature created a subaccount within the CBRF effective July 1, 2000. The subaccount is currently comprises 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).

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.

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.

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

Notes to Combined Schedules

June 30, 2012

(1) THE ACCOUNTING ENTITY (Cont.)

At June 30, 2012, the invested asset balances in the various bond subfunds were as follows (in thousands):

Series 2003A, Educational and Museum Facility Design, Construction and Major Maintenance	\$ 97
Series 2003A, Transportation Projects	615
Series 2003B, Accelerated Alaska Transportation Projects	471
Series 2008, Transportation Projects	70,447
Series 2010-A, Education Build America	53,288
Series 2010-B, Education Qualified School	23,740
Series 2010-C, Education Tax Exempt	<u>35,675</u>
Total General Obligation Bond Fund	<u>\$ 184,333</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.

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, 2012, the invested asset balances in the various construction subfunds were as follows (in thousands):

Series 2002B, Non-Alternative Minimum Tax	\$ 124
Series 2002 Reserve	15,115
Series 2003 Reserve	7,691
Series 2006, Alternative Minimum Tax	5,953
Series 2006, Non-Alternative Minimum Tax	28,421
Series 2006 Variable	6,410
Series 2010C Private Activity Non-AMT	11,978
Series 2010D Taxable BABS	<u>14,606</u>
Total International Airports Construction Fund	<u>\$ 90,298</u>

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

Notes to Combined Schedules

June 30, 2012

(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 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.

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.

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

Notes to Combined Schedules

June 30, 2012

(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.

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

Combined Schedule Presentation

Total columns in the combined schedules are captioned “memorandum only” to indicate they are presented only to facilitate financial analysis. Interfund eliminations have not been made in the aggregation of this data. The financial information for the year ended June 30, 2011 is presented for comparative purposes.

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

Notes to Combined Schedules

June 30, 2012

(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.

Short-term Liquidity Fixed Income Pool

The GeFONSI is the only participant in the State's internally managed Short-term Liquidity Fixed Income Pool. Treasury staff determine the allocation between permissible securities. The pool has a very short time horizon, and a significant need for liquidity. It has a limited need for long-term inflation protection, and is invested at a very low risk level. The net asset value per share on any given valuation date is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. 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.

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.

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.

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

June 30, 2012

(3) POOLED INVESTMENTS (Cont.)

U.S. Treasury Fixed Income Pool

The State's internally managed U.S. Treasury Fixed Income Pool was liquidated during FY12. Treasury staff determined the allocation between permissible securities. The pool had an intermediate time horizon, a more limited need for liquidity than the money invested in the Short-term Fixed Income Pool, a limited need for inflation protection, and could be invested at a moderate risk level. The net asset value per share on any given valuation date was determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Ownership in the pool was based on the number of shares held by each participant. Contributions to and withdrawals from the pool were based on the beginning of the day net asset value per share on the day of the transaction.

Domestic Equity Pool

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

International Equity Pools

Some funds participate in the State's externally managed International Equity Pools. The external managers independently determine the allocation between permissible securities. The pool has a time horizon that is longer than any of the fixed income investment pools, limited liquidity, long-term inflation protection and a high risk tolerance. The net asset value per share on any given valuation date is determined by dividing the total fair value of the net assets of each pool by the number of shares of the pool outstanding on the valuation date. Ownership in the pool is based on the number of shares held by each participant. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. Not all participants in the pool are funds under the fiduciary responsibility of the Commissioner.

(4) NON-INTEREST BEARING DEPOSITS

At June 30, 2012, non-interest bearing deposits totaling \$110.3 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 REVENUE**

Notes to Combined Schedules

June 30, 2012

(5) DEPOSIT AND INVESTMENT RISK

At June 30, 2012, the funds' had the following investments:

Fair Value (in thousands)							
Investment Type	Short-term Fixed Income Pool	Short-term Liquidity Fixed Income Pool	Intermediate- term Fixed Income Pool	Broad Market Fixed Income Pool	Tobacco Revenue Fixed Income	Other	Total
Deposits	\$ 33,361	\$ -	\$ -	\$ -	\$ -	\$ 110,286	\$ 143,647
Money Market	-	-	-	-	27,842	-	27,842
ACPE Note	-	-	-	-	-	67,500	67,500
Commercial Paper	284,100	-	5,000	5,000	-	-	294,100
Corporate Bonds	759,976	-	1,277,548	771,145	-	-	2,808,669
Mortgage Backed	70,819	-	312,723	1,338,578	-	-	1,722,120
Other Asset Backed	2,942,106	-	34,361	102,627	-	-	3,079,094
U.S. Government Agency	100,037	-	408,957	153,002	-	-	661,996
U.S. Treasury Bills	4,411,775	803,422	681,242	43,972	-	-	5,940,411
U.S. Treasury Bonds	-	-	-	213,776	-	-	213,776
U.S. Treasury Notes	-	-	5,639,146	827,447	-	-	6,466,593
U.S. Treasury Strips	-	-	5,027	-	-	-	5,027
Yankees:							
Corporate	174,855	-	-	181,521	-	-	356,376
Government	-	-	51,399	81,310	-	-	132,709
Domestic Equity	-	-	-	-	-	2,309,691	2,309,691
International Equity	-	-	-	-	-	1,732,898	1,732,898
Total Invested Assets	8,777,029	803,422	8,415,403	3,718,378	27,842	4,220,375	25,962,449
Pool related net assets (liabilities)	(235,151)	131	(7,717)	(279,552)	-	828	(521,461)
Net Invested Assets before earnings distribution to participants	8,541,878	803,553	8,407,686	3,438,826	27,842	4,221,203	25,440,988
Earnings payable to participants	(3,147)	-	-	-	-	-	(3,147)
Other pool ownership	(662,527)	899	208,713	452,915	-	-	-
Ownership under other fiduciary responsibility	(599,838)	-	-	(67,775)	-	(150,960)	(818,573)
Total Commissioner's fiduciary responsibility	\$ 7,276,366	\$ 804,452	\$ 8,616,399	\$ 3,823,966	\$ 27,842	\$ 4,070,243	\$ 24,619,268

Interest Rate Risk

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

**INVESTED ASSETS UNDER THE INVESTMENT AUTHORITY OF THE COMMISSIONER
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June 30, 2012

(5) DEPOSIT AND INVESTMENT RISK (Cont.)

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, 2012, 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.

Short-term Liquidity Fixed Income Pool

Treasury's investment policy limits individual fixed rate securities to six months to maturity. These constraints apply to trade date, except for securities bought at new issue, for which settlement date applies. At June 30, 2012, the expected average life of fixed rate securities ranged from 163 to 170 days.

Intermediate and Broad Market

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, 2012 was 2.66 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, 2012 was 5.07 years.

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June 30, 2012

(5) DEPOSIT AND INVESTMENT RISK (Cont.)

At June 30, 2012, the effective duration by investment type was as follows:

	<u>Effective Duration (in years)</u>	
	<u>Intermediate-term</u>	<u>Broad Market Fixed</u>
	<u>Fixed Income Pool</u>	<u>Income Pool</u>
Cash Equivalent	0.26	0.26
Corporate	1.62	6.93
Mortgage Backed	1.28	1.70
Other Asset Backed	2.43	1.89
U.S. Government Agency	1.24	5.40
U.S. Treasury Bill	0.30	0.43
U.S. Treasury Bonds	-	15.53
U.S. Treasury Notes	2.78	5.23
U.S. Treasury Strip	5.26	-
Yankees:		
Corporate	2.63	4.20
Government	1.72	7.30
Portfolio Effective Duration	2.23	4.28

Other Fixed Income

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

Credit Risk

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

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

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

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

June 30, 2012

(5) DEPOSIT AND INVESTMENT RISK (Cont.)

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

Intermediate-term and Broad Market Fixed Income Pool investments are limited to securities with a long-term credit rating of at least Baa3 or equivalent and securities with a short-term credit rating of at least P-1 or equivalent. Asset-backed and non-agency mortgage securities must be rated investment grade. The investment grade rating is defined as the median rating of the following three rating agencies: Standard & Poor's Corporation, Moody's and Fitch. Asset-backed and non-agency mortgage securities may be purchased if only rated by one of these agencies if they are rated AAA.

The bond indentures governing the investment of tobacco revenue related bond proceeds limit the investment in commercial paper to only those securities rated A-1 or equivalent. At June 30, 2012, the Tobacco Revenue Fixed Income Securities consisted of commercial paper rated A-1.

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

June 30, 2012

(5) DEPOSIT AND INVESTMENT RISK (Cont.)

At June 30, 2012, the State's internally managed Pools consisted of investments with credit quality ratings issued by nationally recognized statistical rating organizations as follows (using Standard and Poor's Corporation rating scale):

<u>Investment Type</u>	<u>Rating</u>	<u>Short-term Fixed Income Pool</u>	<u>Short-term Liquidity Fixed Income Pool</u>	<u>Intermediate- Term Fixed Income Pool</u>	<u>Broad Market Fixed Income Pool</u>
Commercial Paper	Not Rated	3.33%	-	0.06%	0.12%
Corporate Bond	A	3.60%	-	3.52%	10.01%
Corporate Bond	AA	4.94%	-	7.54%	3.03%
Corporate Bond	AAA	-	-	0.66%	0.65%
Corporate Bond	BB	-	-	-	0.20%
Corporate Bond	BBB	-	-	1.21%	4.91%
Corporate Bond	Not Rated	0.35%	-	0.06%	0.13%
Government Agency	A	-	-	0.06%	-
Government Agency	AA	1.17%	-	4.75%	0.33%
Mortgage Backed	A	-	-	-	0.78%
Mortgage Backed	AA	-	-	1.27%	26.94%
Mortgage Backed	AAA	0.46%	-	1.73%	3.05%
Mortgage Backed	BBB	-	-	-	0.04%
Mortgage Backed	CCC	-	-	0.02%	-
Mortgage Backed	Not Rated	0.37%	-	0.61%	2.81%
Other Asset Backed	A	0.08%	-	-	-
Other Asset Backed	AA	1.90%	-	-	-
Other Asset Backed	AAA	26.15%	-	0.27%	1.65%
Other Asset Backed	CCC	-	-	-	0.03%
Other Asset Backed	Not Rated	6.30%	-	0.13%	0.11%
Other Pool Ownership	Not Rated	-	0.11%	2.42%	11.12%
US Treasury Bill	AA	51.67%	99.87%	7.91%	1.08%
US Treasury Bond	AA	-	-	-	5.25%
US Treasury Note	AA	-	-	65.44%	20.32%
US Treasury Strip	AA	-	-	0.06%	-
Yankee Corporate	A	0.62%	-	0.30%	1.33%
Yankee Corporate	AA	1.42%	-	0.66%	1.21%
Yankee Corporate	AAA	-	-	0.50%	0.81%
Yankee Corporate	BBB	-	-	0.32%	1.10%
Yankee Government	A	-	-	0.01%	0.15%
Yankee Government	AA	-	-	0.54%	0.64%
Yankee Government	BBB	-	-	-	0.32%
Yankee Government	Not Rated	-	-	0.04%	2.07%
No Exposure		(2.36)%	0.02%	(0.09)%	(0.19)%
		<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
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Notes to Combined Schedules

June 30, 2012

(5) DEPOSIT AND INVESTMENT RISK (Cont.)

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that deposits may not be returned in the event of a bank failure. 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 non-interest-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, 2012, the State had the following uncollateralized and uninsured deposits:

	Amount <u>(in thousands)</u>
International Equity Pool \$	219

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, 2012, the Commissioner did not have exposure to any one issuer greater than 5% of invested assets.

Foreign Currency Risk

The Commissioner 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 2012 and invested assets included the following holdings at June 30, 2012, for the funds invested in the International Equity Pool:

	<u>Policy</u>	<u>Actual</u>
Constitutional Budget Reserve Fund, Subaccount	32% ± 5%	28.99%
Power Cost Equalization Endowment Fund	23% ± 5%	21.15%
Retiree Health Insurance Fund, Long-Term Care	9% ± 4%	7.44%

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

June 30, 2012

(5) DEPOSIT AND INVESTMENT RISK (Cont.)

At June 30, 2012, 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	\$ 62,467
Japanese Yen	101,709
Under other fiduciary responsibility	<u>55,088</u>
	<u>219,264</u>
Investments - International Equity	
Australian Dollar	9,357,201
Canadian Dollar	3,424,409
Danish Krone	1,582,039
Euro Currency	43,312,202
Japanese Yen	22,011,691
New Zealand Dollar	1,243,012
Pound Sterling	37,383,433
Swedish Krona	5,668,489
Swiss Franc	5,196,295
Under other fiduciary responsibility	<u>43,345,016</u>
	<u>172,523,787</u>
Total	\$ <u><u>172,743,051</u></u>

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

The Commissioner is exposed to credit risk on investment derivative instruments that are in asset positions. The Commissioner has no policy of requiring collateral or other security to support derivative instruments subject to credit risk. Additionally, the Commissioner has no policy regarding entering into netting arrangements when it enters into derivative instrument transactions with a counterparty, nor does the Commissioner have a policy for contingencies. The International Equity Pool investment includes the following income from derivative investments at June 30, 2012:

	<u>Changes in Fair Value</u>		<u>Fair Value at June 30, 2012</u>		
	<u>Classification</u>	<u>Amount</u>	<u>Classification</u>	<u>Amount</u>	<u>Notional</u>
FX Forwards	Investment Revenue	\$ (56,038)	—	—	—

**INVESTED ASSETS UNDER THE INVESTMENT AUTHORITY OF THE COMMISSIONER
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June 30, 2012

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

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

Net realized gain on foreign currency	\$ 2,235,912
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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, 2012, the International Equity Pool had no outstanding contracts.

(7) 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, 2012, the General Fund had no outstanding borrowings from the CBRF.