STATE OF ALASKA
INDEX
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the State of Alaska have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for governmental accounting and financial reporting principles, which are primarily set forth in GASB's Codification of Governmental Accounting and Financial Reporting Standards.

A. THE FINANCIAL REPORTING ENTITY

The State of Alaska (State) was admitted to the Union in 1959 and is governed by an elected governor and a sixty-member elected legislature. As required by GAAP, these financial statements present all the fund types of the State which includes all agencies, boards, commissions, authorities, courts, and colleges and universities that are legally part of the State (primary government) and its component units discussed below. Component units are legally separate entities for which the primary government is financially accountable or such that their exclusion would cause the State's financial statements to be misleading or incomplete.

The following component units are included in the accompanying financial statements. Blended component units, although legally separate entities, are, in substance, part of the State's operations and provide services entirely or almost entirely to the State. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the State. Individual component unit financial reports may also be obtained from these organizations as indicated.

BLENDED COMPONENT UNITS

The **Alaska Gasline Development Corporation** (AGDC) is a public corporation and governmental instrumentality of, but having a legal existence independent and separate from, the State. AGDC is a subsidiary of, but separate and apart from, the Alaska Housing Finance Corporation (AHFC). The commissioners of the departments of Revenue; Commerce, Community, and Economic Development; Health and Social Services; and four independent public members appointed by the Governor comprise the AGDC board of directors. The Legislature appropriates the budget for AGDC for the purpose of funding future in-state natural gas pipeline projects for the State. The corporation has the power to borrow money and issue bonds on its own behalf. AGDC is reported within the governmental funds as a special revenue fund. AGDC financial statements may be obtained from the Alaska Housing Finance Corporation, P.O. Box 101020, Anchorage, AK 99510-1020.

The **Alaska Housing Capital Corporation** (AHCC) is a public corporation and government instrumentality of, but having a legal existence independent and separate from, the State. AHCC is a subsidiary of, but separate and apart from, the Alaska Housing Finance Corporation (AHFC). The commissioners of the departments of Revenue; Commerce, Community, and Economic Development; Health and Social Services; and four independent public members appointed by the Governor comprise the AHCC board of directors. The Legislature appropriates the budget for AHCC for the purpose of funding future capital projects for the State. The corporation has the power to borrow money and issue bonds on its own behalf. AHCC is reported within the governmental funds as a special revenue fund. AHCC financial statements may be obtained from the Alaska Housing Finance Corporation, P.O. Box 101020, Anchorage, AK 99510-1020.

The **Alaska Permanent Fund Corporation** (APFC) is a public corporation and government instrumentality in the Department of Revenue (AS 37.13.040). A governor-appointed six-member board manages APFC. The Legislature approves APFC's budget. The purpose of APFC is to manage and invest the assets of the Alaska Permanent Fund (Fund) and other funds designated by law. The Fund is a savings device, restricted as to usage, which belongs to all the people of Alaska. It was created in 1976 when the voters approved an amendment to the State Constitution. The beneficiaries of the Fund are all present and future generations of Alaskans. The Fund represents 68 percent of the total cash and investments and 61 percent of total government-wide net assets excluding discretely presented component units. The Fund is reported as a permanent fund (a governmental fund type), and APFC operations are included in the fund statements. Separately issued financial statements may be obtained from the Alaska Permanent Fund Corporation, P.O. Box 115500, Juneau, AK 99811-5500, or from their web site at www.apfc.org.

The **Knik Arm Bridge and Toll Authority** (KABTA) is a public corporation and government instrumentality in the Department of Transportation and Public Facilities (AS 19.75.021). The authority has a separate and independent legal existence from the State. It is governed by a board of directors, including the commissioner of the Department of Transportation and Public Facilities, the commissioner of the Department of Revenue, three public members appointed by the

Governor, and two non-voting members: a member of the House of Representatives appointed by the Speaker; and a member of the Senate appointed by the President. The purpose of the authority is to develop public transportation systems in the vicinity of Upper Cook Inlet with construction of a bridge to span Knik Arm and connect the Municipality of Anchorage with the Matanuska-Susitna Borough. KABTA financial statements are included in the Combining Fund section of this Comprehensive Annual Financial Report (CAFR) with the Nonmajor Enterprise Funds. Separately issued financial statements may be obtained from Knik Arm Bridge and Toll Authority, 550 W. 7th Avenue, Suite 1850, Anchorage, AK 99501.

The **Northern Tobacco Securitization Corporation** (NTSC) is a public corporation and government instrumentality of, but having a legal existence independent and separate from, the State. NTSC is a subsidiary of, but separate and apart from, the Alaska Housing Finance Corporation (AHFC). The commissioners of the departments of Revenue; Health and Social Services; and Commerce, Community and Economic Development; and two independent public members appointed by the Governor comprise the NTSC board of directors.

The purpose of NTSC is to purchase future rights, title, and interest in Tobacco Settlement Revenues (TSRs) from the State under the Master Settlement Agreement and Final Judgment (MSA). The MSA resolved cigarette smoking-related litigation between the settling states and the participating manufacturers, released the manufacturers from past and present smoking-related claims, and provides for a continuing release of future smoking-related claims, in exchange for certain payments to be made to the settling states, as well as certain tobacco advertising and marketing restrictions among other things.

NTSC is authorized to issue bonds necessary to provide sufficient funds for carrying out its purpose. When NTSC's obligations with the bonds have been fulfilled, the TSRs revert back to the State under the residual certificate. Consideration paid by NTSC through AHFC to the State for TSRs consisted of a cash amount sent to the State's custodial trust accounts and a residual certificate assigned to the State.

The bonds of NTSC are asset-backed instruments secured solely by the TSRs and NTSC's right to receive TSRs is expected to produce funding for its obligations. The TSR payments are dependent on a variety of factors, some of which are: the financial capability of the participating manufacturers to pay TSRs; future cigarette consumption that impacts the TSR payment; and future legal and legislative challenges against the tobacco manufacturers and the MSA providing for the TSRs. Pursuant to bond indentures, these adjustments could affect the amount of funds available to pay scheduled debt service payments.

NTSC is reported in the governmental fund types as special revenue and debt service funds. The revenue bond debt is reported in the government-wide statement of net assets in the governmental fund activities column. NTSC financial statements may be obtained from the Alaska Housing Finance Corporation, P.O. Box 101020, Anchorage, AK 99510-1020.

The **Public Employees' Retirement System** (PERS) was established by Alaska Statute (AS) 39.35.095 (defined benefit) and AS 39.35.700 (defined contribution). The Commissioner of the Department of Administration or the commissioner's designee is the administrator of PERS. The administrator is responsible for the administration of PERS in accordance with State statutes. The Commissioner of the Department of Administration adopts regulations to govern the operation of the PERS. Hearings and rulings on the appeal of the decision of the administrator are in the jurisdiction of the Office of Administrative Hearings (OAH). The Alaska Retirement Management Board (ARMB) approves employers' rates. PERS costs, based upon actuarial valuations, are funded by the State, participating governmental employers, and participants. PERS is reported in the fiduciary fund types as a pension (and other employee benefit) trust fund. The ARMB is the fiduciary of PERS. The Governor appoints the majority of the ARMB.

The **Teachers' Retirement System** (TRS) was established by AS 14.25.009 (defined benefit) and AS 14.25.310 (defined contribution). The Commissioner of the Department of Administration or the commissioner's designee is the administrator of the system. The administrator is responsible for the administration of TRS in accordance with State statutes. The Commissioner of the Department of Administration adopts regulations to govern the operation of the TRS. Hearings and rulings on the appeal of the decision of the administrator are in the jurisdiction of the OAH. The ARMB approves employers' rates. TRS costs, based upon actuarial valuations, are funded by the State, participating governmental employers, and participants. TRS is reported in the fiduciary fund types as a pension (and other employee benefit) trust fund. The ARMB is the fiduciary of TRS. The Governor appoints the majority of the ARMB.

The **Judicial Retirement System** (JRS) was established by AS 22.25.048. The Commissioner of the Department of Administration is responsible for the administration of JRS. JRS costs, based upon actuarial valuations, are funded by the

State and participants. JRS is reported in the fiduciary fund types as a pension (and other employee benefit) trust fund. The ARMB is the fiduciary of JRS. The Governor appoints the majority of the ARMB.

The **Alaska National Guard and Alaska Naval Militia Retirement System** (NGNMRS) was established by AS 26.05.222. The Commissioner of the Department of Administration is responsible for the administration of NGNMRS. NGNMRS costs, based upon actuarial valuations, are funded by the State. NGNMRS is reported in the fiduciary fund types as a pension (and other employee benefit) trust fund. The ARMB is the fiduciary of NGNMRS. The Governor appoints the majority of the ARMB.

The **Supplemental Benefits System** (SBS) was established by AS 39.30.150. The Commissioner of the Department of Administration is responsible for the administration of SBS. SBS is reported in the fiduciary fund types as a pension (and other employee benefit) trust fund. ARMB is the fiduciary of SBS. The Governor appoints the majority of the ARMB.

The **Deferred Compensation Plan** (DCP) was established by AS 39.45.010. The Commissioner of the Department of Administration is responsible for the administration of DCP. DCP is reported in the fiduciary fund types as a pension (and other employee benefit) trust fund. ARMB is the fiduciary of the DCP. The Governor appoints the majority of the ARMB.

Copies of the audited financial statements for the retirement systems, and for SBS and DCP, may be obtained from the Department of Administration, Division of Retirement and Benefits, P.O. Box 110203, Juneau, AK 99811-0203.

DISCRETELY PRESENTED COMPONENT UNITS

The **Alaska Aerospace Corporation** (AAC) is a public corporation of the State located for administrative purposes within the Department of Commerce, Community and Economic Development (AS 14.40.821). The Governor appoints the voting members of the AAC board of directors and the Legislature approves AAC's budget. AAC is also affiliated with the University of Alaska but with a separate and independent legal existence. The purpose of AAC is to allow the State to take a lead role in the exploration and development of space, to enhance human and economic development, to provide a unified direction for space-related economic growth, education and research development, and tourism related activities. AAC is also to promote the continued utilization of the Poker Flat Research Range as a launch site for launch vehicles and for scientific research. Additionally, AAC is to promote and encourage the continued utilization of Poker Flat Research Range for the University of Alaska's polar research efforts. AAC financial statements may be obtained from the Alaska Aerospace Corporation, 4300 B Street, Suite 101, Anchorage, AK 99503.

The **Alaska Energy Authority** (AEA) is a public corporation of the State in the Department of Commerce, Community and Economic Development but with a separate and independent legal existence (AS 44.83.020). The purpose of AEA was to promote, develop, and advance the general prosperity and economic welfare of the people of the State by providing a means of constructing, acquiring, financing, and operating power projects and facilities that recover and use waste energy.

However, Chapters 18 and 19, Session Laws of Alaska (SLA) 1993, which became effective August 11, 1993, eliminated the ability of AEA to construct, own, and acquire energy projects, and the programs operated by AEA were transferred to the Department of Community and Regional Affairs. The corporate structure of AEA was retained but the board of directors of the Alaska Industrial Development and Export Authority (AIDEA) is now the board of directors of AEA and the Executive Director of AIDEA is also the Executive Director of AEA. It is the intent of the legislation that ongoing operation of the operating assets be assumed by the electric utility companies that use or purchase power from AEA with oversight responsibility retained by AEA. The Governor appoints all members of the AEA board of directors and the Legislature approves AEA's budget.

Pursuant to legislation effective July 1, 1999, rural energy programs previously administered by the former Department of Community and Regional Affairs were transferred to AEA for administration as part of a larger reorganization of State agencies. Rural energy programs were originally part of AEA prior to the reorganization that occurred in 1993. AEA financial statements may be obtained from the Alaska Industrial Development and Export Authority, 813 W. Northern Lights Blvd., Anchorage, AK 99503.

The **Alaska Housing Finance Corporation** (AHFC) is a public corporation and government instrumentality within the Department of Revenue, but having a legal existence independent of and separate from the State (AS 18.56.020). The Governor appoints the board of directors of AHFC. The Legislature approves AHFC's budget. AHFC assists in providing decent, safe, and sanitary housing by financing mortgage loans. AHFC acts as the principal source of residential financing in the State and functions as a secondary mortgage market. AHFC financial statements may be obtained from the Alaska Housing Finance Corporation, P.O. Box 101020, Anchorage, AK 99510-1020.

The **Alaska Industrial Development and Export Authority** (AIDEA) is a public corporation of the State and a political subdivision within the Department of Commerce, Community and Economic Development (AS 44.88.020). The Governor appoints all members of the AIDEA board of directors and the Legislature approves AIDEA's budget. The purpose of AIDEA is to promote, develop, and advance the general prosperity and economic welfare of the people of Alaska; to relieve problems of unemployment; to create additional employment by providing various means of financing; and to facilitate the financing of industrial, manufacturing, export, and business enterprises within the State. AIDEA financial statements may be obtained from the Alaska Industrial Development and Export Authority, 813 W. Northern Lights Blvd., Anchorage, AK 99503.

The **Alaska Mental Health Trust Authority** (AMHTA) is established as a public corporation of the State within the Department of Revenue (AS 47.30.011). The Governor appoints the AMHTA board of trustees. The Legislature approves AMHTA's budget. The purpose of AMHTA is to ensure an integrated comprehensive mental health program. As provided in AS 37.14.009, AMHTA is to administer the trust established under the Alaska Mental Health Enabling Act of 1956. AMHTA financial statements may be obtained from the Alaska Mental Health Trust Authority, 3745 Community Park Loop, Suite 200, Anchorage, AK 99508.

The **Alaska Municipal Bond Bank Authority** (AMBBA) is a public corporation and an instrumentality of the State within the Department of Revenue, but with a legal existence independent of and separate from the State (AS 44.85.020). The Governor appoints members of the AMBBA board of directors. The Legislature approves AMBBA's budget. AMBBA was created for the purpose of making available to municipalities within the State, monies to finance their capital projects or for other authorized purposes by means of issuance of bonds by AMBBA and use of proceeds from such bonds to purchase from the municipalities their general obligation and revenue bonds. AMBBA commenced operations in August 1975. AMBBA financial statements may be obtained from the Alaska Municipal Bond Bank Authority, P.O. Box 110405, Juneau, AK 99811-0405.

The **Alaska Natural Gas Development Authority (**ANGDA) is a public corporation and government instrumentality in the Department of Revenue (AS 41.41.010). The authority has a legal existence independent of and separate from the State. The authority is governed by a seven member board of directors appointed by the Governor and confirmed by the Legislature. The budget is submitted and approved by the Governor and Legislature. The purpose of the authority is to bring natural gas from the North Slope to market. ANGDA financial statements may be obtained from the Alaska Gas Development Authority, 411 West 4th Avenue, 1st Floor, Anchorage, AK 99501.

The **Alaska Railroad Corporation** (ARRC) is a public corporation and instrumentality of the State within the Department of Commerce, Community and Economic Development (AS 42.40.010). ARRC has a legal existence independent of and separate from the State. The powers of ARRC are vested in the board of directors. All members of the board of directors of ARRC are appointed by and serve at the pleasure of the Governor. ARRC was created by the State Legislature to own and operate the railroad and manage its rail, industrial, port, and other properties. The ARRC commenced operations on January 6, 1985. ARRC financial statements may be obtained from the Alaska Railroad Corporation, P.O. Box 107500, Anchorage, AK 99510-7500.

The **Alaska Student Loan Corporation** (ASLC) is a public corporation and government instrumentality within the Department of Education and Early Development but having a legal existence independent of and separate from the State (AS 14.42.100). ASLC is governed by a board of directors appointed by the Governor. The Legislature approves ASLC's budget. The purpose of ASLC is to improve higher educational opportunities for residents of the State. ASLC financial statements may be obtained from the Alaska Commission on Postsecondary Education, 3030 Vintage Blvd., Juneau, AK 99801-7100.

The **University of Alaska** is established as a corporation and is an instrumentality of the State (AS 14.40.040). A board of regents appointed by the Governor and confirmed by the Legislature governs the university. The Legislature approves the university's budget. The university is created and acts for the benefit of the State and the public in providing education in accordance with an express mandate of the constitution. The financial statements of the university include the assets, liabilities, and related activity of the University of Alaska Foundation, a legally separate nonprofit component unit. The university is not accountable for, nor has ownership of, the foundation's resources. The university's financial statements may be obtained from the University of Alaska, Statewide Fund Accounting, 209 Butrovich Building, P.O. Box 756540, Fairbanks, AK 99775-6540.

The **Alaska Seafood Marketing Institute** (ASMI) is a public corporation of the State (AS 16.51.010). It is an instrumentality of the State with a legal existence independent of and separate from the State. ASMI is governed by a board of directors appointed by the Governor, and its budget is approved by the Legislature. The purpose of ASMI is to promote all species of seafood and their by-products harvested in Alaska for sale, and to develop market-oriented quality specifications. Exercise of the powers conferred by statute to ASMI is an essential governmental function. ASMI financial statements are included in the Combining Fund section of this CAFR with the Nonmajor Component Units. In addition, fund financial statements are included as other supplementary information, since there are no separately issued financial statements for ASMI.

B. BASIC FINANCIAL STATEMENTS

The basic financial statements include government-wide financial statements and fund financial statements (as well as these notes to the financial statements). The previous financial reporting model emphasized fund types (the total of all funds of a particular type), while the new financial reporting model focus is on either the State as a whole (government-wide statements), or on major individual funds (fund financial statements). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type.

The government-wide financial statements (Statement of Net Assets and Statement of Activities) report information of all nonfiduciary activities of the State and its component units. For the most part, the effect of interfund activity has been removed from these government-wide statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services. Likewise, the primary government is reported separately from the component units for which the primary government is financially accountable.

The Statement of Net Assets presents the reporting entity’s nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

- **Invested in capital assets, net of related debt** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

- **Restricted net assets** result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

- **Unrestricted net assets** consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often are designated to indicate that management does not consider them available for general operations (see note 1.F.). Unrestricted net assets often have constraints on resources that are imposed by management, but can be modified or removed.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, segment, or component unit. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not meeting the definition of program revenues are reported as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the fiduciary funds are excluded from the government-wide statements. The fund financial statements focus on major funds, of which the State has three: the General Fund and the Alaska Permanent Fund, both of which are governmental funds; and the International Airports Fund, which is an enterprise fund. All nonmajor funds are summarized into a single column on the respective fund statements: governmental; proprietary, which includes enterprise and internal service fund types; and fiduciary, which includes pension (and other employee benefit) trust funds, and agency funds.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The government-wide financial statements are reported using the economic resource management focus and the accrual basis of accounting, as are the proprietary and fiduciary fund financial statements; however, agency funds have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become measurable and available to finance operations during the current year or to liquidate liabilities existing at the end of the year (collectible within 60 days of fiscal year end). Major revenues that are determined to be susceptible to accrual include federal, charges for services, investment income, and petroleum related taxes and royalties.

Expenditures are recognized when a liability is incurred. However, expenditures related to debt service, compensated absences, and claims and judgments are recorded only when payment is due and payable.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The State has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues and expenses are reported as nonoperating.

When both restricted and unrestricted resources are available for use, it is the State's policy to use restricted resources first, then unrestricted resources as they are needed.

D. FINANCIAL STATEMENT PRESENTATION

The State reports three major funds, the General Fund, and the Alaska Permanent Fund, both of which are governmental funds, and the International Airports Fund, which is a proprietary enterprise fund. The General Fund is the State's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund. The Alaska Permanent Fund was created in 1976 to save a portion of the State's one-time oil wealth to produce income to benefit current and future generations. The International Airports Fund was created in 1961 to equip, finance, maintain, and operate two international airports located in Anchorage and Fairbanks. In addition, the State reports the following fund types:

<u>GOVERNMENTAL FUND TYPES</u>

Special revenue funds are used to account for the proceeds of specific revenue sources that are generally legally restricted to expenditure for specified purposes.

Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Capital project funds account for the acquisition or construction of major capital facilities financed by bond proceeds.

Permanent funds are used to account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that benefit the government or its citizenry. In addition to the Alaska Permanent Fund (major fund), the State has two other permanent funds, the Public School Trust Fund and the Alaska Mental Health Trust Authority (a discretely presented component unit).

<u>PROPRIETARY FUND TYPES</u>

Enterprise funds are used to report any activity for which a fee is charged to external users for goods and services.

Internal service funds are used to report any activity that provides goods or services primarily to other funds or agencies of the State, rather than to the general public. Internal service fund activities of the State include facilities management of State-owned buildings, self-insurance health care for State employees, vehicle and equipment maintenance and supplies, and computing and telecommunication services.

FIDUCIARY FUND TYPES

Pension (and other employee benefits) trust funds are used to report resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, and other postemployment benefit plans. These funds account for the Alaska National Guard and Alaska Naval Militia Retirement System, Deferred Compensation, Judicial Retirement System, Public Employees' Retirement System, Retiree Health, Supplemental Benefits System, and Teachers' Retirement System.

Agency funds are used to report resources held by the State purely in a custodial capacity (assets equal liabilities). These funds include resources from unclaimed property, wage and hour, deposits/bonds held, offender trust accounts, advocacy/guardianship trusts, and damage recoveries arising out of the Exxon Valdez oil spill.

E. FISCAL YEAR ENDS

All funds and discretely presented component units of the State are reported using fiscal years, which end on June 30, except the Alaska Railroad Corporation and Deferred Compensation Fund fiscal years end on December 31, and the Alaska Supplemental Benefits System fiscal year ends on January 31.

F. ASSETS, LIABILITIES, AND NET ASSETS / FUND BALANCE

CASH AND INVESTMENTS, CASH AND CASH EQUIVALENTS

The amounts shown on the statements of net assets and the balance sheets as Cash and Investments represent cash on deposit in banks, petty cash, cash invested in various short-term instruments, and other investments of the State and its component units. Investments are stated at fair value, which approximates market value. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Investment purchases and sales are recorded on a trade-date basis.

Marketable debt 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 noninterest bearing deposits are reported at cost, which approximates fair value.

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

Emerging markets securities are valued at their current market or fair values on the last business day of each month by the Trustee.

Private equity securities are valued periodically by the general partners. Underlying private equity investments that are listed on a national exchange are valued using quoted market prices. Securities for which there are not market quotations available are initially carried at original cost and subsequently valued at fair value as determined by the general partners. In determining fair value, the financial condition, operating results and projected operating cash flow of the underlying portfolio companies, prices paid in private sales of such securities, the nature and duration of restrictions on disposition of the securities, the expenses and delay that would be involved in registration, the price and extent of public trading in similar securities, the existence of merger proposals or tender offers affecting securities, reports prepared by analysts are considered as appropriate. Because of the inherent uncertainty of valuations, however, these estimated values may differ significantly from the values that would have been used had a ready market for the securities existed, and these differences could be material.

Absolute return investments are carried at fair value as determined by the pro-rata interest in the net assets of the underlying investment funds. These investment funds are valued periodically by the general partners and the managers of the underlying investments. The net asset value represents the amount that would be expected to be received if it were to liquidate its interests subject to liquidity or redemption restrictions. Because of the inherent uncertainty of valuations, however, these estimated values may differ significantly from the values that would have been used had a ready market for the securities existed, and these differences could be material.

The energy related investments consist primarily of loans and preferred stock that are valued at fair value.

Real estate, farmland, farmland waterway, and timber investments are valued quarterly by investment managers and are appraised annually by independent appraisers.

Real estate investment trust holdings are valued each business day using prices obtained from a pricing service.

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.

The Statement of Cash Flows for the enterprise funds shows changes in cash and cash equivalents. For the purpose of the Statement of Cash Flows, all highly liquid debt instruments with original maturities of three months or less are considered cash and cash equivalents. In addition, because the State's General Fund and Other Non-segregated Investment (GeFONSI) pool and the Short-term Fixed Income Pool operates as demand deposit accounts, amounts invested in the pools are classified as cash and cash equivalents. At June 30, 2011, the assets of the GeFONSI pool were comprised of shares in the Short-term Fixed Income Pool and shares in the Intermediate-term Fixed Income Pool.

RECEIVABLES

Receivables have been established and offset with proper provisions for estimated uncollectible accounts where applicable. The amount of noncurrent receivables is included in the fund balance reserve, which indicates they do not constitute expendable available financial resources and therefore are not available for appropriation.

Practically all accounts receivable of governmental funds are due from oil companies and governmental entities, primarily the federal government, and are considered collectible. Accounts receivable in other funds have arisen in the ordinary course of business.

INTER/INTRAFUND TRANSACTIONS

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as due to/from other funds. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

INVENTORIES

Inventories reported for the internal service funds and the General Fund consist mainly of consumable materials and supplies. Inventories are carried at cost (average cost for Highway Equipment Working Capital; first in first out (FIFO) for the General Fund), and are accounted for on the consumption method. However, the majority of materials and supplies for State agencies are accounted for as expenditures at the time of purchase. Inventory of the Alaska Aerospace Corporation and the University of Alaska are carried at the lower of cost or market. The Alaska Railroad Corporation carries their inventories at the lower of average cost or market.

CAPITAL ASSETS

Capital assets are reported in the Statement of Net Assets at cost or estimated historical cost. Donated capital assets are recorded at estimated fair market value at the time of donation including Statehood entitlement land that is carried at an estimated value of $1 per acre.

Capital assets are depreciated on the straight-line method over the estimated useful lives of the related assets.
All public domain infrastructure acquired by the State, such as highways, bridges, harbors, and rural airports, is capitalized.

The State possesses certain capital assets that have not been capitalized and depreciated because the assets cannot be reasonably valued and/or the assets have inexhaustible useful lives. These assets include the State's art collections, library reserve collections, and museum and historical collections. These assets are: held for public exhibition, education, or research rather than financial gain; protected, kept unencumbered, cared for, and preserved; and proceeds from the sale of collection items are used to acquire other items for collections.

Additional disclosures related to capital assets are provided in Note 5.

COMPENSATED ABSENCES

Regulations governing annual/personal leave (vacation pay) provide that State employees will receive time off, or pay, for hours accumulated. Consequently, a liability exists with respect to accumulated annual/personal leave at any given time. As of June 30, 2011, this liability is recognized and reported in the government-wide and proprietary fund financial statements. The State's estimated liability for compensated absences, as reported in the government-wide Statement of Net Assets, is $161.2 million. There is no liability in the accompanying financial statements for unpaid accumulated sick leave. Accumulated sick leave may be used only for actual illness. When an employee separates from state service, any sick leave balance to their credit is reduced to zero without additional compensation to the employee. See Note 12 for disclosure of the amount of the sick leave contingency.

The cost of compensated absences (annual/personal leave and sick leave) for State employees is charged against agency appropriations when leave is used rather than when leave is earned, except for the payment of the accumulated annual/personal leave balance for an employee terminating from state service. That amount is charged to a terminal leave liability account rather than the individual agency appropriation. This liability account is funded by a charge to each agency's operating budget.

NET ASSETS / FUND BALANCE

The difference between fund assets and liabilities is "net assets" on the government-wide, proprietary, and fiduciary fund statements, and is "fund balance" on the governmental fund statements.

FUND BALANCE COMPONENTS

The fund balance amounts for governmental funds have been reclassified in accordance with GASB Statement No. 54. As a result, amounts previously reported as reserved and unreserved are now reported as nonspendable, restricted, committed, assigned, or unassigned.

- Nonspendable fund balance includes items that cannot be spent. This includes activity that is not in a spendable form (inventories, prepaid amounts, long-term portion of loans/notes receivable, or property held for resale unless the proceeds are restricted, committed or assigned) and activity that is legally or contractually required to remain intact, such as a principal balance in a permanent fund.

- Restricted fund balance have constraints placed upon the use of the resources either by an external party or imposed by law through a constitutional provision or enabling legislation.

- Committed fund balance can be used only for specific purposes pursuant to constraints imposed by a formal action of the Alaska Legislature, the State's highest level of decision-making authority. This formal action is the passage of law by the legislature, creating, modifying, or rescinding an appropriation.

- Assigned fund balance includes amounts that are constrained by the State's intent to be used for a specific purpose, but are neither restricted nor committed. For governmental funds, other than the General Fund, this is the residual amount within the fund that is not restricted or committed.

- Unassigned fund balance is the residual amount of the General Fund not included in the four categories described above. Also, any deficit fund balances within the other governmental fund types are reported as unassigned.

Each fund has been analyzed to classify the fund balance in accordance with GASB Statement No. 54. Funds are created by the Legislature and money is authorized to be transferred to the fund for a particular purpose. At this point, balances in these funds are at least committed, and may be further restricted depending on whether there is an external party, constitutional provision, or enabling legislation constraint involved.

The appropriated balance in the General Fund (fund 11100) is committed, and the remaining balance is unassigned. All other governmental funds, including subfunds of the General Fund are presented as restricted or committed, with the exception of the three subfunds of the General Fund, which are unassigned. The spendable portion of the Alaska Permanent Fund is classified as assigned.

The State of Alaska Constitution, Article 9, Section 13, states that "No money shall be withdrawn from the treasury except in accordance with appropriations made by law. No obligation for the payment of money shall be incurred except as authorized by law. Unobligated appropriations outstanding at the end of the period of time specified by law shall be void."

Appropriations formally approved by the Legislature are then forwarded to the Governor for action which either become law or vetoed.

Appropriations specify the funding source, and therefore the order in which restricted, committed, assigned, or unassigned fund balance gets spent.

Article 9, Section 17(d) of the Alaska Constitution, requires annual repayment from the General Fund and the subfunds of the General Fund for amounts borrowed from the Constitutional Budget Reserve Fund. To implement this provision, unassigned balances are used first, then committed balances. There are no assigned balances within the General Fund or subfunds.

The following shows the composition of the fund balance of the governmental funds for the fiscal year ended June 30, 2011 (in thousands):

	General	Permanent	Special Revenue	Debt Service	Capital Projects
Nonspendable:					
Compensating Balances	$ 100,000	$ -	$ -	$ -	$ -
Inventory	15,877	-	-	-	-
Principal	-	38,261,469	-	-	-
Advances and Prepaid Items	30,648	-	-	-	-
Total Nonspendable	146,525	38,261,469	-	-	-
Restricted:					
Debt Service	1,994	-	-	45,798	-
Education	11,793	-	8,208	-	184,045
Health & Human Services	532	-	16,841	-	-
Development	114,982	-	37,049	-	113,970
Other Purposes	5,562	-	152	-	-
Total Restricted	134,863	-	62,250	45,798	298,015
Committed					
Debt Service	11,659	-	-	-	-
Education	1,405,688	11,249	-	-	-
Health & Human Services	151,654	-	-	-	-
Public Protection	150,496	-	-	-	-
Permanent Fund	808,295	-	-	-	-
Development	1,788,501	-	806,103	-	-
Other Purposes	132,680	-	-	-	-
Total Committed	4,448,973	11,249	806,103	-	-
Assigned					
Permanent Fund	-	2,307,820	-	-	-
Total Assigned	-	2,307,820	-	-	-
Unassigned	13,051,711	-	-	-	-
Total Fund Balance	$ 17,782,072	$ 40,580,538	$ 868,353	$ 45,798	$ 298,015

RESTRICTED NET ASSETS

Permanent Funds

Restricted net assets for permanent funds are required to be identified as expendable or nonexpendable. All of the Alaska Permanent Fund restricted net assets ($37,832 million), $429 million of the Public School Trust Fund restricted net assets, and $391 million of the Alaska Mental Health Trust Authority (a discretely presented component unit) restricted net assets are nonexpendable. The remaining $11 million (three percent) of the Public School Trust Fund restricted net assets, and $97 million (20 percent) of the Alaska Mental Health Trust Authority restricted net assets are expendable.

Net Assets Restricted by Enabling Legislation

The government-wide statement of net assets reports $39.5 billion of restricted net assets for the primary government, of which $23.3 million is restricted by enabling legislation.

NOTE 2 – BUDGETING, BUDGETARY CONTROL, AND LEGAL COMPLIANCE

Once money received is deposited in the state treasury, it may not be withdrawn from the treasury except in accordance with an appropriation made by law. Those amounts received by component units are disbursed in accordance with their particular statutory authority.

The budgetary process is used to establish a balancing of estimated revenues coming into a fund with requested appropriations for that fund. Except for capital project funds, which prepare only project-length budgets, annual operating (and project-length) budgets are prepared for practically every fund and are submitted to the legislature for the enactment of appropriations. An appropriation is an authorization to spend money and to incur obligations. Each appropriation is limited as to purpose, time, and amount, and each of these limitations is legally binding. The legal level of budgetary control is maintained at the appropriation level as specified in the enabling legislation, which is generally at the program level within a department.

Appropriations, as enacted by the legislature and signed by the governor, are entered into the accounting records. The balance of an appropriation is reduced when funds are expended or encumbered. Appropriations are encumbered for anticipated expenditures in the form of purchase orders, contracts, and other obligations. Encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities. Unencumbered balances of annual appropriations lapse at the end of the fiscal year.

Expenditures of funds are made only upon properly approved requests for payment. The total of expenditures and encumbrances (obligations) may not exceed the appropriations to which they pertain. Transfers between appropriations are not authorized. Agencies faced with potential over expenditure of appropriations must (1) reduce the rate of expenditures, (2) seek relief through supplemental appropriations, or (3) request necessary approvals to receive and expend additional funds. In order to provide sufficient funding for several programs during FY 11, supplemental appropriations within the operating and capital budgets were enacted. The total supplemental appropriations for the FY 11 operating budget of $179.0 million were enacted, of which $88.8 was appropriated from the General Fund, $19.0 million was appropriated from other funds, and $71.2 million was appropriated from federal funds. In addition, the total supplemental appropriations for the FY 11 capital budget of $115.3 million were enacted, of which $63.8 million was appropriated from the General Fund, $51.5 million was appropriated from federal funds.

Governmental funds with annually approved budgets include the General Fund, Special Revenue Funds (with the exception of the Alaska Housing Capital Corporation, Northern Tobacco Securitization Corporation, and Reclamation Bonding Pool), and all Permanent Funds.

SPENDING LIMITS

In 1982, the voters of Alaska approved an amendment to the Alaska Constitution to control state spending. Article IX, section 16, establishes an annual appropriation limit of $2.5 billion plus adjustments for changes in population and inflation since July 1, 1981. Within this limit, one-third is reserved for capital projects and loan appropriations. For FY 11, the Office of Management and Budget estimated the limit to be approximately $9.0 billion. The FY 11 budget passed by the legislature and after vetoes was $7.6 billion (unrestricted General Fund revenues only), or $1.4 billion less than the constitutional spending limit.

CONSTITUTIONAL BUDGET RESERVE FUND

In 1990, the voters of Alaska approved an amendment to the Alaska Constitution to establish a budget reserve fund (CBRF). Article IX, section 17, states, in part, "…Except for money deposited into the permanent fund under Section 15 of this article, all money received by the State after July 1, 1990, as a result of the termination, through settlement or otherwise, of an administrative proceeding or of litigation in a state or federal court involving mineral lease bonuses, rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments or bonuses, or involving taxes imposed on mineral income, production, or property, shall be deposited in the budget reserve fund. …"

The fund was established to enhance budget stability by depositing certain monies into the CBRF (where they could not be easily spent) rather than into the General Fund (where they would be readily available for appropriation for expenditure). Money may be appropriated from the fund in accordance with the provisions of section 17(b) and (c).

The constitution further provides that all money appropriated from the fund must be repaid to the fund. Section 17(d) states "If an appropriation is made from the budget reserve fund, until the amount appropriated is repaid, the amount of money in the General Fund available for appropriation at the end of each succeeding fiscal year shall be deposited in the budget reserve fund. The legislature shall implement this subsection by law." All borrowing from the CBRF was completely repaid in FY 10 and no borrowing activity from the CBRF occurred during FY 11.

NOTE 3 – PRIOR PERIOD ADJUSTMENTS

ALASKA NATURAL GAS DEVELOPMENT AUTHORITY

During FY 11 Alaska Natural Gas Development Authority (ANGDA) consulted with an outside party in order to develop criteria to determine which expenditures should be capitalized as well as determining their useful lives. Using the established criteria, ANGDA reevaluated the capital expenditures from FY 04 through FY 10 and capitalized an additional $1,272 thousand. Below is the result of the right-of-way asset restatement:

	Beginning Balance	Prior Year Adjustment	Restated Beginning Balance	Additions	Deletions	Ending Balance
Land/Right-of-Way	$ 6,514	$ 1,272	$ 7,786	$ 688	$ 810	$ 7,664

NOTE 4 – DEPOSIT AND INVESTMENT RISK

Deposits and investments may be exposed to various types of risks. These risks are interest rate risk, credit risk, custodial credit risk, concentration of credit risk, and foreign currency risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Custodial credit risk is the risk that deposits may not be returned in the event of a bank failure. Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment.

A. DEPOSITS AND INVESTMENTS UNDER THE FIDUCIARY RESPONSIBILITY OF THE COMMISSIONER OF REVENUE

By law, all deposits and investments are under the fiduciary responsibility of the Commissioner of the Department of Revenue (Commissioner) except where the legislature has delegated that responsibility to other entities or boards responsible for separate subdivisions or component units of the State. Those agencies and component units that manage their own cash and investments are: Alaska Permanent Fund Corporation, Alaska Energy Authority, Alaska Housing Finance Corporation, Alaska Industrial Development and Export Authority, Alaska Municipal Bond Bank Authority, Alaska Railroad Corporation, Alaska Mental Health Trust Authority, Alaska Student Loan Corporation, Alaska Retirement Management Board, Exxon Valdez Oil Spill Trustee Council, and the University of Alaska

Invested assets under the fiduciary responsibility of the Commissioner are comprised of the General Fund and Other Non-segregated Investments, Constitutional Budget Reserve Fund, International Airports Fund, Retiree Health Insurance Fund, Power Cost Equalization Endowment Fund, General Obligation Bond Fund, Mine Reclamation Trust Fund, Alaska Sport Fish Construction Fund as well as the Public School, Alaska Children's, and Investment Loss trust funds (all collectively, Funds).

As the fiduciary, the Commissioner has the statutory authority (AS 37.10.070 - 37.10.071) to invest the assets under the Prudent Investor Rule which requires 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.

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, International Equity and the Emerging Income Plus Debt Pools are managed externally. Treasury manages the Short-term Fixed Income Pool, Non-interest Bearing Deposits, Intermediate-term Fixed Income Pool, U.S. Treasury Fixed Income Pool, and the Broad Market Fixed Income Pool, in addition to acting as oversight manager for all externally managed investments.

Additional information related to the various pools and investments is disclosed in the financial schedules issued by the Department of Revenue, Treasury Division. These financial schedules are available through the Department of Revenue, Treasury Division, P.O. Box 110405, Juneau, AK 99811-0405 or at http://dor.alaska.gov/treasury/.

Deposits and investments at June 30, 2011, are as follows:

	Fair Value (in thousands)						
Investment Type	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:							
Alaska Retirement Management Board	(292,598)	-	-	-	-	-	(292,598)
Exxon Valdez Oil Spill Trustee Council	(1)	-	(56,853)	-	-	(128,140)	(184,994)
University of Alaska	-	-	-	-	-	(62,185)	(62,185)
Alaska Student Loan Corporation	-	(2,230)	-	-	-	-	(2,230)
Alaska Mental Health Trust Authority	(4,157)	-	(11,976)	-	-	(25,964)	(42,097)
Total Invested Assets	$ 5,697,222	$ 8,036,124	$ 3,244,236	$ 108,297	$ 36,188	$ 3,744,348	$ 20,866,415

Interest Rate Risk

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-term and Broad Market and Conservative Broad Market Fixed Income Pools

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

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

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

Intermediate-term Fixed Income Pool - ± 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 - ± 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 - ± 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.

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	U.S. 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	-	-
U.S. Government Agency	2.65	5.74	-
U.S. 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 according to the terms of the related bond indentures. The respective bond indentures do not establish policy with regard to interest rate risk.

Credit Risk

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 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.

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):

Investment Type	Rating	Short-term Fixed Income Pool	Intermediate-term Fixed Income Pool	Broad Market Fixed Income Pool	U.S. Treasury Pool
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%
		100.00%	100.00%	100.00%	100.00%

Custodial Credit Risk – Deposits

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 (in thousands)
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 (in thousands)	Percent of Total Pool Investments
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.

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 FY 11 and invested assets included the following holdings at June 30, 2011, for the funds invested in the International Equity Pool:

	Policy	Actual
Alaska Children's Trust Fund	11% ± 5%	15%
Constitutional Budget Reserve Fund, Subaccount	9% ± 5%	14%
Exxon Valdez Settlement Investments	23% ± 5%	23%
Mental Health Trust Reserve	21% ± 5%	21%
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:

Currency	Fair Value (in thousands)
Deposits:	
Danish Krone	$ 11
Euro Currency	38
Japanese Yen	301
	350
Investments - International Equity:	
Australian Dollar	7,142
Canadian Dollar	3,592
Euro Currency	52,037
Hong Kong Dollar	2,237
Japanese Yen	37,885
New Zeland Dollar	2,520
Norwegian Krone	1,556
Pound Sterling	53,478
Swedish Krona	4,142
Swiss Franc	11,093
	175,682
Total	$ 176,032

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 (in thousands):

	Changes in Fair Value		Fair Value		
	Classification	Amount	Classification	Amount	Notional
FX Forwards	Investment Revenue	$ (54)	Long-term Instruments	$ -	$ -
Rights	Investment Revenue	46	Common Stock	-	-

Additionally the International Equity Pool had the following income from foreign exchange transactions at June 20, 2011 (in thousands):

Net Realized Gain on Foreign Currency	$ 3,714

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.

B. DEPOSITS AND INVESTMENTS UNDER CONTROL OF THE ALASKA RETIREMENT MANAGEMENT BOARD

Invested assets of the pension (and other employee benefit) trust funds (Public Employees', Teachers', Judicial, and the Alaska National Guard and Naval Militia Retirement Systems) as well as the Supplemental Benefits System and Deferred Compensation Plans are under the fiduciary responsibility of the Alaska Retirement Management Board (ARMB).

PENSION FUNDS

The ARMB has statutory responsibility (AS 37.10.210-390) for the pension (and other employee benefit) trust funds' investments (Pension Funds). Alaska Statute 37.10.071 provides 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.

The Department of Revenue, Treasury Division (Treasury) provides staff for the ARMB. Treasury has created a pooled environment by which it manages investments of the ARMB. Additionally, Treasury manages a mix of Pooled Investment Funds and Collective Investment Funds for the Defined Contribution Retirement Participant Directed Pension Plan under the ARMB's fiduciary responsibility.

Actual investing is performed by investment officers in Treasury or by contracted external investment managers. The ARMB has developed investment guidelines, policies and procedures for Treasury staff and external investment managers to adhere to when managing investments. Specifically, the High Yield Fixed Income Pool, International Fixed Income Pool, Emerging Markets Debt Pool, Large Cap Domestic Equity Pool, Small Cap Domestic Equity Pool, Convertible Bond Domestic Equity Pool, International Equity Large Cap Pool, International Equity Small Cap Pool, Emerging Markets Equity Pool, Private Equity Pool, Absolute Return Pool, Real Estate Pool, Energy Pool, Farmland Pool, Farmland Water Pool, Timber Pool, Pooled Participant Directed Investment Funds, and Collective Investment Funds are managed by external management companies. Treasury manages the Alaska Retirement Fixed Income Pool, U.S. Treasury Fixed Income Pool, Real Estate Investment Trust Pool, Treasury Inflation Protected Securities Pool and cash holdings of certain external managers in addition to acting as oversight manager for all externally managed investments.

The Short-term Fixed Income Pool is a State pool managed by Treasury that holds investments on behalf of the ARMB as well as other state funds.

Additional information related to the various pools and investments is disclosed in the financial schedules issued by the ARMB. These financial schedules are available through the Department of Revenue, Treasury Division, P.O. Box 110405, Juneau, AK 99811-0405 or at http://dor.alaska.gov/treasury/.

Deposits and investments at June 30, 2011 are as follows:

	Fair Value (in thousands)				
	Fixed Income Pools				
	Short-term	Retirement	U.S. Treasury	High Yield	International
Bridge Loans	$ -	$ -	$ -	$ 590	$ -
Commercial Paper	21,841	-	15,506	-	-
Convertible Bonds	-	-	-	4,873	-
Corporate Bonds	96,613	-	62,458	349,275	-
Deposits	-	-	-	-	1,712
Foreign Corporate Bonds	-	-	-	-	79,536
Foreign Government Bonds	-	-	-	-	275,635
Mortgage-backed	4,485	21,214	59,006	-	-
Mutual Funds	-	-	-	-	-
Other Asset-backed	96,932	-	342	-	-
Overnight Sweep Account (LMCS)	2,606	-	-	19,049	-
Short-term Investment Fund	-	-	-	-	3,297
U.S. Government Agency	5,390	-	14,312	-	-
U.S. Government Agency					
Discount Notes	7,988	-	-	-	-
U.S. Treasury Bills	45,666	-	-	-	-
U.S. Treasury Bonds	-	-	122,939	-	-
U.S. Treasury Notes	-	-	1,472,922	-	10,689
Yankees:					
Corporate	1,907	-	26,171	27,161	-
Government	-	-	1,530	-	-
Fixed Income Pools:					
Equity	-	-	-	466	-
Warrants	-	-	-	35	-
Emerging Markets Debt Pool	-	-	-	-	-
Broad Domestic Equity Pools:					
Convertible Bonds	-	-	-	-	-
Deposits					
Equity	-	-	-	-	-
Limited Partnership	-	-	-	-	-
Mutual Fund					
Options					
Rights					
U.S. Treasury Bills	-	-	-	-	-
Broad International Equity Pool:					
Deposits	-	-	-	-	-
Equity	-	-	-	-	-
Rights	-	-	-	-	-
Emerging Markets Equity Pool	-	-	-	-	-
Private Equity Pool:					
Limited Partnerships	-	-	-	-	-
Absolute Return Pool:					
Limited Partnerships	-	-	-	-	-
Real Estate Pool:					
Commingled Funds	-	-	-	-	-
Limited Partnerships	-	-	-	-	-
Real Estate	-	-	-	-	-
Real Estate Investment Trust Pool:					
Equity	-	-	-	-	-
Energy Pool:					
Limited Partnerships	-	-	-	-	-
Farmland Pool:					
Agricultural Holdings	-	-	-	-	-
Farmland Water Pool:					
Agricultural Holdings	-	-	-	-	-
Timber Pool:					
Timber Holdings	-	-	-	-	-
Participant Directed:					
Collective Investment Funds	-	-	-	-	-
Pooled Investment Funds	-	-	-	-	-
Net Other Assets/(Liabilities)	131	174	(3,256)	4,700	5,594
Other Pool Ownership	(160,099)	19,113	24,327	-	-
Total Invested Assets	$ 123,460	$ 40,501	$ 1,796,257	$ 406,149	$ 376,463

This table continued on the next page.

Deposits and investments at June 30, 2011 are as follows (continued):

	Fair Value (in thousands)			
	Fixed Income Pools			
	Convertible	TIPS	Other	Total
Bridge Loans	$ -	$ -	$ -	$ 590
Commercial Paper	-	-	-	37,347
Convertible Bonds	-	-	-	4,873
Corporate Bonds	-	-	-	508,346
Deposits	-	-	-	1,712
Foreign Corporate Bonds	-	-	-	79,536
Foreign Government Bonds	-	-	-	275,635
Mortgage-backed	-	-	-	84,705
Mutual Funds	-	-	200,580	200,580
Other Asset-backed	-	-	-	97,274
Overnight Sweep Account (LMCS)	322	-	-	21,977
Short-term Investment Fund	-	-	20,656	23,953
U.S. Government Agency	-	-	-	19,702
U.S. Government Agency				
Discount Notes	-	-	-	7,988
U.S. Treasury Bills	-	-	-	45,666
U.S. Treasury Bonds	-	66,146	-	189,085
U.S. Treasury Notes	-	125,256	-	1,608,867
Yankees:				
Corporate	-	-	-	55,239
Government	-	-	-	1,530
Fixed Income Pools:				
Equity	-	-	-	466
Warrants	-	-	-	35
Emerging Markets Debt Pool	-	-	128,388	128,388
Broad Domestic Equity Pools:				
Convertible Bonds	82,732	-	-	82,732
Deposits	-		24,459	24,459
Equity	10,556	-	4,295,059	4,305,615
Limited Partnership	-	-	326,161	326,161
Mutual Fund			60,456	60,456
Options			(29,317)	(29,317)
Rights			1	1
U.S. Treasury Bills	-	-	4,594	4,594
Broad International Equity Pool:				
Deposits	-	-	34,586	34,586
Equity	-	-	2,676,067	2,676,067
Rights	-	-	188	188
Emerging Markets Equity Pool	-	-	980,228	980,228
Private Equity Pool:				
Limited Partnerships	-	-	1,497,378	1,497,378
Absolute Return Pool:				
Limited Partnerships	-	-	719,706	719,706
Real Estate Pool:				
Commingled Funds	-	-	259,116	259,116
Limited Partnerships	-	-	359,494	359,494
Real Estate	-	-	687,332	687,332
Real Estate Investment Trust Pool:				
Equity	-	-	164,928	164,928
Energy Pool:				
Limited Partnerships	-	-	87,445	87,445
Farmland Pool:				
Agricultural Holdings	-	-	531,654	531,654
Farmland Water Pool:				
Agricultural Holdings	-	-	27,754	27,754
Timber Pool:				
Timber Holdings	-	-	190,849	190,849
Participant Directed:				
Collective Investment Funds	-	-	178,483	178,483
Pooled Investment Funds	-	-	73,127	73,127
Net Other Assets/(Liabilities)	513	1,301	10,477	19,634
Other Pool Ownership	-	491	116,168	-
Total Invested Assets	$ 94,123	$ 193,194	$ 13,626,017	$ 16,656,164

Interest Rate Risk

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.

Other Defined Benefit 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, options, and other variable cash flows to calculate effective duration.

Through the ARMB's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the Retirement Fixed Income portfolio to ± 20 percent 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.

Through the ARMB's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the Intermediate U.S. Treasury Fixed Income to ± 20 percent of the Barclays Capital U.S. Treasury Intermediate Index. The effective duration for the Barclays Capital U.S. Treasury Intermediate Index at June 30, 2011 was 3.94 years.

Through the ARMB's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the High Yield Fixed Income portfolio to ± 20 percent of the Merrill Lynch U.S. High Yield Master II Constrained Index. The effective duration for the Merrill Lynch U.S. High Yield Master II Index Constrained Index at June 30, 2011 was 4.52 years.

Through the ARMB's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the International Fixed Income portfolio to ± 25 percent of the Citigroup Non-USD World Government Bond Index. The effective duration for the Citigroup Non-USD World Government Bond Index at June 30, 2011 was 6.97 years.

Through the ARMB's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the TIPS portfolio to ± 20 percent of the Barclays Capital U.S. Treasury Inflation-Protected (U.S. TIPS) Index, or a reasonable proxy thereof. The average life of the proxy index at June 30, 2011 was 5.31 years.

The ARMB does not have a policy to limit interest rate risk for the Emerging Debt or Convertible Bond portfolios.

At June 30, 2011, the effective duration of the ARMB's fixed income pools, by investment type, was as follows:

	Effective Duration (in years)				
	Retirement	U.S. Treasury	High Yield	International	TIPS
Corporate Bonds	-	4.18	4.66	-	-
Convertible Bonds	-	-	0.30	-	-
Equity			7.49	-	
Foreign Corporate Bonds	-	-	-	1.30	-
Foreign Government Bonds	-	-	-	3.98	-
Mortgage-backed	2.72	2.32	-	-	-
Other Asset-backed	-	1.98	-	-	-
U.S. Treasury Bonds	-	7.61	-	-	9.49
U.S. Treasury Notes	-	3.67	-	5.86	2.92
U.S. Government Agency	-	7.71	-	-	-
Yankees:					
Corporate	-	3.27	4.42	-	-
Government	-	(4.69)	-	-	
Portfolio Effective Duration	1.43	3.86	4.37	3.40	5.18

Defined Contribution Pooled Investment Funds

The ARMB contracts with an external investment manager who is given the authority to invest funds in a wholly-owned pooled environment to accommodate thirteen participant directed funds. Through the ARMB's investment policy, exposure to fair value losses arising from increasing interest rates is managed by limiting the duration as follows:

Under normal conditions, for government debt, corporate debt, and mortgage-backed securities, duration is limited to ± 0.2 years of the Barclays Capital U.S. Aggregate Bond Index. Further deviations are acceptable if they do not contribute significantly to the overall risk of the portfolio. In no event, at time of purchase shall effective duration exceed ± 0.4 years relative to the index.

At June 30, 2011, the duration of the government corporate debt, and mortgage-backed securities was 5.12 years and the duration of the Barclays Capital Aggregate Bond Index was 5.19 years.

Under normal conditions, the Trust will invest in cash equivalent instruments with maturities of less than one year.

Defined Contribution Collective Investment Funds

The ARMB does not have a policy to limit interest rate risk for its collective investment funds. At June 30, 2011, the modified duration of collective investment funds that consisted solely of debt securities were as follows – SSgA Money Market Trust: 0.05 years, SSgA World Government Bond Ex-US Index: 6.76 years, SSgA Long US Treasury Bond Index: 14.46 years, SSgA TIPS Index: 4.69 years, Barclays Gov/Corp Bond Fund: 7.73 years, and the Barclays Intermediate Bond Fund: 3.98 years.

Credit Risk

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 P1 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 rated by only one of these agencies if they are rated AAA.

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

Retirement Fixed Income:

Commercial paper must carry a rating of at least P-1 by Moody's and A-1 by Standard & Poor's.

Corporate debt securities must be investment grade.

Corporate, asset-backed and non-agency mortgage securities must be investment grade. Investment grade is defined as the median rating of Standard & Poor's, 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. Corporate bonds may be purchased if rated by two of these agencies.

No more than 40 percent of the portfolio's assets may be invested in investment grade corporate debt.

No more than 15 percent of the portfolio's assets may be invested in BBB+ to BBB- rated debt by Standard & Poor's Corporation or the equivalent by Moody's or Fitch.

U.S. Treasury Fixed Income:

No more than 10 percent of the portfolio's assets may be invested in securities that are not nominal, United States Treasury obligations or the internally managed short term or substantially similar portfolio at the time of purchase.

Corporate, asset-backed, and non-agency mortgage securities must be investment grade. Investment grade is defined as the median rating of Standard & Poor's, 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. Corporate bonds may be purchased if rated by two of these agencies.

High Yield Fixed Income:

No more than 10 percent of the portfolio's assets may be invested in securities rated A3 or higher.

No more than 25 percent of the portfolio's assets may be invested in securities rated below B3.

No more than 5 percent of the portfolio's assets may be invested in unrated securities.

No more than 10 percent of the portfolio's assets may be invested in countries not rated investment grade, including emerging markets.

The lower of any Standard & Poor's, Moody's or Fitch rating will be used for limits on securities rated below B3 and the higher rating will be used for limits on securities rated A3 or higher.

International Fixed Income:

Corporate and asset-backed obligations must be rated investment grade or better by a recognized credit rating agency.

Commercial paper and Euro commercial paper must be rated A-1 by Standard & Poor's or P-1 by Moody's or the equivalent of a comparable rating agency.

Convertible Bond:

Non-rated convertible securities are permitted provided the manager is able to assign an appropriate credit rating consistent with the criteria used by Standard &Poor's, Moody's, or Fitch. Non-rated securities are limited to 35 percent of the total market value of the portfolio.

The weighted-average rating of the portfolio shall not fall below the Standard &Poor's equivalent of B.

Investments are limited to instruments with a credit rating above CCC- by Standard &Poor's and Caa3 by Moody's. However, the manager may continue to hold securities downgraded below CCC- by Standard & Poor's and Caa3 by Moody's if such an investment is considered appropriate given the ARMB's investment objective.

In the case of a split rating by two or more of the rating agencies, the lower rating shall apply.

TIPS:

Commercial paper must be rated at least P-1 by Moody's and A-1 by Standard & Poor's.

No more than five percent of the portfolio's assets may be invested in investment grade corporate debt.

No more than five percent of the portfolio's assets may be invested in BBB+ to BBB- rated debt by Standard & Poor's or the equivalents by Moody's or Fitch.

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, 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. Corporate bonds may be purchased if rated by two of these agencies.

Domestic Equity (Large Cap and Small Cap) and Broad International Equity:

Corporate debt obligations must carry a rating of at least A or better by Moody's, Standard & Poor's, or Fitch rating services.

Commercial paper must bear the highest rating assigned by Moody's, Standard & Poor's, or Fitch rating services.

The ARMB does not have a policy to limit the concentration of credit risk for the Emerging Markets Debt Pool or the Collective Investment Funds.

At June 30, 2011, ARMB's invested assets consisted of securities with credit quality ratings issued by nationally recognized statistical rating organizations as follows (using Standard & Poor's Corporation rating scale):

		Fixed Income Pools						
	Rating	Short-term	Retirement	U.S. Treasury	High Yield	International	Convertible	TIPS
Bank Loans	Not Rated	-	-	-	0.15%	-	-	-
Commercial Paper	A-1	6.95%	-	-	-	-	-	-
Commercial Paper	Not Rated	0.75%	-	-	-	-	-	-
Convertible Bonds	AA	-	-	-	-	-	0.93%	-
Convertible Bonds	A	-	-	-	-	-	9.89%	-
Convertible Bonds	BBB	-	-	-	-	-	14.79%	-
Convertible Bonds	BB	-	-	-	-	-	19.72%	-
Convertible Bonds	B	-	-	-	0.76%	-	13.80%	-
Convertible Bonds	CCC	-	-	-	-	-	5.73%	-
Convertible Bonds	Not Rated	-	-	-	0.44%	-	23.03%	-
Corporate Bonds	AAA	23.65%	-	-	-	-	-	-
Corporate Bonds	AA	1.45%	-	0.70%	-	-	-	-
Corporate Bonds	A	3.20%	-	1.39%	-	-	-	-
Corporate Bonds	BBB	-	-	0.95%	3.51%	-	-	-
Corporate Bonds	BB	-	-	-	33.36%	-	-	-
Corporate Bonds	B	-	-	-	39.72%	-	-	-
Corporate Bonds	CCC	-	-	-	5.74%	-	-	-
Corporate Bonds	CC	-	-	-	0.17%	-	-	-
Corporate Bonds	Not Rated	5.78%	-	-	3.51%	-	-	-
Equity	A	-	-	-	-	-	1.94%	-
Equity	BBB	-	-	-	0.11%	-	-	-
Equity	BB	-	-	-	-	-	6.16%	-
Equity	CCC	-	-	-	-	-	3.11%	-
Foreign Corporate Bonds	AAA	-	-	-	-	17.87%	-	-
Foreign Corporate Bonds	A	-	-	-	-	2.52%	-	-
Foreign Corporate Bonds	BBB	-	-	-	-	0.74%	-	-
Foreign Government Bonds	AA	-	-	-	-	4.12%	-	-
Foreign Government Bonds	A	-	-	-	-	18.74%	-	-
Foreign Government Bonds	BBB	-	-	-	-	5.85%	-	-
Foreign Government Bonds	Not Rated	-	-	-	-	44.51%	-	-
Mortgage-backed	AAA	1.58%	37.74%	3.56%	-	-	-	-
Mortgage-backed	AA	-	1.41%	0.08%	-	-	-	-
Mortgage-backed	A	-	4.42%	0.10%	-	-	-	-
Mortgage-backed	CCC	-	5.26%	-	-	-	-	-
Mortgage-backed	Not Rated	-	3.55%	0.85%	-	-	-	-
Other Asset-backed	AAA	30.49%	-	-	-	-	-	-
Other Asset-backed	A	0.07%	-	-	-	-	-	-
Other Asset-backed	Not Rated	3.62%	-	0.02%	-	-	-	-
Short-Term Investment Fund	Not Rated	-	-	-	4.69%	0.88%	0.34%	-
U.S. Treasury Bills	AAA	16.10%	-	-	-	-	-	-
U.S. Treasury Bonds	AAA	-	-	6.84%	-	-	-	34.24%
U.S. Treasury Notes	AAA	-	-	82.00%	-	2.84%	-	64.83%
U.S. Government Agency	AAA	1.90%	-	-	-	-	-	-
U.S. Government Agency	Not Rated	-	-	0.80%	-	-	-	-
U.S. Government Agency Discount Notes	Not Rated	2.82%	-	-	-	-	-	-
Yankees:								
Government	Not Rated	-	-	0.09%	-	-	-	-
Corporate	AA	0.49%	-	0.56%	-	-	-	-
Corporate	A	0.11%	-	0.50%	-	-	-	-
Corporate	BBB	-	-	0.23%	0.36%	-	-	-
Corporate	BB	-	-	-	2.60%	-	-	-
Corporate	B	-	-	-	3.22%	-	-	-
Corporate	Not Rated	0.07%	-	0.16%	0.50%	-	-	-
No Credit Exposure		0.97%	47.62%	1.17%	1.16%	1.93%	0.56%	0.93%
		100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Custodial Credit Risk – Deposits

The ARMB 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.

At June 30, 2011, the ARMB's invested assets had the following uncollateralized and uninsured deposits (in thousands):

International Equity Pool	$ 34,528
International Fixed Income Pool	1,712
	$ 36,240

Concentration of Credit Risk

Treasury's policy with regard to concentration of credit risk for the Short-term Fixed Income Pool is to prohibit the purchase of more than five percent of the portfolio's assets in corporate bonds of any one company or affiliated group. This provision does not apply to securities backed by the full faith and credit of the United States Government.

The ARMB's policy with regard to concentration of credit risk for the Retirement Fixed Income, U.S. Treasury Fixed Income, High Yield Fixed Income, International Fixed Income and Convertible Bond Pools is to prohibit the purchase of more than five percent of the portfolio's assets in corporate bonds of any one company or affiliated group. The ARMB does not have a policy with regard to concentration of credit risk for the Emerging Markets Debt or TIPS Pools.

At June 30, 2011, the ARMB's invested assets did not have exposure to any one issuer greater than five percent of total invested assets.

Foreign Currency Risk

The ARMB's policy with regard to foreign currency risk in the International Fixed Income Pool is to restrict obligations to those issued in the currencies of countries: Argentina, Australia, Brazil, Canada, Chile, China, Columbia, Czech Republic, Denmark, Egypt, Eurozone sovereign issuers in the aggregate, Hungary, India, Indonesia, Israel, Japan, Malaysia, Mexico, New Zealand, Norway, Peru, Poland, Russia, Singapore, South Africa, South Korea, Sweden, Switzerland, Thailand, Turkey, United Kingdom, and United States. The ARMB has no specific policy with regard to foreign currency risk relating to international or private equity. However, through its asset allocation policy, the ARMB limits total investments in international fixed income, global equity ex-U.S. and private equity to the following:

Pension Fund	Fixed - Income	Global Equity Ex-U.S.	Private Equity Pool
Public Employees' Retirement System	22%	27%	12%
Teachers' Retirement System	22%	27%	12%
Judicial Retirement System	22%	27%	12%
Alaska National Guard and Naval Militia System	-	20%	-

The ARMB has no policy regarding foreign currency risk in the Defined Contribution Pooled Investment Funds and Collective Investment Funds.

At June 30, 2011, the ARMB had exposure to foreign currency risk with the following deposits:

	Amount (in thousands)	
Currency	International Fixed Income Pool	International Equity Pool
Australian Dollar	$ -	$ 446
Brazilian Real	-	5
Canadian Dollar	-	262
Danish Krone	-	270
Euro Currency	46	26,133
Hong Kong Dollar	-	511
Hungarian Forint	270	-
Israeli Shekel	-	16
Japanese Yen	215	4,596
Mexican Peso	924	-
New Taiwan Dollar	-	920
New Zealand Dollar	-	12
Norwegian Krone	-	76
Pound Sterling	-	772
Singapore Dollar	-	46
South African Rand	222	-
Swedish Krona	-	274
Swiss Franc	-	189
Thailand Baht	35	-
	$ 1,712	$ 34,528

At June 30, 2011, the ARMB had exposure to foreign currency risk with the following investments (in thousands):

	Amount (in thousands)							
	International Fixed Income Pool				International Equity Pool		Private Equity Pool	
Currency	Foreign Government		Corporate		Equity		Limited Partnerships	
Australian Dollar	$	-	$	-	$	79,531	$	-
Brazilian Real		16,637		-		8,652		-
Canadian Dollar		-		-		91,194		-
Chilean Peso		2,088		-		-		-
Columbian Peso		7,561		-		-		-
Czech Koruna		2,144		-		1,160		-
Danish Krone		-		-		20,300		-
Euro Currency		91,955		12,273		804,747		172,391
Hong Kong Dollar		-		-		92,332		-
Hungarian Forint		9,075		-		-		-
Indian Rupee		-		-		4,539		-
Indonesian Rupiah		-		-		2,108		-
Israeli Shekel		-		-		2,566		-
Japanese Yen		39,552		67,263		547,832		-
Malaysian Ringgit		7,514		-		4,515		-
Mexican Peso		24,287		-		671		-
New Taiwan Dollar		-		-		9,113		-
New Zealand Dollar		-		-		12,847		-
Norwegian Krone		-		-		20,161		-
Peruvian Nuevo Sol		5,392		-		-		-
Polish Zloty		30,058		-		7,752		-
Pound Sterling		18,172		-		510,391		27,839
Singapore Dollar		-		-		28,528		-
South African Rand		10,226		-		4,613		-
South Korean Won		-		-		46,912		-
Swedish Krona		-		-		49,608		-
Swiss Franc		-		-		165,944		-
Thailand Baht		2,909		-		4,959		
Turkish Lira		8,065		-		-		-
	$	275,635	$	79,536	$	2,520,975	$	200,230

At June 30, 2011, the ARMB also had exposure to foreign currency risk in the Emerging Markets Equity Pool. This pool consists of investments in commingled investment funds; therefore, no disclosure of specific currencies is made.

Foreign Exchange, Derivative, and Counterparty Credit Risk

The ARMB is exposed to credit risk on investment derivative instruments that are in asset positions. The ARMB has no policy of requiring collateral or other security to support derivative instruments subject to credit risk. Additionally, the ARMB has no policy regarding entering into netting arrangements when it enters into derivative instrument transactions with a counterparty, nor does the ARMB have a policy for contingencies.

On June 30, 2011, the ARMB had the following derivative instruments outstanding (in thousands):

	Change in Fair Value		Fair Value at June 30, 2011		
Type	Classification	Amount	Classification	Amount	Notional
Equity Options Written	Investment Revenue	$ 2,323	Options	$ (29,291)	$ (4,998)
FX Forwards	Investment Revenue	(1,773)	Long Term Instruments	(74)	14,181
Index Futures Long	Investment Revenue	14,372	Futures	-	63
Index Options Written	Investment Revenue	305	Options	(26)	(6)
Rights	Investment Revenue	500	Common Stock	23	108
Warrants	Investment Revenue	(27)	Common Stock	35	39
		$ 15,700		$ (29,333)	$ 9,387

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 ARMB had the following counterparty credit and counterparty concentration risk associated with its investment derivative positions:

Counterparty Name	Percent of Net Exposure	S&P Rating	Fitch Rating	Moody's Rating
UBS AG	0%	A+	A+	Aa3

	Amount (in thousands)
Maximum Amount of Loss ARMB Would Face in Case of Default of All Counterparties, i.e. Aggregated (Positive) Fair Value of OTC positions as of June 30, 2011	$ 25
Effect of Collateral Reducing Maximum Exposure	-
Liabilities Subject to Netting Arrangements Reducing Exposure	-
Resulting Net Exposure	$ 25

DEFERRED COMPENSATION

The State's Internal Revenue Code Section 457 Deferred Compensation Plan holds investments in several collective investment funds and an Interest Income Fund. At December 31, 2010, Deferred Compensation Plan investments totaled $580 million.

Additional investment information is disclosed in the financial statements issued by the Department of Administration, Division of Retirement and Benefits. These financial statements are available through the Department of Administration, Division of Retirement and Benefits, P.O. Box 110203, Juneau, AK 99811-0203 or at http://doa.alaska.gov/drb/.

Interest Rate Risk

Collective Investment and Money Market Funds

The ARMB contracts with external investment managers who maintain collective investment funds. Managers selected to manage investments for the Deferred Compensation Plan are subject to the provisions of the collective investment funds the ARMB has selected. In addition, the Deferred Compensation Plan maintains a balance in a commingled money market portfolio.

The ARMB does not have a policy to limit interest rate risk for the Collective Investment Funds or the commingled money market portfolio. These investments with their related weighted average maturities at December 31, 2010, are as follows:

	Fair Value (in thousands)	Weighted Average Maturity
Bond Fund	$ 122	4.43 years
Government/Credit Bond Index Fund	30,445	7.53 years
Institutional Treasury Money Market Fund	5,622	45 days
Intermediate Bond Fund	16,768	4.04 years
Long U.S. Treasury Bond Index Fund	1,708	13.97 years
U.S. TIPS Index Fund	6,157	7.91 years
World Government Bond ex-U.S. Index Fund	1,227	6.83 years

Interest Income Fund

ARMB contracts with an external investment manager who is given the authority to invest in synthetic investment contracts and a reserve. This external manager also manages the securities underlying the synthetic investment contracts.

Through the ARMB's investment policy, exposure to fair value losses arising from increasing interest rates is managed by limiting the duration on synthetic investment contracts as follows:

> For constant duration synthetic investment contracts, duration cannot exceed the longer of six years or the duration of the Barclays Capital Intermediate Aggregate Index plus one–half year. The aggregate duration of the constant duration synthetic investment contracts was 3.58 years at December 31, 2010. The duration of the Barclays Capital Intermediate Aggregate Index was 4.0 years at December 31, 2010.
>
> Duration is a measure of interest rate risk. In the case of the Deferred Compensation Plan's constant duration synthetic investment contracts, duration is the fair value weighted average term to maturity using all fixed income securities underlying the contracts and their related cash flows.

The ARMB does not have a policy to limit interest rate risk for the reserve. The balance in the reserve is invested in the custodian's Institutional Treasury Money Market Fund, which has a weighted average maturity of 45 days at December 31, 2010.

Pooled Investment Funds

Duration is a measure of a security's sensitivity to a 100-basis point change in interest rates. Duration, for the securities in the pooled investment funds, is the fair value weighted average term to maturity for each security taking into account all related cash flows.

The ARMB contracts with an external investment manager who is given the authority to invest funds in a wholly-owned pooled environment to accommodate 13 participant directed funds. Through the ARMB's investment policy, exposure to fair value losses arising from increasing interest rates is managed by limiting the duration as follows:

> For government and corporate debt securities, duration is limited to ± 0.2 years of the Barclays Aggregate Bond Index. At December 31, 2010, the duration of the Barclays Aggregate Bond Index was 4.98 years, and the duration of the Aggregate Bond Trust was 4.89 years.

The weighted average maturity of the money market portfolio was 12.52 days at December 31, 2010.
The ARMB does not have a policy to limit interest rate risk for funds held in foreign currency, the custodian's short-term investment fund or commercial paper.

Credit Risk

The ARMB does not have a policy to limit credit risk for the Deferred Compensation Plan's Collective Investment Funds and the commingled money market portfolio. These investments are not rated.

The ARMB's investment policy has the following limitations with regard to credit risk for synthetic investment contracts, investments underlying the synthetic investment contracts and the reserve:

Synthetic Investment contract issuers must have an investment grade rating,
Supranational Agency and Foreign Government entity investments must have a minimum rating of A- or equivalent,
Corporate debt securities must have a minimum rating of BBB– or equivalent,
Asset-backed securities must have a minimum rating of AAA or equivalent,
The ratings assigned to issuers of money market instruments must have the highest rating of any nationally recognized statistical rating organization. This limitation does not apply to the investment funds maintained by the custodian.

The ARMB's investment policy has the following limitations with regard to credit risk for wholly-owned pooled investments:

All government and corporate fixed income securities must be rated BBB- or better at time of purchase,
Government National Mortgage Association, Federal National Mortgage Association, and Federal Home Loan Mortgage Corporation mortgage-backed securities may be purchased even if they are not rated by all or any of these rating agencies as long as they are rated investment grade by T. Rowe's internal credit evaluation, and
Commercial paper and other short–term debt obligations must be rated A-1 or equivalent.

At December 31, 2010, Deferred Compensation Plan's investments consisted of securities with credit quality ratings issued by a nationally recognized statistical rating organization as follows (using the Standard & Poor's rating scale):

Investment type	Rating	Fair Value (in thousands) Underlying Synthetic Investment Contracts	Other	Total
Investments with credit exposure:				
Money Market Fund	Not Rated	$ -	$ 422	$ 422
Short-term Investment Fund	Not Rated	2,637	-	2,637
U.S. Government Agency	AAA	13,488	-	13,488
Mortgage-backed	AAA	5,461	-	5,461
Mortgage-backed	AA	351	-	351
Mortgage-backed	A	765	-	765
Mortgage-backed	BBB	277	-	277
Mortgage-backed	Not Rated	60,831	-	60,831
Other Asset-backed	AAA	1,153	-	1,153
Corporate Bonds	AA	4,038	-	4,038
Corporate Bonds	A	11,965	-	11,965
Corporate Bonds	BBB	8,501	-	8,501
Yankees:				
Corporate	AA	842	-	842
Corporate	A	1,962	-	1,962
Corporate	BBB	1,962	-	1,962
Government	AAA	3,554	-	3,554
Government	AA	820	-	820
Government	A	290	-	290
Government	BBB	269	-	269
Government	Not Rated	423	-	423
Deposits and Investments with no credit exposure:				
Deposits		(1,967)	-	(1,967)
U.S. Treasury Notes	AAA	46,147	-	46,147
Collective Investment Funds		-	291,955	291,955
Pooled Investment Funds		-	46,116	46,116
Domestic Equity		-	68,199	68,199
Total		$ 163,769	$ 406,692	$ 570,461

Custodial Credit Risk

The ARMB does not have a policy for custodial credit risk. At December 31, 2010, the Deferred Compensation Plan's deposits were uncollateralized and uninsured.

Concentration of Credit Risk

The ARMB does not have a policy to limit concentration of credit risk in the collective investment and money market funds.

The ARMB's policy with regard to concentration of credit risk for synthetic investment contracts, investments underlying the synthetic investment contracts, and the reserve is as follows:

> No investment will be made if, at the time of purchase, total investment in any single issuer of investment contracts would exceed 35 percent of the Interest Income Fund's total value.
>
> No investment will be made if, at the time of the purchase, total investment in any single issuer or in all issuers of the securities held as supporting investments under synthetic investment contracts in the table below would exceed the respective percentages of all investments underlying the synthetic investment contracts.

Investment Type	Issuer	All Issuers
U.S. Treasury and Agencies	100%	100%
U.S. Agencies Securities	100%	100%
Agency Mortgage-Backed Securities	50%	50%
Non-Agency Mortgage-Backed Securities	5%	50%
Asset-backed Securities	5%	50%
Domestic and Foreign Corporate Debt Securities	5%	50%
Supranational Agency and Foreign Government Entity Securities	5%	50%
Money Market Instruments – Nongovernmental/Agency	5%	100%
Custodian Short-term Investment Fund	100%	100%

The maximum exposure to securities rated BBB is limited to 20 percent of the total value underlying synthetic investment contracts.

For the reserve, the total investment of any single issuer of money market instruments may not exceed five percent of the total value underlying synthetic investment contracts. This limitation does not apply to the investment funds maintained by the custodian.

The ARMB policy with regard to concentration of credit risk for wholly-owned pooled investments is as follows:

Equity holdings will be limited to five percent per issuer of the equity portfolio at the time of purchase,

With the exception of the U.S. Government or its agencies, fixed income holdings of any single issuer is limited to two percent of the total portfolio at the time of purchase,

With the exception of the U.S. Government or its agencies, money market holdings of any single issuer are limited to no more than five percent of the portfolio at the time of purchase. This limitation does not apply to the investment funds maintained by the custodian.

At December 31, 2010, the Deferred Compensation Plan invested assets included $45.4 million in Federal National Mortgage Association (FNMA) securities, which represented 7.99 percent of the Deferred Compensation Plan's total invested assets. FNMA is a U.S. Government Agency.

Foreign Currency Risk

The ARMB does not have a policy to limit foreign currency risk associated with collective investment funds. The Deferred Compensation Plan has exposure to foreign currency risk in the International Equity and Global Balanced collective investment funds.

The ARMB's policy with regard to the Interest Income Fund is to require that all investments underlying a synthetic investment contract be denominated in U.S. dollars.

The ARMB's policy with regard to pooled investments requires that all money market holdings be made in entities domiciled in the U.S. The ARMB has no policy with regard to other pooled investments.

SUPPLEMENTAL BENEFITS SYSTEM

The State's Supplemental Benefits System (SBS) holds investments in several collective investment funds, the State's internally managed Short-term Fixed Income Pool (under the fiduciary responsibility of the Commissioner of Revenue), a Stable Value Fund and wholly-owned Pooled Investment Funds. At January 31, 2011, SBS investments totaled $2.487 billion.

Additional investment information is disclosed in the financial statements issued by the Department of Administration, Division of Retirement and Benefits. These financial statements are available through the Department of Administration, Division of Retirement and Benefits, P.O. Box 110203, Juneau, AK 99811-0203 or at http://doa.alaska.gov/drb/.

Interest Rate Risk

Collective Investment and Money Market Funds

The ARMB contracts with external investment managers who maintain collective investment funds. Managers selected to manage investments for SBS are subject to the provisions of the collective investment funds the ARMB has selected. In addition, SBS maintains a balance in a commingled money market portfolio.

The ARMB does not have a policy to limit interest rate risk for these investments. These investments with their related weighted average maturities at January 31, 2011 are as follows:

	Fair Value (in thousands)	Weighted Average Maturity
Government/Credit Bond Index Fund	$ 44,302	7.51 years
Institutional Treasury Money Market Fund	12,675	49 days
Intermediate Bond Fund	13,608	4.02 years
Long U.S. Treasury Bond Index Fund	5,356	13.81 years
U.S. TIPS Index Fund	12,578	7.93 years
World Government Bond ex-U.S. Index Fund	3,406	6.91 years

Short-term Fixed Income Pool

The Investment Loss Trust Fund and the SBS's cash and cash equivalents are invested in the State's internally managed Short-term Fixed Income Pool. As a means of limiting its exposure to fair value losses arising from increasing interest rates, Treasury's investment policy limits individual fixed rate securities to 14 months in maturity or 14 months expected average life upon purchase. Floating rate securities are limited to three years in maturity or three years expected average life upon purchase. Treasury utilizes the actual maturity date for commercial paper and 12 month prepay speeds for other securities. At January 31, 2011, the expected average life of individual fixed rate securities ranged from one day to ten months and the expected average life of floating rate securities ranged from one day to nine years.

Stable Value Fund

The ARMB contracts with an external investment manager who is given the authority to invest in synthetic investment contracts and a reserve. This external manager also manages the securities underlying the synthetic investment contracts.

Through the ARMB's investment policy, exposure to fair value losses arising from increasing interest rates is managed by limiting the duration on synthetic investment contracts as follows:

> For constant duration synthetic investment contracts, duration cannot exceed the longer of six years or the duration of the Barclays Capital Intermediate Aggregate Index plus one–half year. The aggregate duration of the constant duration synthetic investment contracts was 3.55 years at January 31, 2011. The duration of the Barclays Capital Intermediate Aggregate Index was 4.09 years at January 31, 2011.
>
> Duration is a measure of interest rate risk. In the case of the SBS's constant duration synthetic investment contracts, duration is the fair value weighted average term to maturity of all fixed income securities underlying the contracts and their related cash flows. Duration of the SBS's structured payout synthetic investment contracts is the weighted average maturity of the contract payments.

The ARMB does not have a policy to limit interest rate risk for the reserve. The balance in the reserve is invested in the custodian's Institutional Treasury Money Market Fund which had a weighted average maturity of 49 days at January 31, 2011.

Pooled Investment Funds

Duration is a measure of security's sensitivity to a 100-basis point change in interest rates. Duration, for the securities in the pooled investment funds, is the fair value weighted average term to maturity for each security taking into account all related cash flows.

The ARMB contracts with an external investment manager who is given the authority to invest funds in a wholly-owned pooled environment to accommodate 13 participant directed funds. Through the ARMB's investment policy, exposure to fair value losses arising from increasing interest rates is managed by limiting the duration as follows:

> For government and corporate debt securities, duration is limited to ± 0.20 years of the Barclays Aggregate Bond Index. At January 31, 2011, the duration of the Barclays Aggregate Bond Index was 5.04 years and the duration of the Aggregate Bond Trust was 4.94 years.

The weighted average maturity of the money market portfolio was 11.69 days at January 31, 2011.

The ARMB does not have a policy to limit interest rate risk for funds held in foreign currency, the custodian's short-term investment fund or commercial paper.

Credit Risk

The ARMB does not have a policy to limit credit risk for SBS's Collective Investment Funds and commingled money market portfolio. These investments are not rated.

Treasury's investment policy limits credit risk in the Short–term Fixed Income Pool by limiting investments 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. Treasury's investment policy further limits investments in institutional money market funds to those rated AAA. Treasury does not have a policy to limit credit risk associated with deposit accounts or investment funds maintained by the custodian.

The ARMB's investment policy has the following limitations with regard to credit risk for synthetic investment contracts, investments underlying the synthetic investment contracts and the reserve:

> Synthetic investment contract issuers must have an investment grade rating,
> Supranational Agency and Foreign Government entity investments must have a minimum rating of A- or equivalent;
> Corporate debt securities must have a minimum rating of BBB- or equivalent,
> Asset-backed securities must have a minimum rating of AAA or equivalent, and
> The ratings assigned to issuers of money market instruments must have the highest rating of any nationally recognized statistical rating organization. This limitation does not apply to the investment funds maintained by the custodian.

The ARMB's investment policy has the following limitations with regard to credit risk for wholly-owned pooled investments:

> All government and corporate fixed income securities must be rated BBB- or better at time of purchase,
> Government National Mortgage Association, Federal National Mortgage Association, and Federal Home Loan Mortgage Corporation mortgage-backed securities may be purchased even if they are not rated by all or any of these rating agencies as long as they are rated investment grade by T. Rowe's internal credit evaluation, and
> Commercial paper and other short-term debt obligations must be rated A-1 or equivalent.

At January 31, 2011, SBS investments consisted of securities with credit quality ratings issued by a nationally recognized statistical rating organization as follows (using the Standard & Poor's rating scale):

		Fair Value (in thousands)				
Investment type	Rating	Short-term Fixed Income Pool	Underlying Synthetic Investment Contracts	Investment Loss Trust	Other	Total
Investments with Credit Exposure:						
Money Market Fund	Not Rated	$ -	$ -	$ -	$ 2,814	$ 2,814
Short-term Investment Fund	Not Rated	55	2,793	17	-	2,865
Commercial Paper	AAA	327	-	99	-	426
Commercial Paper	Not Rated	47	-	14	-	61
U.S. Government Agency	AAA	50	22,167	15	-	22,232
U.S. Government Agency:						
Discount Notes	AAA	466	-	141	-	607
Mortgage-backed	AAA	52	10,099	16	-	10,167
Mortgage-backed	AA	-	435	-	-	435
Mortgage-backed	A	-	697	-	-	697
Mortgage-backed	BBB	-	325	-	-	325
Mortgage-backed	Not Rated	1	101,658	1	-	101,660
Other Asset-backed	AAA	2,041	3,335	618	-	5,994
Other Asset-backed	A	8	-	2	-	10
Other Asset-backed	Not Rated	196	-	59	-	255
Corporate Bonds	AAA	1,977	-	599	-	2,576
Corporate Bonds	AA	97	6,868	29	-	6,994
Corporate Bonds	A	152	19,508	46	-	19,706
Corporate Bonds	BBB	-	14,208	-	-	14,208
Corporate Bonds	Not Rated	89	348	27	-	464
Yankees:						
Corporate	AAA	143	-	43	-	186
Corporate	AA	27	2,024	8	-	2,059
Corporate	A	-	3,541	-	-	3,541
Corporate	BBB	-	2,547	-	-	2,547
Corporate	Not Rated	203	-	62	-	265
Government	AAA	-	6,009	-	-	6,009
Government	AA	-	1,093	-	-	1,093
Government	A	-	669	-	-	669
Government	BBB	-	351	-	-	351
Government	Not Rated	-	514	-	-	514
Deposits and Investments with No Credit Exposure:						
Deposits		-	(2,096)	-	-	(2,096)
U.S. Treasury Bills	AAA	439	-	133	-	572
U.S. Treasury Notes	AAA	-	72,771	-	-	72,771
Participant-directed Funds						
Collective Investment Funds		-	-	-	538,870	538,870
Pooled Investment Funds		-	-	-	1,566,142	1,566,142
Domestic Equity		-	-	-	82,761	82,761
Total Invested Assets		6,370	269,864	1,929	2,190,587	2,468,750
Pool Related Net Assets/(Liabilities)		(55)	-	(16)	-	(71)
Total		$ 6,315	$ 269,864	$ 1,913	$ 2,190,587	$ 2,468,679

Custodial Credit Risk

The ARMB does not have a policy for custodial credit risk. At January 31, 2011, the SBS Plan's deposits were uncollateralized and uninsured.

Concentration of Credit Risk

The ARMB does not have a policy to limit concentration of credit risk in the collective investment and money market funds.

Treasury's policy with regard to the Short-term Fixed Income Pool is to prohibit the purchase of more than five percent of the portfolio's assets in corporate bonds of any one company or affiliated group, unless explicitly backed by the U.S. Government.

The ARMB's policy with regard to concentration of credit risk for synthetic investment contracts, investments underlying the synthetic investment contracts, and the reserve is as follows:

> No investment will be made if, at the time of purchase, total investment in any single issuer of investment contracts would exceed 35 percent of the Stable Value Fund's total value.
>
> No investment will be made if, at the time of the purchase, total investment in any single issuer or in all issuers of the securities held as supporting investments under synthetic investment contracts in the table below would exceed the respective percentages of all investments underlying the synthetic investment contracts.

Investment Type	Issuer	All Issuers
U.S. Treasury and Agencies	100%	100%
U.S. Agency Securities	100%	100%
Agency Mortgage-backed Securities	50%	50%
Nonagency Mortgage-backed Securities	5%	50%
Asset-backed Securities	5%	50%
Domestic and Foreign Corporate Debt Securities	5%	50%
Supranational Agency and Foreign Government Entity Securities	5%	50%
Money Market Instruments – Nongovernmental Agency	5%	100%
Custodian Short-term Investment Fund	100%	100%

> The maximum exposure to securities rated BBB is limited to 20 percent of the total value underlying synthetic investment contracts.
>
> For the reserve, the total investment of any single issuer of money market instruments may not exceed five percent of the total value underlying synthetic investment contracts. This limitation does not apply to the investment funds maintained by the custodian.

The ARMB's policy with regard to concentration of credit risk for wholly-owned pooled investments is as follows:

> Equity holdings will be limited to five percent per issuer of the equity portfolio at the time of purchase,
>
> With the exception of the U.S. Government or its agencies, fixed income holdings of any single issuer are limited to two percent of the total portfolio at the time of purchase, and
>
> With the exception of the U.S. Government or its agencies, money market holdings of any single issuer are limited to no more than five percent of the portfolio at the time of purchase. This limitation does not apply to the investment funds maintained by the custodian.

At January 31, 2011, SBS had no exposure to a single issuer in excess of five percent of total invested assets.

Foreign Currency Risk

The ARMB does not have a policy to limit foreign currency risk associated with collective investment funds. SBS has exposure to foreign currency risk in the International Equity and the Global Balanced collective investment funds.

The ARMB's policy with regard to the Stable Value Fund is to require that all investments underlying a synthetic investment contract be denominated in U.S. dollars.

The ARMB's policy with regard to pooled investments requires that all money market holdings be made in entities domiciled in the U.S. The ARMB has no policy with regard to other pooled investments.

C. DEPOSITS AND INVESTMENTS MAINTAINED BY COMPONENT UNITS WHOSE ACCOUNTS ARE OUTSIDE OF THE STATE TREASURY

There are many component units of the State that maintained their accounts outside of the State treasury. However, the overwhelming majority of the activity is within the Alaska Permanent Fund Corporation (APFC). Information on deposits and investments maintained by the other component units are available within their separately issued audit reports.

ALASKA PERMANENT FUND CORPORATION

APFC is managed by a six member board of trustees (the "Trustees" or "Board") consisting of the Department of Revenue Commissioner, one other head of a principal State department, and four governor-appointed public members with recognized competence and experience in finance, investments, or other business management-related fields. The Alaska Permanent Fund (the "Fund") assets are diversified across a wide variety of investments, in accordance with statutes, regulations, and APFC investment policies.

Investments and Related Policies

Carrying value of investments

The Fund's investments are reported at fair value in the financial statements. Securities transactions are recorded on the trade date that securities are purchased or sold. Unrealized gains and losses are reported as components of net change in fund balance. For marketable debt and equity securities, including real estate investment trusts, fair values are obtained from independent sources using published market prices, quotations from national security exchanges, and security pricing services. Fair values of investments that have no readily ascertainable fair value are determined by management using the fair value capital account balances nearest to the balance sheet date, adjusted for subsequent contributions and distributions. Direct investments in real estate are subject to annual appraisals and audits. All alternative investments undergo annual independent financial statement audits.

At June 30, 2011, the APFC's strategic asset allocation targets were as follows:

Risk Class	Asset Class	Risk Class Target	Asset Class Target
Cash		2%	2%
Interest Rates		6%	
	U.S. Government Bonds		4%
	International Developed Government Bonds (currency hedged)		2%
Company Exposure		53%	
	Global Credit		11%
	Global Equity		36%
	Private Equity		6%
Real Assets		18%	
	Real Estate		12%
	Infrastructure		3%
	U.S. Treasury Inflation Protection Securities		3%
Special Opportunities		21%	
	Absolute Return Mandate		6%
	Real Return Mandate		7%
	Distressed Debt		1%
	Mezzanine Debt		1%
	Structured Credit		1%
	Other (future opportunities)		5%

Capital that is not invested in the special opportunities risk class resides in the company exposure risk class. To allow for market fluctuations and to minimize transaction costs, the Trustees have adopted ranges that permit percentage deviations from the strategic asset allocation targets in accordance with specified reporting requirements and other procedures. Generally, for each risk and asset class, the APFC's chief investment officer has discretionary authority to permit target deviations within one specified range (referred to as the "green zone" in the investment policy), the APFC's executive director can approve target deviations for up to 90 days within a broader range (the "yellow zone"), and the Board can approve operating for longer than 30 days within a third range (the "red zone"). For example, the target allocation for the interest rate risk class is six percent, with the green zone range set at 6 to12 percent, yellow zone ranges set at five to six percent and 12 to 20 percent, and red zone ranges set at allocations of less than five percent or greater than 20 percent. In a similar manner, the APFC investment policy also requires the APFC to monitor relative risk (the expected investment portfolio's risk and return relative to the risk benchmark using standard industry risk measures), active budget risk (risk due to active management decisions made by managers), and limits on private investments and future commitments.

In accordance with Alaska Statute 37.13.120(a), the Trustees have adopted regulations designating the types of eligible investments for Fund assets. The regulations follow the prudent investor rule, requiring the exercise of judgment and care under the circumstances then prevailing that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the designation and management of large investments entrusted to it, not in regard to speculation, but in regard to the permanent disposition of funds, considering preservation of the purchasing power of the Fund over time while maximizing the expected total return from both income and the appreciation of capital.

Interest Rate Risk

The APFC manages the Fund's exposure to interest rate risk in part through tracking error guidelines set forth in the APFC's investment policy. Duration is an indicator of a portfolio's market sensitivity to changes in interest rates. In general, the major factors affecting duration are, in order of importance, maturity, prepayment frequency, level of market interest rates, size of coupon, and frequency of coupon payments. Rising interest rates generally translate into the value of fixed income investments declining, while falling interest rates are generally associated with increasing value. Effective duration attempts to account for the price sensitivity of a bond to changes in prevailing interest rates, including the effect of embedded options. As an example, for a bond portfolio with a duration of 5.0, a one percentage point parallel decline in interest rates would result in an approximate price increase on that bond portfolio of 5.0 percent.

At June 30, 2011, the Fund held fixed income investments with floating, variable, and step interest rates, valued at $346,583 thousand. These fixed income investments were both domestic and non-domestic, and had current annual interest rates ranging from zero percent to 10.5 percent.

Credit Risk

The APFC requires that its investment grade fixed income managers invest in domestic and non-domestic bonds that have an explicit or implied investment grade rating. Should the required ratings on an existing fixed income security fall below the minimum standards, the security must be sold within seven months. Certain high yield investment managers are allowed to invest a specified amount of funds in bonds rated below investment grade.

Custodial Credit Risk

The APFC generally requires that all investment securities at custodian banks be held in the name of the Fund or the APFC (on behalf of the Fund). For the Fund's non-domestic securities held by most sub-custodians, the APFC's primary custodian provides contractual indemnities against sub-custodial credit risk. Excess cash in custodial accounts is swept daily to a money market fund managed by Invesco Aim Advisors, Inc. Late deposits of cash, which miss the money market sweep deadline, are deposited to an interest bearing account at the custodian.

Concentration of Credit Risk

The APFC manages the Fund's concentration of credit risk by following its strategic asset allocation policy, diversifying investments among managers with varying investment styles and mandates, and monitoring tracking error. Tracking error is a measure of how closely a portfolio follows the index to which it is benchmarked. The APFC's policy for mitigating this risk of loss for fixed income and equity investments is to ensure compliance with APFC investment policy and investment manager contracts. There is no single-issuer exposure within the APFC portfolio that comprises five percent or more of the overall portfolio. Therefore, no concentration of credit risk is reported in the notes to the financial statements.

Foreign Currency Risk

Foreign currency risk is managed through foreign currency forward contracts and by diversifying assets into various countries and currencies.

Forward Exchange Contracts

Fund managers enter into a variety of forward currency contracts in their trading activities and management of foreign currency exchange rate risk exposure. These contracts are typically intended to neutralize the effect of foreign currency fluctuations, and the contract amounts do not appear on the balance sheet. Realized gains and losses are included in the net increase in the fair value of investments at the time the contract is settled and determined based on the difference between the contract rate and the market rate at the time of maturity or closing. Unrealized gains and losses are also included in the net increase in the fair value of investments, and are calculated based on the difference between the contract rate and a forward market rate determined as of the balance sheet date.

A portion of forward exchange contracts is intended to manage, rather than neutralize, foreign currency fluctuations. Certain managers seek to control the effect of fluctuations in foreign exchange rates within their overall portfolio strategy rather than on a security by security basis. They attempt to optimize their foreign currency exposure in a market rather than accept the natural geographical exposure to the market's currency.

Equity Index Futures

Certain equity managers for the Fund are permitted to buy and sell equity index futures. The gross fair value of equity index futures does not appear in the balance sheets. The net unrealized gain or loss on open futures trades is included in investments on the balance sheets, based on the difference between the future's purchase price and the current value of such index futures. Realized gains and losses on futures are included in the net increase in the fair value of investments at the time the futures contract expires. The net change in unrealized gains and losses is included in the net increase in the fair value of investments, based on the difference between the contract purchase price and the current value of the futures index as of the balance sheet date.

Cash and Temporary Investments

The amounts shown on the balance sheets as cash and temporary investments include cash on deposit at the custodian bank, cash swept to overnight investment funds, cash held at futures brokers, petty cash, U.S. Treasury bills, and the net fair value of foreign exchange forward contracts. The APFC's asset allocation includes two percent to cash. APFC's investment policy specifies that funds dedicated to this portion of the asset allocation will be invested in money market funds or fixed income securities with weighted-average maturities of no greater than 24 months.

Cash and temporary investments, which include the market values of foreign currency (FX) and FX forward exchange contracts, are summarized as follows at June 30, 2011 (in thousands):

Cash and Pooled Funds	$ 1,656,603
U.S. Treasury Bills	3,275
Total Cash and Temporary Investments	$ 1,659,878

U.S. Treasury bills are explicitly guaranteed by the U.S. government. At June 30, 2011, uninvested cash of $72,663 thousand was held at the custodian, sub-custodian, or futures broker banks, primarily in interest-bearing accounts. All remaining cash balances were invested in a money market fund managed by Invesco Aim Advisors, Inc.

Marketable Debt Securities

Marketable debt securities at June 30, 2011, are summarized as follows (in thousands), categorized by debt instrument type and by country of registration:

	Cost	Fair Value	Unrealized Gains/(Losses)
Treasury and Government Notes/Bonds	$ 1,820,263	$ 1,931,332	$ 111,069
Mortgage-backed Securities	580,397	594,595	14,198
Corporate Bonds	2,551,947	2,640,400	88,453
Commercial Mortgage/Asset-backed Securities	337,182	359,146	21,964
Non-U.S. Treasury and Government Bonds	1,295,129	1,393,253	98,124
Non-U.S. Corporate Bonds	465,289	489,502	24,213
Total Marketable Debt Securities	$ 7,050,207	$ 7,408,228	$ 358,021

Marketable Debt Credit Ratings

To manage credit risk for marketable debt securities, the APFC monitors fair values of all securities daily and routinely reviews its investment holdings' credit ratings. For accounts with an investment grade mandate (approximately 87 percent of bond mandates at June 30, 2011), issues falling below the minimum standards are required to be sold within seven months of the downgrade date. Managers with high yield mandates (approximately 13 percent of bond mandates at June 30, 2011) are allowed to hold positions in assets with below investment grade ratings (high yield bonds) based on the terms of their contracts. For purposes of this note, if credit ratings differ among the Nationally Recognized Statistical Rating Organizations (NRSRO) used, the rating with the highest degree of risk (the lowest rating) is reported.

At June 30, 2011, the Fund's credit ratings for its marketable debt securities are as follows (in thousands):

NRSRO Quality Rating	Domestic	Non-domestic	Total Fair Value	Percent of Holdings
AAA	$ 406,345	$ 588,915	$ 995,260	13.44%
AA	188,566	505,170	693,736	9.36%
A	1,039,723	259,995	1,299,718	17.54%
BBB	794,776	318,956	1,113,732	15.03%
BB	77,187	131,522	208,709	2.82%
B	59,493	62,056	121,549	1.64%
CCC	41,927	1,198	43,125	0.58%
CC	4,154	-	4,154	0.06%
C	4,312	718	5,030	0.07%
Total fair value of rated debt securities	2,616,483	1,868,530	4,485,013	60.54%
Commingled Bond Funds	353,509	-	353,509	4.77%
Not rated	8,985	14,226	23,211	0.31%
U.S. government explicitly backed by the U.S. government	2,047,332	-	2,047,332	27.64%
U.S. government implicitly backed by the U.S. government	499,163	-	499,163	6.74%
Total fair value debt securities	$ 5,525,472	$ 1,882,756	$ 7,408,228	100.00%

Marketable Debt Duration

To manage its interest rate risk on marketable debt securities, the APFC monitors fair values daily and routinely reviews portfolio effective duration in comparison to established benchmarks. At June 30, 2011, the effective duration by investment type, based on fair value, is as follows:

	Percent of bond holdings	Duration
Domestic Bonds		
Treasuries and Government Notes/Bonds	34.95%	6.71
Mortgage-backed Securities	10.76%	4.23
Corporate Bonds	47.79%	6.31
Commercial Mortgage and Asset-backed Securities	6.50%	3.04
Total Domestic Bonds	100.00%	6.00
Non-domestic Bonds		
Non-U.S. Treasury and Government Bonds	74.00%	5.98
Non-U.S. Corporate Bonds	26.00%	5.94
Total Non-domestic Bonds	100.00%	5.97

Preferred and Common Stock

Direct investments in preferred and common stock are held by the APFC's custodian bank on behalf of the Fund.

The Fund invests in commingled stock funds, which are held by the custodian bank of the fund manager on behalf of fund investors. The commingled stock funds held as of June 30, 2011 were: the Emerging Markets Growth Fund (EMGF) managed by Capital International, Inc.; the International Small Company Portfolio (DFISX) managed by Dimensional Fund Advisors, LP; and, the DFA International Small Cap Value Portfolio (DISVX) managed by Dimensional Fund Advisors, LP.

The fair values of the Fund's shares in the EMGF were $1,316,974 thousand as of June 30, 2011, and are included in the non-domestic values shown below. The value of the Fund's investment in the commingled fund represented approximately 7.9 percent of the total EMGF value at June 30, 2011.

The fair values of the Fund's shares in the DFISX funds were $251,872 thousand as of June 30, 2011, and are included in the non-domestic values shown below. The fair values of the Fund's shares in the DISVX funds were $243,072 thousand as of June 30, 2011, and are included in the non-domestic values shown below. The value of the Fund's investment in the DFISX fund represented approximately 4 percent of the total DFISX value at June 30, 2011. The value of the Fund's investment in the DISVX fund represented approximately 3 percent of the total DISVX value at June 30, 2011.

Preferred and common stocks at June 30, 2011, are summarized as follows (in thousands), and include the net fair value of equity index futures:

	Cost	Fair Value	Unrealized Gains/(Losses)
Domestic	$ 8,945,123	$ 10,897,167	$ 1,952,044
Non-domestic	6,891,512	8,167,105	1,275,593
Total Preferred and Common Stock	$ 15,836,635	$ 19,064,272	$ 3,227,637

Foreign Currency Exposure

Foreign currency risk is managed by the international investment managers in part through their decisions to enter into foreign currency forward contracts. Foreign currency risk is also managed through the diversification of assets into various countries and currencies.

At June 30, 2011, the Fund's cash holdings, non-domestic public and private equity, and debt securities had exposure to foreign currency risk as follows, shown in U.S. dollar equivalent at fair value and based on the currency in which the securities are held and traded (in thousands):

Foreign Currency	Cash	Public Equity	Debt	Private Equity	Total Foreign Currency Exposure
Argentine Peso	$ (19)	$ -	$ 3,459	$ -	$ 3,440
Australian Dollar	11,655	421,115	-	6,957	439,727
Brazilian Real	2,299	115,461	38,363	-	156,123
British Pound Sterling	825	1,410,159	76,855	28,480	1,516,319
Canadian Dollar	11,100	699,633	72,512	-	783,245
Chilean Peso	13	1,373	-	-	1,386
Colombian Peso	5	850	22,941	-	23,796
Czech Koruna	(41)	742	6,850	-	7,551
Danish Krone	1,326	59,544	13,249	-	74,119
Egyptian Pound	5	1,983	-	-	1,988
Euro Currency	(31,314)	2,145,950	341,545	175,682	2,631,863
Hong Kong Dollar	10,538	439,920	-	-	450,458
Hungarian Forint	-	913	6,272	-	7,185
Indian Rupee	250	80,511	-	-	80,761
Indonesian Rupiah	(1,803)	44,237	32,257	-	74,691
Israeli Shekel	2,917	47,152	1,798	-	51,867
Japanese Yen	11,539	1,346,629	236,817	-	1,594,985
Malaysian Ringgit	240	25,840	17,416	-	43,496
Mexican Peso	262	30,900	53,558	-	84,720
Moroccan Dirham	12	182	-	-	194
New Zealand Dollar	307	15,159	-	-	15,466
Norwegian Krone	(204)	46,480	-	-	46,276
Philippine Peso	44	965	19,113	-	20,122
Polish Zloty	9	27,448	12,432	-	39,889
Russian Ruble	-	-	12,267	-	12,267
Singapore Dollar	3,820	88,478	-	-	92,298
South African Rand	(516)	62,357	8,342	-	70,183
South Korean Won	(460)	166,680	37,573	-	203,793
Swedish Krona	1,698	193,031	32,352	23	227,104
Swiss Franc	9,791	477,379	-	-	487,170
Taiwan Dollar	1,221	134,940	-	-	136,161
Thai Baht	(1,562)	49,964	1,887	-	50,289
Turkish Lira	-	30,099	36,226	-	66,325
Uruguayan Peso	-	-	15,558	-	15,558
Total foreign currency exposure	$ 33,957	$ 8,166,074	$ 1,099,642	$ 211,142	$ 9,510,815

Cash amounts in the schedule above include receivables, payables, and cash balances in each related currency. If payables exceed receivables and cash balances in a currency, then the total cash balance for that currency will appear as a negative value.

Real Estate

The Fund holds a variety of real estate interests, including directly owned real estate, real estate investment trusts, a real estate operating company, and other entities whose assets consist primarily of real property. The Fund invests in real estate directly through ownership of interests in corporations, limited liability companies, and partnerships that hold title to the real estate. External institutional real estate management firms administer the Fund's directly owned real estate investments.

Real estate investments at June 30, 2011, are summarized as follows (in thousands):

	Cost	Fair Value	Unrealized Gains/(Losses)
Real Estate Investment Trusts	$ 225,939	$ 292,888	$ 66,949
Alaska Residential Mortgage	21	21	-
Directly Owned Real Estate:			
Earnest Money - Pending Purchase	2,771	2,771	-
Retail	673,070	1,192,533	519,463
Office	1,056,142	958,096	(98,046)
Industrial	248,006	248,743	737
Multifamily	978,110	1,028,302	50,192
Total Real Estate	$ 3,184,059	$ 3,723,354	$ 539,295

Subsequent to fiscal year end 2011, one real estate property was sold. The industrial building, located in California, was sold for $22.2 million (which approximated the carrying value of the property at June 30, 2011), incurring a realized loss of $5.3 million.

Alternative Investments

Alternative investments include the Fund's investments in or through real return mandates, absolute return strategies, private equity, infrastructure, distressed debt, and mezzanine debt.

The objective for the real return mandate is to produce a five percent real return (in excess of inflation) over the longer of one business cycle or five years. Each manager's contract specifies permitted investments and liquidity guidelines. Investments are generally in commingled proprietary funds structured as limited partnerships.

Absolute return strategies are investments in specialized funds with low market correlation. The Fund's absolute return strategies are managed through three limited partnerships, in which the Fund is the only limited partner ("fund-of-one"). External investment management services are provided by institutional investment managers who have acknowledged their status as fiduciaries with respect to the Fund. Absolute return strategies invest in a diversified portfolio of underlying limited partnership interests or similar limited liability entities. Each fund-of-one provides the Fund with fair value estimates of partnership interests and undergoes an annual independent audit. Many absolute return investments do not have readily ascertainable fair values and may be subject to withdrawal restrictions and/or additional expenses upon early withdrawal of invested funds.

The Fund holds private equity through investments in limited liability companies and limited partnerships that typically invest in unlisted, illiquid common and preferred stock, and, to a lesser degree, subordinated and senior debt of companies that are in most instances privately held. The APFC has hired external advisors to select private equity holdings diversified by geography and strategy. Private equity is funded slowly over time as opportunities are identified by the external advisors and the underlying fund managers. The underlying private equity funds provide the Fund with fair value estimates of the investments utilizing the most current information available. In addition, the external advisors review the fair value estimates, and the underlying private equity funds undergo annual independent audits. Private equity investments by their nature generally have no readily ascertainable market prices, and the estimated fair values may differ significantly from values that would be obtained in a market transaction for the assets.

Infrastructure investments involve ownership or operating agreements in essential long-term service assets with high barriers to entry. Examples of infrastructure assets include: toll roads; airports; deep water ports; communication towers; and energy generation, storage and transmission facilities. Investments in this asset class are expected to have inflation protection attributes and exhibit low correlations with other major asset classes in the Fund's investment strategy. The Fund holds infrastructure investments through commingled funds organized as limited partnerships whose investment managers provide periodic fair value estimates. The limited partnerships undergo annual independent audits. Infrastructure investments by their nature generally have no readily ascertainable market prices, and the estimated fair values may differ significantly from values that would be obtained in a market transaction for the assets.

The Fund invests in distressed debt through limited partnerships that invest either directly in distressed debt or in commingled limited liability funds with a distressed debt focus. The Fund invests in mezzanine debt through limited partnerships that invest directly in mezzanine debt. These investments are funded over time, as opportunities arise. The limited partnerships undergo annual independent audits. Distressed debt and mezzanine investments, by their nature, generally have no readily ascertainable market prices, and the estimated fair values may differ significantly from values that would be obtained in a market transaction for the assets.

Alternative investments at June 30, 2011, are summarized as follows (in thousands):

	Cost	Fair Value	Unrealized Gains/(Losses)
Real return	$ 2,864,271	$ 3,164,561	$ 300,290
Absolute return	2,200,847	2,530,937	330,090
Private equity	1,247,827	1,378,117	130,290
Infrastructure	656,198	786,916	130,718
Distressed and mezzanine debt	456,735	531,116	74,381
Total alternative investments	$ 7,425,878	$ 8,391,647	$ 965,769

As of June 30, 2011, the APFC, on behalf of the Fund, had outstanding future funding commitments of: $1.6 billion for private equity; $636 million for infrastructure; and $775 million for distressed and mezzanine debt investments combined.

Alaska Certificates of Deposit

State regulations and APFC investment policy authorize the APFC to invest Fund assets in certificates of deposit or the equivalent instruments of banks, savings and loan associations, mutual savings banks and credit unions doing business in Alaska. The certificates of deposit are secured by collateral consisting of letters of credit from the Federal Home Loan Bank or pooled mortgage securities issued by U.S. government sponsored enterprises.

Securities Lending

State regulations at 15 AAC 137.510 and APFC investment policy authorize the APFC to enter into securities lending transactions on behalf of the Fund. Through a contract with the Bank of New York Mellon (the Bank), the Fund lends marketable debt and equity securities to borrowers who are banks and broker-dealers. The loans are collateralized with cash or marketable securities guaranteed by the U.S. government or a U.S. government agency. Under APFC's contract with the Bank, the Bank must mark the loaned securities and collateral to the market daily, and the loan agreements require the borrowers to maintain the collateral at not less than 102 percent of the fair value of the loaned securities for domestic securities (and non-domestic loaned securities denominated in U.S. Dollars) and not less than 105 percent of the fair value for other non-domestic loaned securities. The APFC can sell securities that are on loan. If a borrower fails to return the loaned securities (borrower default), the Bank can use cash collateral (and the proceeds on the sale of any non-cash collateral) to purchase replacement securities. Generally, the APFC is protected from credit risk associated with the lending transactions through indemnification by the Bank against losses resulting from counterparty failure, the reinvestment of cash collateral, default on collateral investments, or a borrower's failure to return loaned securities.

Cash collateral received for loaned securities is reported on the Fund's balance sheets and invested by the Bank on behalf of the Fund. As of June 30, 2011, such investments were in overnight repurchase agreements that had a weighted-average-maturity of one day. The average term of the loans was also one day. At June 30, 2011the value of securities on loan is as follows (in thousands):

Fair Value of Securities on Loan	$ 3,426,988
Cash Collateral	3,617,520

The Fund receives 80 percent of earnings derived from securities lending transactions and the Bank retains 20 percent. During the year ended June 30, 2011, the Fund incurred no losses from securities lending transactions. The Fund received income of $8,957 thousand from securities lending for the year ended June 30, 2011, which is recorded in real estate and other income on the statements of revenues, expenditures, and changes in fund balances.

Investment Income by Source

Investment income during the year ended June 30, 2011, is summarized as follows (in thousands):

Interest	
Domestic Marketable Debt Securities	$ 244,176
Non-domestic Marketable Debt Securities	35,531
Alaska Certificates of Deposit	1,890
Short-term Domestic and Other	2,123
Total Interest	$ 283,720
Dividends	
Domestic Stocks	$ 107,030
Non-domestic Stocks	352,823
Total Dividends	$ 459,853
Real Estate and Other Income	
Directly Owned Real Estate Interest	$ 1
Directly Owned Real Estate Net Rental Income	127,306
Real Estate Investment Trust Dividends	12,552
Real Return Interest and Dividends	30,038
Absolute Return Management Expenses, Net of Dividend and Interest Income	(17,138)
Distressed and Mezzanine Debt Interest Income, Net of Fees	1,040
Infrastructure Fees, Net of Interest and Dividend Income	(3,291)
Private Equity Dividend Income, Net of Management Expenses	5,335
Class Action Litigation Income	3,393
Loaned Securities, Commission Recapture and Other Income	9,590
Total Real Estate and Other Income	$ 168,826

Foreign Exchange Contracts and Off-Balance Sheet Risk

Certain APFC external investment managers enter into foreign currency forward exchange contracts (FX forward contracts) to buy and sell specified amounts of foreign currencies for the Fund at specified rates and future dates for the purpose of managing or optimizing foreign currency exposure. The maturity periods for outstanding contracts at June 30, 2011 ranged between one and 154 days.

The counterparties to the FX forward contracts consisted of a diversified group of financial institutions. The Fund is exposed to credit risk to the extent of non-performance by these counterparties. The Fund's market risk as of June 30, 2011 is limited to the difference between contractual rates and forward market rates determined at the end of the fiscal year.

Activity and balances related to FX forward contracts for fiscal year 2011 are summarized as follows (in thousands):

Face Value of FX Forward Contracts	$ 2,528,767
Net Unrealized Holding Losses on FX Forward Contracts	(5,195)
Fair Value of FX Forward Contracts	$ 2,523,572
Change in Unrealized Holding Losses	$ (3,634)
Realized Losses	(122,114)
Net Decrease in Fair Value of FX Forward Contracts	$ (125,748)

Certain APFC equity investment managers are permitted to trade in equity index futures for the Fund's account. Equity index futures are traded in both domestic and non-domestic markets based on an underlying stock exchange value. Equity index futures are settled with cash for the net difference between the trade price and the settle price.

Activity and balances related to equity index futures for fiscal year 2011 is summarized as follows (in thousands):

Face Value of Equity Index Futures	$ 149,868
Net Unrealized Holding Gains on Futures	5,083
Fair Value of Equity Index Futures	$ 154,951
Change in Unrealized Holding Gains	$ 10,279
Realized Gains	22,895
Net Increase in Fair Value of Futures	$ 33,174

The face value of FX forward contracts and futures shown in these schedules is not required to be included in the Fund's balance sheets. All other balance and activity amounts shown above are included in the Fund's financial statements.

NOTE 5 – CAPITAL ASSETS

PRIMARY GOVERNMENT

Capital assets, which include property, plant, equipment, and infrastructure items (highways, bridges, and similar items) are reported in the applicable governmental and business-type activity columns of the government-wide financial statements.

Capitalization policy and useful lives for capital assets are as follows:

	Governmental Activities		Business-type Activities	
Capital Asset	Capitalize at Value	Useful Life	Capitalize at Value	Useful Life
Land	All	Indefinite	All	Indefinite
Infrastructure	$ 1,000,000	15-75	$ 100,000	5-40
Buildings	1,000,000	50	100,000	10-40
Intangible Assets and Computer Software	500,000	3-7		
Building Improvements	100,000	1-50	All	5-40
Machinery/equipment	100,000	3-60	5,000	5-10
Construction in Progress				

State of Alaska art, library reserve, and museum collections that are considered inexhaustible, in that their value does not diminish over time, are not capitalized. These assets are held for public exhibition, education, or research rather than financial gain, and are protected, kept unencumbered, cared for, and preserved. Proceeds from the sale of collection items are used to acquire other items for collections.

Capital asset activities for the fiscal year ended June 30, 2011, are as follows (in millions):

Governmental Activities	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets not being depreciated:				
Intangible - Easements and Right-of-Way	$ 504	$ 18	$ -	$ 522
Land	319	3	-	322
Construction in progress	1,359	539	(382)	1,516
Total capital assets not being depreciated	2,182	560	(382)	2,360
Capital assets being depreciated:				
Buildings	1,607	72	(36)	1,643
Intangible - Software	39	10	-	49
Equipment	828	34	(6)	856
Infrastructure	5,985	279	(22)	6,242
Total capital assets being depreciated	8,459	395	(64)	8,790
Less accumulated depreciation for:				
Buildings	(492)	(30)	7	(515)
Intangible - Software	(37)	(6)	-	(43)
Equipment	(390)	(36)	3	(423)
Infrastructure	(3,486)	(285)	5	(3,766)
Total accumulated depreciation	(4,405)	(357)	15	(4,747)
Total capital assets being depreciated, net	4,054	38	(49)	4,043
Capital assets, net	$ 6,236	$ 598	$ (431)	$ 6,403

Internal service funds predominantly serve the governmental funds. Accordingly, capital assets for internal funds are included as part of the above schedule for governmental activities.

Business-type Activities	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets not being depreciated:				
Land	$ 30	$ -	$ -	$ 30
Construction in progress	77	86	(103)	60
Total capital assets not being depreciated	107	86	(103)	90
Capital assets being depreciated:				
Buildings	973	21	-	994
Equipment	76	7	(1)	82
Infrastructure	670	70	-	740
Total capital assets being depreciated	1,719	98	(1)	1,816
Less accumulated depreciation for:				
Buildings	(227)	(29)	-	(256)
Equipment	(47)	(5)	1	(51)
Infrastructure	(308)	(25)	-	(333)
Total accumulated depreciation	(582)	(59)	1	(640)
Total capital assets being depreciated, net	1,137	39	-	1,176
Capital assets, net	$ 1,244	$ 125	$ (103)	$ 1,266

The following relates to the land owned by the State:

The total state entitlement amounts to approximately 105.7 million acres, 102.5 million of which was received through the Statehood Act. In accordance with the Alaska Statehood Act section 6(g), Alaska Native Claims Settlement Act, and the Alaska National Interest Lands Conservation Act, section 906(c), 100.3 million acres have been patented or "tentatively approved."

The State disposes of various land parcels through several programs. However, the State generally retains the subsurface rights of the land upon disposal.

Depreciation expense was charged to the functions of the primary government as follows (in millions):

Governmental Activities	Amount
General Government	$ 3
Education	9
Health and Human Services	5
Law and Justice	3
Natural Resources	3
Public Protection	7
Transportation	302
Depreciation on capital assets held by the state's internal service funds is charged to the various functions based on their use of the assets.	25
Total Depreciation Expense – Governmental Activities	$ 357
Business-type Activities	
Enterprise	$ 59

DISCRETELY PRESENTED COMPONENT UNITS

The estimated useful lives of capital assets range from 4 to 50 years. The following table summarizes net capital assets reported by the discretely presented component units at June 30, 2011 (in millions):

	Beginning Balance (restated)	Additions	Deletions	Ending Balance
Capital assets not being depreciated:				
Intangible - Easements and Right-of-Way	$ 8	$ 1	$ (1)	$ 8
Land	73	13	-	86
Library, media, and museum collections	58	1	-	59
Construction in progress	152	230	(193)	189
Infrastructure	11	-	-	11
Total capital assets not being depreciated	302	245	(194)	353
Capital assets being depreciated/depleted:				
Intangible - Software	1	-	-	1
Intangible - Right of Use	21	-	-	21
Land	4	-	-	4
Buildings	1,504	58	(2)	1,560
Equipment	525	41	(11)	555
Infrastructure	1,244	113	-	1,357
Total capital assets being depreciated/depleted	3,299	212	(13)	3,498
Less accumulated depreciation/depletion for:				
Intangible - Right of Use	(2)	(1)	-	(3)
Buildings	(722)	(53)	1	(774)
Equipment	(278)	(33)	9	(302)
Infrastructure	(466)	(49)	1	(514)
Total accumulated depreciation/depletion	(1,468)	(136)	11	(1,593)
Total capital assets being depreciated/depletion, net	1,831	76	(2)	1,905
Capital assets, net	$ 2,133	$ 321	$ (196)	$ 2,258

University of Alaska art, library, and museum collections, which are capitalized but not depreciated, are reported in the statement of net assets as equipment. These assets are held for public exhibition, education, or research rather than financial gain, and are protected, kept unencumbered, cared for, and preserved. Proceeds from the sale of collection items are used to acquire other items for collections.

Two component units have restated beginning balances for capital assets displayed in the table above. The Alaska Natural Gas Development Authority identified additional capitalization from prior years which resulted in an adjustment to the FY 11 beginning balance for intangibles – easements and right-of-way. See Note 3 for further information on this restatement. The Alaska Industrial Development and Export Authority capital asset beginning balances are restated above in order to include development projects, which were not previously reported within this note.

NOTE 6 – SHORT-TERM DEBT, BONDS PAYABLE AND OTHER LONG-TERM OBLIGATIONS

A. SUMMARY OF CHANGES

SHORT-TERM DEBT

Two enterprise funds, the Alaska Clean Water Fund and the Alaska Drinking Water Fund issued bond anticipation notes during FY 11 totaling $2,439 thousand and $2,714 thousand respectively. The proceeds were used to fund the State share of loan distributions and administration costs. In accordance with the Environmental Protection Agency regulations, interest and investment earnings were used to retire the bond anticipation notes. No balance was outstanding at year end.

Short-term debt activity for the primary government for the fiscal year ended June 30, 2011 is as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Bond Anticipation Notes	$ -	$ 5,153	$ 5,153	$ -

LONG-TERM LIABILITIES

The following table summarizes changes in long-term liabilities for the fiscal year ended June 30, 2011 (in thousands):

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Revenue bonds payable	$ 425,753	$ 965	$ 4,182	$ 422,536	$ 2,699
General obligation debt	489,517	201,837	35,721	655,633	55,301
Capital leases payable	410,085	8,212	25,661	392,636	21,305
Unearned & deferred revenue	302,187	44,292	1,993	344,486	37,826
Certificates of participation	45,605	-	6,005	39,600	6,215
Compensated absences	154,051	150,716	143,569	161,198	132,764
Claims and judgments	75,087	599	896	74,790	33,698
Pollution Remediation	53,316	44,319	23,603	74,032	8,771
Other noncurrent liabilities	1,304	104	325	1,083	726
Net pension obligation	751	1,431	-	2,182	-
Total	$ 1,957,656	$ 452,475	$ 241,955	$ 2,168,176	$ 299,305

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for internal service funds are included as part of the above totals for governmental activities.

The General Fund and special revenue funds in which the leases are recorded typically liquidate the capital lease obligations. The compensated absence obligations are typically liquidated by the funds incurring the related salaries and wages. Claims and judgments attributable to governmental activities will generally be liquidated by the General Fund, except for the payments by Capital Project Funds for the rebate of arbitrage. Certain claims and judgment liquidations will receive proportional federal reimbursement. Other non-current liabilities due within one year will be liquidated by the General Fund and those due after one year will be liquidated by the Reclamation Bonding Pool, a special revenue fund.

The Internal Revenue Code and arbitrage regulations issued by the Internal Revenue Service require rebate to the federal government of excess investment earnings on bond proceeds if the yield on those earnings exceeds the effective yield on the related tax-exempt bonds issued. Arbitrage rebates payable are reported under claims and judgments.

Business-type Activities	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Revenue bonds payable	$ 562,006	$ 171,060	$ 139,469	$ 593,597	$ 13,150
Unearned & deferred revenue	4,175	74	-	4,249	4,249
Compensated absences	4,353	3,833	3,687	4,499	3,392
Claims and judgements	910	-	650	260	260
Pollution Remediation	1,429	-	116	1,313	125
Other noncurrent liabilities	155	172	-	327	-
Total	$ 573,028	$ 175,139	$ 143,922	$ 604,245	$ 21,176

B. GENERAL OBLIGATION BONDS AND REVENUE BONDS

GENERAL OBLIGATION BONDS

Under Article IX, Section 8 of the State Constitution and AS 37.15, the State Bonding Act, general obligation bonds must be authorized by law and ratified by voters and generally must be issued for capital improvements. There is no statutory limit on the amount of State general obligation bonds that may be authorized.

The full faith, credit, and resources of the state are pledged to secure payment of general obligation bonds. As of June 30, 2011, the following were the general obligation bond debt outstanding (in millions):

Year Ending June 30	Principal	Interest	Total
2012	$ 52.1	$ 32.1	$ 84.2
2013	55.2	28.0	83.2
2014	38.1	25.8	63.9
2015	27.1	24.3	51.4
2016	28.2	23.0	51.2
2017-2021	137.2	94.3	231.5
2022-2026	95.8	66.6	162.4
2027-2031	143.6	37.5	181.1
2032-3036	66.5	5.8	72.3
Total debt service requirements	643.8	$ 337.4	$ 981.2
Unamortized bond premium	11.8		
Total principal outstanding	$ 655.6		

The General Obligation Bonds Series 2003A were issued for the purpose of paying $235,215,500 of the cost of design, construction and major maintenance of educational and museum facilities and for the purpose of paying $123,914,500 of the costs of State transportation projects. The Series 2003B Bonds were issued for the purpose of paying $102,805,000 of the costs of State transportation projects. The Series 2009A Bonds were issued for the purpose of paying $165,000,000 of the costs of State transportation projects. The Series 2010 A, B, and C Bonds were issued for the purpose of paying $200,000,000 of the costs of State education projects.

REVENUE BONDS

As of June 30, 2011, the following were the revenue bonds outstanding (in millions):

	Governmental Activities		Business-Type Activities	
Year Ending June 30	Principal	Interest	Principal	Interest
2012	$ 2.7	$ 20.2	$ 13.2	$ 28.0
2013	9.8	20.1	13.7	27.5
2014	12.6	19.7	14.3	26.9
2015	13.4	19.2	20.6	26.1
2016	14.2	18.5	21.7	25.1
2017-2021	44.9	84.9	141.5	106.6
2022-2026	53.7	73.9	187.9	65.3
2027-2031	41.2	62.0	135.1	20.7
2032-2036	54.2	50.4	32.1	5.0
2037-2041	71.2	35.3	-	-
2042-2046	108.8	140.3	-	-
Total debt service requirements	426.7	$ 544.5	580.1	$ 331.2
Unamortized bond (discounts)/premiums	(8.3)		13.5	
Plus accreted value	4.2		-	
Total principal outstanding	$ 422.6		$ 593.6	

There are two types of revenue bonds within governmental activities reported above, the Northern Tobacco Securitization Corporation revenue bonds and the State of Alaska Sport Fishing Revenue bonds. This debt is reported in the Governmental Activities column of the Government-wide Statement of Net Assets.

Northern Tobacco Securitization Corporation Revenue Bonds

The Northern Tobacco Securitization Corporation (NTSC) bonds were issued to purchase the right to a share of Tobacco Settlement Revenues (TSRs) received by the State of Alaska. These revenue bonds are secured by and payable solely from the TSRs and investment earnings pledged under the respective bond indentures and amounts established and held in accordance with those bonds indentures. Neither Alaska Housing Finance Corporation nor the State of Alaska is liable for any debt issued by NTSC. NTSC revenue bond total at June 30, 2011 includes $374.9 million in principal, $522.2 million in interest, $8.4 million in unamortized discount, and $4.2 million in accreted value on the Series 2006B and Series 2006C Bonds.

Alaska Sport Fishing Revenue Bonds

The State of Alaska Sport Fishing (SF) Revenue Bonds Series 2006 were issued under Article 5A of Chapter 15 of Title 37 of the Alaska Statutes. The bonds were issued to provide a portion of the funds necessary to finance the construction and renovation of fisheries rehabilitation, enhancement and development projects that benefit sport fishing. These revenue bonds are special, limited obligations of the State secured by and payable from the sport fishing facilities surcharge imposed under AS 16.05.340 and from funds received from the federal government which by their terms are not restricted in use and legally available for the payment for debt service on Parity Bonds. The bonds are not general obligations of the State, and the State does not pledge its full faith and credit to the payment of the bonds. Sport Fishing revenue bond total at year end includes $51.8 million in principal, $22.3 million in interest, and $.1 million in unamortized premium.

International Airports Revenue Bonds

The business activities revenue bonds include bond issuances by the International Airports Fund (IAF). Gross revenues derived from the operation of the international airports at Anchorage and Fairbanks are pledged to secure the payment of principal and interest on International Airports revenue bonds. There are $23.2 million of bonds authorized by the Alaska Legislature that have not been issued. This debt is reported in the Business-type Activities column of the Government-wide Statement of Net Assets. During FY 11, $145.1 million in International Airports Revenue Bonds were refunded. Total bond interest arbitrage rebate liability was $327.9 thousand at June 30, 2011. Federal subsidies related to the interest payments made during the year on Build American Bonds were $217 thousand.

C. CAPITAL AND OPERATING LEASES

A summary of noncancelable operating and capital lease commitments to maturity are (in millions):

Governmental Activities	Operating	Capital Leases		
Year Ending June 30	Leases	Principal	Interest	Total
2012	$ 35.8	$ 21.3	$ 20.4	$ 41.7
2013	26.6	21.4	19.4	40.8
2014	21.5	21.8	18.4	40.2
2015	14.3	22.1	17.3	39.4
2016	10.8	21.9	16.3	38.2
2017-2021	22.0	102.4	64.6	167.0
2022-2026	3.3	72.5	41.8	114.3
2027-2031	1.6	74.4	21.3	95.7
2032-2036	1.0	33.6	2.3	35.9
2037-2041	0.2	-	0.3	0.3
2042-2046	0.2	-	0.3	0.3
2047-2051	0.2	-	0.3	0.3
2052-2056	0.2	0.1	0.2	0.3
2057-2061	1.8	1.1	1.5	2.6
Total	$ 139.5	$ 392.6	$ 224.4	$ 617.0

Leases at June 30, 2011 are reported by the State of Alaska within Governmental Activities and Business-Type Activities, as applicable.

The State leases office facilities, office and computer equipment, and other assets under a variety of agreements. Although lease terms vary, most leases are subject to appropriation from the State Legislature to continue the obligation. If the possibility of receiving no funding from the Legislature is remote, leases are considered noncancelable for financial reporting purposes. Leases that represent acquisitions are classified as capital leases, and the related assets and liabilities are recorded in the financial records at the inception of the lease. Other leases are classified as operating leases with the lease payments recorded as expenditures or expenses during the life of the lease. Certain operating leases are renewable for specified periods. In most cases, management expects that the leases will be renewed or replaced by other leases.

Buildings and equipment under capital leases as of June 30, 2011 include the following (in thousands):

	Governmental Activities	Business-Type Activities
Buildings	$ 408,401	$ -
Equipment	9,895	-
Less: Accumulated Depreciation	(25,660)	-
	$ 392,636	$ -

D. CERTIFICATES OF PARTICIPATION

The State has lease purchase agreements funded through certificates of participation (COPs). These leases are for the purchase of buildings. Third-party leasing companies assigned their interest in the lease to underwriters, which issued certificates for the funding of these obligations. The COPs represent an ownership interest of the certificate holder in a lease purchase agreement. While the State is liable for lease payments to the underwriters, the State is not liable for payments to holders of the certificates.

The following schedule presents future minimum payments as of June 30, 2011 (in millions):

Governmental Activities	Certificates of Participation		
Year Ending June 30	Principal	Interest	Total
2012	$ 6.2	$ 1.7	$ 7.9
2013	6.5	1.5	8.0
2014	3.9	1.1	5.0
2015	4.1	1.0	5.1
2016	4.3	0.8	5.1
2017-2021	14.6	1.6	16.2
Total	$ 39.6	$ 7.7	$ 47.3

E. DISCRETELY PRESENTED COMPONENT UNITS

Debt service requirements are (in millions):

Year Ending June 30	Principal	Interest	Total
2012	$ 322.0	$ 184.8	$ 506.8
2013	196.0	176.7	372.7
2014	268.3	168.2	436.5
2015	157.3	160.3	317.6
2016	161.9	153.5	315.4
2017-2021	803.2	658.5	1,461.7
2022-2026	685.8	482.0	1,167.8
2027-2031	697.9	317.8	1,015.7
2032-2036	553.1	169.3	722.4
2037-2041	526.6	44.9	571.5
2042-2046	84.0	1.4	85.4
Total debt service requirements	4,456.1	$ 2,517.4	$ 6,973.5
Unamortized (discounts)/premiums	23.5		
Unamortized swap termination penalty	(19.8)		
Deferred amount on refunding	(21.0)		
Total principal outstanding	$ 4,438.8		

The preceding table does not include $494 thousand of Alaska Energy Authority arbitrage interest payable.

F. ALASKA HOUSING FINANCE CORPORATION DERIVATIVES

The Alaska Housing Finance Corporations (AHFC) entered into derivatives to reduce the overall cost of borrowing long-term capital and protect against the risk of rising interest rates. AHFC's derivatives consist of interest rate swap agreements entered into in connection with its long-term variable bonds. The interest rate swaps are pay-fixed, receive-variable agreements, and were entered into at a cost less than what AHFC would have paid to issue conventional fixed-rate debt.

The swaps are recorded and disclosed as either hedging derivatives or investment derivatives. The synthetic instrument method was used to determine whether the derivative was hedgeable or not. The fair values of the hedgeable derivatives and investment derivatives are presented in the Statement of Net Assets, either as a derivative liability (negative fair value amount) or as a derivative asset (positive fair value amount). If a swap changes from a hedgeable derivative to an investment derivative, the hedge is considered terminated and the accumulated change in fair value is no longer deferred but recognized as a revenue item.

The fair value amounts, obtained from mark to market statements from the respective counterparties and reconciled to present value calculations done by AHFC, represent mid-market valuations that approximate the current economic value using market averages, reference rates, and/or mathematical models. Actual trade prices may vary significantly from these estimates as a result of various factors, which may include (but are not limited to) portfolio composition, current trading intentions, prevailing credit spreads, market liquidity, hedging costs and risk, position size, transaction and financing costs, and use of capital profit. The fair value represents the current price to settle swap asset or liabilities in the marketplace if a swap were to be terminated.

AHFC's interest rate swaps require that if the ratings on the associated bonds fall to BBB+/Baa1, AHFC would have to post collateral of up to 100 percent of the swap's fair value. As of June 30, 2011, AHFC has not posted any collateral and is not required to post any collateral.

HEDGING DERIVATIVES

The significant terms and credit ratings of AHFC's hedging derivatives as of June 30, 2011, are shown below:

Related Bond Issue	Effective Dates	Fixed Rate Paid	Variable Rate Received	SWAP Termination Date	Counterparty Credit Rating [7]
GP01A [1]	12/1/2008	2.4530%	67% of 1M LIBOR [4]	12/1/2030	A+/Aa3
GP01B	8/2/2001	4.1427%	67% of 1M LIBOR	12/1/2030	A/A2
E021A1 [2]	10/9/2008	2.9800%	70% of 3M LIBOR [5]	6/1/2032	AAA/Aa1
E021A2	10/9/2008	3.4480%	70% of 1M LIBOR	12/1/2036	A/A2
SC02C [3]	12/5/2002	4.3030%	SIFMA [6] +0.115%	7/1/2022	AA-/Aa1
E071AB	5/31/2007	3.7345%	70% of 3M LIBOR	12/1/2041	AAA/Aa1
E071BD	5/31/2007	3.7200%	70% of 3M LIBOR	12/1/2041	AA-/Aa1
E091A	5/28/2009	3.7610%	70% of 3M LIBOR	12/1/2040	A+/A1
E091B	5/28/2009	3.7610%	70% of 3M LIBOR	12/1/2040	AAA/Aa1
E091AB	5/28/2009	3.7400%	70% of 3M LIBOR	12/1/2040	AA-/Aa1

[1] Governmental Purpose Bonds
[2] Home Mortgage Revenue Bonds
[3] State Capital Project Bonds
[4] London Interbank Offered Rate 1 month
[5] London Interbank Offered Rate 3 month
[6] Securities Industry and Financial Markets Municipal Swap Index
[7] Standard & Poor's/Moody's

The change in fair value and ending balance of AHFC's hedging derivatives as of June 30, 2011, is shown below (in thousands). The fair value is reported as a deferred outflow/inflow of resources in the Statement of Net Assets.

Related Bond Issue	Notional Amounts	Present Values	Fair Values June 30, 2011	Fair Values June 30, 2010	Change in Fair Values
GP01A	$ 59,945	$ 60,970	$ (1,025)	$ (2,008)	$ 983
GP01B	73,255	85,883	(12,628)	(14,848)	2,220
E021A1	45,800	48,269	(2,469)	(3,493)	1,024
E021A2	120,000	124,797	(4,797)	(6,965)	2,168
SC02C	60,250	67,421	(7,171)	(7,669)	498
E071AB	143,622	165,440	(21,818)	(27,723)	5,905
E071BD	95,748	109,703	(13,955)	(17,879)	3,924
E091A	72,789	84,027	(11,238)	(14,293)	3,055
E091B	72,789	84,164	(11,375)	(14,462)	3,087
E091ABD	97,052	111,512	(14,460)	(18,559)	4,099
Total	$ 841,250	$ 942,186	$ (100,936)	$ (127,899)	$ 26,963

As of June 30, 2011, debt service requirements of AHFC's outstanding variable-rate debt and net swap payments are displayed in the following schedule (in thousands). As interest rates vary, variable-rate bond interest payments and net swap payments will also vary.

Year Ending June 30	Outstanding Variable-Rate Debt Principal	Outstanding Variable-Rate Debt Interest	Swap Net Payment	Total Payment
2012	$ 6,895	$ 5,308	$ 29,230	$ 41,433
2013	12,825	5,223	28,945	46,993
2014	13,390	5,117	28,488	46,995
2015	13,955	5,006	28,010	46,971
2016	14,565	4,891	27,513	46,969
2017-2021	117,385	22,490	127,462	267,337
2022-2026	154,055	18,296	102,685	275,036
2027-2031	175,865	12,656	75,151	263,672
2032-3036	171,565	5,708	45,682	222,955
2037-2041	152,510	351	15,803	168,664
2042	8,240	3	147	8,390
	$ 841,250	$ 85,049	$ 509,116	$ 1,435,415

Interest Rate Risk

AHFC is exposed to interest rate risk on all of its interest rate swaps. As LIBOR or the SIFMA index decreases, AHFC's net payment on the swaps increases.

Credit Risk

As of June 30, 2011, AHFC is not exposed to credit risk on any swaps because the swaps all have negative fair values. If interest rates rise and the fair values of swaps become positive, AHFC would be exposed to credit risk in the amount of the swaps' fair value. The swap agreements contain varying collateral agreements with the counterparties and require full collateralization of the fair value amount of the swap should the counterparty's rating fall to BBB+/Baa1. AHFC currently has swap agreements with five separate counterparties. Approximately 31 percent of the total notional amount of the swaps is held with one counterparty rated AAA/Aa1. Another 30 percent of the total notional amount of the swaps is held with one counterparty rated AA-/Aa1. Of the remaining swaps, one counterparty is rated A/A2, another counterparty is rated A+/A1, and the remaining counterparty is rated A+/Aa3, approximating 23 percent, 9 percent, and 7 percent respectively, of the total notional amount of the swaps.

Basis Risk

All of AHFC's variable-rate bond interest payments are based on the tax exempt SIFMA index. Therefore, AHFC is exposed to basis risk on swaps where the variable payment received on the swaps is based on a taxable LIBOR index and does not fully offset the variable rate paid on the bonds, which is based on the SIFMA index. The SC02C swap is based on the SIFMA index and thus is not exposed to any basis risk. As of June 30, 2011, SIFMA was 0.09 percent and 1 month LIBOR was 0.1856 percent, resulting in a SIFMA/LIBOR ratio of 48.5 percent. The 3 month LIBOR was 0.2458 percent resulting in a SIFMA/LIBOR ratio of 36.6 percent The SIFMA/LIBOR ratios have fluctuated since the agreements became effective but the anticipated cost savings from the swaps increases as the ratios decrease.

Termination Risk

Termination risk is the risk of an unscheduled termination of a swap prior to its planned maturity. If any of the swaps are terminated, the associated floating rate bonds would no longer carry synthetic fixed interest rates and, AHFC would be exposed to interest rate risk on the bond. This risk is mitigated by the fact that the termination payment could be used to enter into an identical swap at the termination date of the existing swap. Further, if any of the swaps have a negative fair value at termination, AHFC would be liable to the counterparty for payments equal to the swaps' fair value. AHFC or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the agreement, including downgrades and events of default.

In fiscal year 2009, three swaps were terminated because of bankruptcy events with the counterparties, resulting in AHFC making termination payments totaling $22,181 thousand to the counterparties. AHFC replaced the swaps with new swaps with new swaps that had provisions that resulted in a lower cost overall on the underlying debt. The termination payments were deferred and are being amortized to interest expense over the life of the bonds related to those terminated swaps.

Rollover Risk

Rollover risk occurs when there is a mismatch in the amortization of the swap versus the amortization of the floating rate bonds. AHFC has structured the swaps to amortize at the same rate as scheduled or anticipated reductions in the associated floating rate bonds outstanding. The E021A swaps were set up in several tranches of various sizes that can be cancelled to parallel the redemption of debt from mortgage prepayments. In addition, the GP01A and GP01B swaps cover only a portion of the total debt issuance, allowing any increase in the speed of mortgage prepayments to be directed to the unswapped portion of the debt.

INVESTMENT DERIVATIVES

The State Capital Project Bonds, 2002 Series B, were fully redeemed in fiscal year 2009, so the associated interest rate swap was no longer a hedging derivative and is accounted for as an investment derivative.

The significant terms and credit ratings of AHFC's investment derivatives as of June 30, 2011, are shown below:

Related Bond Issue	Effective Dates	Fixed Rate Paid	Variable Rate Received	SWAP Termination Date	Counterparty Credit Rating
SC02B	12/5/2002	3.77%	70% of 1M LIBOR	7/1/2024	AA-/Aa1

The change in fair value of the investment derivatives as of June 30, 2011, is shown below (in thousands) and is presented as a net change of hedge termination line in the Statement of Revenues, Expenses, and Changes in Net Assets.

Related Bond Issue	Notional Amounts	Present Values	Fair Values June 30, 2011	Fair Values June 30, 2010	Change in Fair Values
SC02B	$ 14,555	$ 16,513	$ (1,958)	$ (2,368)	$ 410

Credit Risk

As of June 30, 2011, AHFC is not exposed to credit risk on this outstanding swap because the swap has a negative fair value. If interest rates rise and the fair values of the swap becomes positive, AHFC would be exposed to credit risk in the amount of the swaps' fair value. The swap agreements requires the counterparty to fully collateralize the fair value amount of the swap should the counterparty's rating fall to BBB+/Baa1. The counterparty on this swap is rated AA-/Aa1.

NOTE 7 – DEFINED BENEFIT PENSION PLANS

A. STATE ADMINISTERED PLANS

DESCRIPTION OF PLANS

The Public Employees' Retirement System – Defined Benefit (PERS-DB)

PERS-DB is a defined benefit, cost-sharing, multiple-employer public employee retirement plan established and administered by the State to provide pension and postemployment healthcare benefits for eligible State and local government employees. Benefit and contribution provisions are established by Chapter 35 of Alaska Statute Title 39, and may be amended only by the state legislature. PERS-DB provides for normal pension benefits and postemployment healthcare benefits. The 24th Alaska State Legislature enacted into law Senate Bill 141, which closed the PERS-DB to new members effective July 1, 2006 and created a Public Employees' Retirement System Defined Contribution Retirement Plan (PERS-DCR). Information regarding PERS-DCR is disclosed in Note 8.

Prior to July 1, 2008, PERS was a defined benefit, agent, multiple-employer public employee retirement plan. The Alaska Legislature passed Senate Bill 125, which was signed by the Governor on April 2, 2008. This law converted the PERS to a cost-sharing plan under which the unfunded liability will be shared among all employers. This legislation also established a uniform contribution rate of 22 percent of participating employees' covered payroll.

Prior to July 1, 1997, postemployment healthcare benefits were provided by the payment of premiums to an insurance company. Beginning July 1, 1997, the Retiree Health Fund (RHF), a pension trust fund of the State, was established. The RHF is self-funded and originally provided major medical, dental, vision, audio, and long-term care coverage to retirees of the PERS-DB, TRS-DB, JRS and EPORS Plans. Due to the establishment of the Alaska Retiree Healthcare Trust (ARHCT) effective July 1, 2007, the RHF now provides major medical coverage to those retirees not eligible to participate in the ARHCT, along with optional dental, vision, audio, and long-term care coverage to all retirees in these plans. The plan retains the risk of loss of allowable claims. The RHF issues a financial report that may be obtained from the Division of Retirement and Benefits, P.O. Box 110203, Juneau, AK 99811-0203.

The PERS-DB Plan is a plan within the Public Employees' Retirement System (PERS). PERS is a component unit of the State of Alaska financial reporting entity. PERS includes the PERS-DB and Alaska Retiree Healthcare Trust Fund. Senate Bill 123 was passed during the 2007 legislative session and created the ARHCT. ARHCT is self-funded and provides major medical coverage to retirees of PERS. PERS retains the risk of loss of allowable claims for eligible members. ARHCT began paying member healthcare claims on March 1, 2008. Prior to that time, healthcare claims were paid for by the RHF.

The PERS component unit is comprised of the PERS-DB, PERS-DCR Plans, and the ARHCT. PERS issues a separate stand-alone financial report that includes financial statements and required supplementary information. PERS is also reported as a pension (and other employee benefit) trust fund by the State. Participants should refer to the plan agreement for more complete information. Copies of the audited financial statements may be obtained from the Division of Retirement and Benefits, P.O. Box 110203, Juneau, AK 99811-0203.

At June 30, 2011 the number of PERS participating employers was:

State of Alaska	3
Municipalities	77
School Districts	53
Other	27
Total Employers	160

PERS-DB employee contribution rates are 6.75 percent of compensation (7.5 percent for peace officers and firefighters and 9.6 percent for some school district employees). The employee contributions are deducted before federal income tax is withheld.

The PERS-DB funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual-covered payroll, are sufficient to accumulate assets to pay both pension and postemployment healthcare benefits when due. Employer contributions are accumulated in both the pension and the healthcare funds based on the approved contribution rate for the fiscal year. The employer rate for the State of Alaska for the year ended June 30, 2011 was capped at 22 percent of compensation.

The state's contributions to PERS-DB for the fiscal years ended June 30, 2011, 2010 and 2009 were $237.7, $233.1, and $224.6 million respectively for the year. For the FY 11 contributions, $82.5 million was for pensions and $155.2 million was for postemployment benefits. The contributions were equal to the required contributions in FY 11.

Alaska Statute 39.35.280 requires that additional state contributions are required each July 1 or as soon after July 1 as funds become available for the ensuing fiscal year that when combined with the total employer contributions is sufficient to pay the PERS-DB past service liability at the contribution rate adopted by the Alaska Retirement Management Board (ARMB) for that fiscal year.

Chapter 41 SLA 2010 appropriated $165.8 million from the General Fund to the PERS-DB as an additional state contribution for FY 11. The portion of this payment attributable to State of Alaska employers is $97,412 thousand, of which $38,289 thousand is for pensions and $59,123 thousand is for postemployment benefits.

Postemployment healthcare benefits are provided to retirees without cost for all employees first hired before July 1, 1986, and employees who are disabled or age 60 or older, regardless of initial hire dates. Employees first hired on or after July 1, 1986, with five years of credited service (or ten years of credited service for those first hired after July 1, 1996) may pay the full monthly premium if they are under age 60, and receive benefits at no premium cost if they are over age 60 or are receiving disability benefits. Police and fire employees with 25 years of membership and all other employees with 30 years of membership service also receive benefits at no premium cost.

The Teachers' Retirement System – Defined Benefit (TRS-DB)

TRS-DB is a defined benefit, cost-sharing, multiple-employer public employee retirement plan established and administered by the State to provide pension and postemployment healthcare benefits for teachers and other eligible participants. Benefit and contribution provisions are established by Chapter 25 of Alaska Statute Title 14 and may be amended only by the state legislature. TRS-DB provides for normal pension benefits, as well as death, disability, and postemployment healthcare benefits. The 24th Alaska State Legislature enacted into law Senate Bill 141, which closed the TRS-DB to new members effective July 1, 2006 and created a Teachers' Retirement System Defined Contribution Retirement Plan (TRS-DCR). Information regarding TRS-DCR is disclosed in Note 8.

Prior to July 1, 1997, postemployment healthcare benefits were provided by the payment of premiums to an insurance company. Beginning July 1, 1997, the Retiree Health Fund (RHF), a pension trust fund of the State, was established. The RHF is self-funded and originally provided major medical, dental, vision, audio, and long-term care coverage to retirees of the PERS-DB, TRS-DB, JRS and EPORS Plans. Due to the establishment of the Alaska Retiree Health Care Trust effective July 1, 2007, the RHF now provides major medical coverage to those retirees not eligible to participate in the ARHCT, along with optional dental, vision, audio, and long-term care coverage to all retirees in these plans. The plan retains the risk of loss of allowable claims. The RHF issues a financial report that may be obtained from the Division of Retirement and Benefits, P.O. Box 110203, Juneau, AK 99811-0203.

The TRS-DB Plan is a plan within the Teachers' Retirement System (TRS). TRS is a component unit of the State of Alaska financial reporting entity. TRS includes the TRS-DB and Alaska Retiree Healthcare Trust Fund. Senate Bill 123 was passed during the 2007 legislative session and created the Alaska Retiree Healthcare Trust (ARHCT). ARHCT is self-funded and provides major medical coverage to retirees of TRS. TRS retains the risk of loss of allowable claims for eligible members. ARHCT began paying member healthcare claims on March 1, 2008. Prior to that time, healthcare claims were paid for by the RHF.

The TRS component unit is comprised of the TRS-DB, TRS-DCR Plans, and ARHCT. TRS issues a separate stand-alone financial report that includes financial statements and required supplementary information. TRS is also reported as a pension (and other employee benefit) trust fund by the State. Participants should refer to the plan agreement for more complete information. Copies of the audited financial statements may be obtained from the Division of Retirement and Benefits, P.O. Box 110203, Juneau, AK 99811-0203.

At June 30, 2011 the number of participating employers was:

State of Alaska	2
School Districts	53
Other	3
Total Employers	58

TRS-DB Plan members contribute 8.65 percent of their base salary, as required by statute. The employee contributions are deducted before federal income tax is withheld. Eligible employees contribute an additional one percent of their salary under the supplemental contribution provision.

The TRS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as a percent of annual-covered payroll, are sufficient to accumulate assets to pay benefits when due. The employer rate for the State of Alaska for the year ended June 30, 2011 was 12.56 percent of compensation. Employer contributions are accumulated in both the pension and healthcare funds based on the approved contribution rate for the fiscal year.

The state's contributions to TRS-DB for the fiscal years ended June 30, 2011, 2010, and 2009 were $6.0, $6.1, and $6.3, million respectively, equal to the required contributions for each year. For the FY 11 contributions, $2.6 million was for pensions and $3.4 million was for postemployment benefits. The contributions were equal to the required contributions in FY 11.

Alaska Statute 14.25.085 requires that additional state contributions are required each July 1 or as soon after July 1 as funds become available for the ensuing fiscal year that when combined with the total employer contributions is sufficient to pay the TRS-DB past service liability at the contribution rate adopted by the Alaska Retirement Management Board (ARMB) for that fiscal year.

Chapter 41 SLA 2010 appropriated $190.9 million from the General Fund to the TRS-DB as an additional state contribution for FY 11. The portion of this payment attributable to State of Alaska employers is $12,754 thousand, of which $7,306 thousand is for pensions and $5,448 thousand is for postemployment benefits.

Postemployment healthcare benefits are provided without cost to all employees first hired before July 1, 1990, employees hired after July 1, 1990 with 25 years of membership service, and employees who are disabled or age 60 or older, regardless of initial hire dates. Employees first hired after June 30, 1990, may receive postemployment healthcare benefits prior to age 60 by paying premiums.

The Judicial Retirement System (JRS)

JRS is a defined benefit, single-employer retirement system established and administered by the State to provide pension and postemployment healthcare benefits for eligible state judges and justices.

Prior to July 1, 1997, postemployment healthcare benefits were provided by the payment of premiums to an insurance company. Beginning July 1, 1997, the Retiree Health Fund (RHF), a pension trust fund of the State, was established. The RHF is self-funded and originally provided major medical, dental, vision, audio, and long-term care coverage to retirees of the PERS-DB, TRS-DB, JRS and EPORS Plans. Due to the establishment of the Alaska Retiree Health Care Trust effective

July 1, 2007, the RHF now provides major medical coverage to those retirees not eligible to participate in the ARHCT, along with optional dental, vision, audio, and long-term care coverage to all retirees in these plans. The plan retains the risk of loss of allowable claims. The RHF issues a financial report that may be obtained from the Division of Retirement and Benefits, P.O. Box 110203, Juneau, AK 99811-0203.

Senate Bill 123 was passed during the 2007 legislative session and which created the Alaska Retiree Healthcare Trust (ARHCT) beginning July 1, 2007. The ARHCT is self-funded and provides major medical coverage to retirees of the JRS. JRS retains the risk of loss of allowable claims for eligible members. ARHCT began paying member healthcare claims on March 1, 2008. Prior to that time, healthcare claims were paid for by the RHF.

JRS is considered a component unit of the State of Alaska financial reporting entity. JRS issues a separate stand-alone financial report that includes financial statements and required supplementary information. JRS is also reported as a pension (and other employee benefit) trust fund by the State. Copies of the audited financial statements may be obtained from the Division of Retirement and Benefits, P.O. Box 110203, Juneau, AK 99811-0203.

Benefit and contribution provisions are established by Chapter 25 of Alaska Statute Title 22 and may be amended only by the state legislature. JRS provides for normal pension benefits, as well as death, disability, and postemployment healthcare benefits.

Members contribute seven percent of their compensation to JRS. The contributions are deducted before federal income tax is withheld. Contributions are not required after members have made contributions for 15 years, or from members first appointed before July 1, 1978.

The JRS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual-covered payroll, are sufficient to accumulate assets to pay benefits when due. The employer rate for the State of Alaska for the year ended June 30, 2011, was 36.2 percent of compensation. Total contributions for FY 11 were $4.5 million for pensions, and $.7 million for postemployment benefits.

Included in these amounts is $789 thousand appropriated in Chapter 41 SLA 2010 from the General Fund to JRS as an additional state contribution for FY 11.

The Schedule of Funding Progress for pension benefits follows (in thousands):

Actuarial Valuation Year Ended June 30	Actuarial Value of Plan Assets	Actuarial Accrued Liabilities (AAL)	Funding Excess (FE)/(Unfunded Actuarial Accrued Liabilities) (UAAL)	Funded Ratio	Covered Payroll	FE/(UAAL) as a Percentage of Covered Payroll
2006	$ 77,311	$ 111,820	$ (34,509)	69.1%	$ 7,131	(484.0%)
2008	122,883	130,596	(7,713)	94.1%	10,462	(73.7%)
2010	115,000	164,524	(49,524)	69.9%	11,846	(418.1%)

Postemployment healthcare benefits are provided without cost to retired JRS members. The Schedule of Funding Progress for postemployment healthcare benefits follows (in thousands):

Actuarial Valuation Year Ended June 30	Actuarial Value of Plan Assets	Actuarial Accrued Liabilities (AAL)	Funding Excess (FE)/(Unfunded Actuarial Accrued Liabilities) (UAAL)	Funded Ratio	Covered Payroll	FE/(UAAL) as a Percentage of Covered Payroll
2006	$ 2,399	$ 17,794	$ (15,395)	13.5%	$ 7,131	(215.9%)
2008	18,353	19,941	(1,588)	92.0%	10,462	(15.2%)
2010	19,694	22,346	(2,652)	88.1%	11,846	(22.4%)

The actuarial valuation as of June 30, 2010 set the contribution rates for the year ended June 30, 2011. The State of Alaska's net pension obligation for FY 11 follows (in thousands):

	Pension	OPEB
Annual Required Contribution	$ 5,237	$ 1,433
Interest on net pension asset	62	(7)
Adjustment to annual required contribution	(53)	6
Annual Pension Cost (APC)/OPEB Cost (AOC)	5,246	1,432
Contributions Made	(4,456)	(708)
Increase in Obligation	790	724
Net Pension Obligation/(Asset) Beginning of Year	751	(82)
Net Pension Obligation/(Asset) End of the Year	$ 1,541	$ 642

Three year trend information for these obligations follows (in thousands):

Pension	Year Ended June 30	APC	Percentage of APC Contributed	Net Pension Obligation /(Asset)
	2009	$ 4,952	95.5%	$ (772)
	2010	5,248	71.0%	751
	2011	5,246	85.0%	1,541

OPEB	Year Ended June 30	AOC	Percentage of AOC Contributed	Net OPEB Obligation /(Asset)
	2009	$ 1,422	99.2%	$ (725)
	2010	1,443	55.4%	(82)
	2011	1,432	49.4%	642

The Alaska National Guard and Alaska Naval Militia Retirement System (NGNMRS)

NGNMRS is a defined benefit, single-employer retirement system established and administered by the State to provide pension benefits for eligible members of the Alaska National Guard and Alaska Naval Militia.

NGNMRS is considered a component unit of the State of Alaska financial reporting entity. NGNMRS issues a separate stand-alone financial report that includes financial statements and required supplementary information. The plan is also reported as a pension (and other employee benefit) trust fund by the State. Copies of the audited financial statements may be obtained from the Division of Retirement and Benefits, P.O. Box 110203, Juneau, AK 99811-0203.

Benefit and contribution provisions are established by Chapter 5 of Alaska Statute Title 26 and may be amended only by the state legislature. NGNMRS provides for normal pension benefits and death benefits. Postemployment healthcare benefits are not provided.

No contributions are required from plan members. NGNMRS's funding policy provides for periodic contributions by Alaska Department of Military and Veterans' Affairs at actuarially determined amounts that are sufficient to accumulate assets to pay benefits when due. State contributions are determined using the entry age normal actuarial funding method.

Chapter 41 SLA 2010 appropriated $84 thousand from the General Fund to the NGNMRS's as an additional state contribution for FY 11.

The Schedule of Funding Progress for pension benefits follows (in thousands):

Actuarial Valuation Year Ended June 30	Actuarial Value of Plan Assets	Actuarial Accrued Liabilities (AAL)	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio
2006	$ 15,588	$ 25,458	$ (9,870)	61.2%
2008	28,371	28,905	(534)	98.2%
2010	32,001	30,034	(1,966)	106.5%

The actuarial valuation as of June 30, 2010 set the contribution rates for the year ended June 30, 2011. The State of Alaska's net pension obligation for FY 11 follows:

Annual Required Contribution	$	2,415,077
Interest on net pension asset		(15,669)
Adjustment to annual required contribution		29,944
Annual Pension Cost (APC)		2,429,352
Contributions Made		(2,603,300)
Decrease in Net Pension Asset		(173,948)
Net Pension Obligation/(Asset) Beginning of Year		(189,923)
Net Pension Obligation/(Asset) End of the Year	$	(363,871)

Three year trend information for pension obligations follows (in thousands):

Year Ended June 30	APC	Percentage of APC Contributed	Net Pension Obligation /(Asset)
2009	$ 2,473	100.0%	(2)
2010	2,415	107.8%	(190)
2011	2,415	107.2%	(364)

The Elected Public Officers Retirement System (EPORS)

EPORS is a defined benefit single-employer retirement plan administered by the State to provide pension and post-employment healthcare benefits to the governor, the lieutenant governor, and all legislators that participated in the System between January 1, 1976, and October 14, 1976. EPORS is funded by both employee contributions and an annual appropriation from the state General Fund. Retirement benefits are based on the member's years of service and the current salary for the position from which they retired or an average of the three highest consecutive years' salaries. The pension benefit is equal to five percent for each year of service as governor, lieutenant governor, or a legislator, plus two percent for other covered service, not to exceed 75 percent (AS 39.37.050). The plan also provides death and disability benefits.

Plan members contribute seven percent of their compensation to EPORS. Employee contributions earn interest at 4.5 percent per annum, compounded semiannually. The remaining amount required to pay EPORS benefits is funded by legislative appropriation. The cost to the State for EPORS for the fiscal years ended June 30, 2011, 2010, and 2009 was $2.0 million, $2.1 million, and $1.8 million. In FY 11 there was no covered payroll. EPORS is a closed plan and no separate financial statement is issued for EPORS. However, an actuarial valuation on EPORS was performed as of June 30, 2010.

The Schedule of Funding Progress for pension benefits follows (in thousands):

Actuarial Valuation Year Ended June 30	Actuarial Value of Plan Assets	Actuarial Accrued Liabilities (AAL)	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio
2006	$0	$16,265	$(16,265)	0.0%
2008	0	22,194	(22,194)	0.0%
2010	0	19,551	(19,551)	0.0%

The Schedule of Funding Progress for postemployment healthcare benefits follows (in thousands):

Actuarial Valuation Year Ended June 30	Actuarial Value of Plan Assets	Actuarial Accrued Liabilities (AAL)	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio
2006	$0	$2,983	$(2,983)	0.0%
2008	0	5,168	(5,168)	0.0%
2010	0	4,707	(4,707)	0.0%

Plan benefits for EPORS are not prefunded, but are paid when due. Enough money has been appropriated each year to pay the benefits as they come due; therefore, there is no net pension obligation at the end of the year.

Three year trend information for these obligations follows (in thousands):

Pension	Year Ended June 30	APC	Percentage of APC Contributed	Net Pension Obligation /(Asset)
	2009	$ 1,408	100.0%	$ -
	2010	1,617	100.0%	-
	2011	1,510	100.0%	-

OPEB	Year Ended June 30	AOC	Percentage of AOC Contributed	OPEB Obligation /(Asset)
	2009	$ 424	100.0%	$ -
	2010	463	100.0%	-
	2011	483	100.0%	-

ASSET VALUATION

See Note 4 for information on pension funds' deposits and investments risk categories. The table below discloses the fair value of each pension plan's cash and investments. All amounts are in thousands.

Systems	Fair Value
Public Employees' Retirement System	$11,398,716
Teachers' Retirement System	4,733,277
Judicial Retirement System	130,975
Alaska National Guard and Alaska Naval Militia Retirement System	32,995

PLAN MEMBERSHIPS

The table below includes the plan membership counts. For PERS, TRS and JRS, the counts are from the notes to the separately issued financial statements for the various plans. NGNMRS and EPORS are as of the most recent valuation report date.

	PERS	TRS	JRS	NGNMRS	EPORS
	6/30/10	6/30/10	6/30/10	6/30/10	6/30/10
Retirees & beneficiaries receiving benefits & Terminated members with future benefits	32,490	11,438	103	1,798	37
Current active employees:					
Vested	21,477	5,959	45	*	-
Nonvested	4,965	1,873	27	4,085	-
Total	58,932	19,270	175	5,883	37

* A breakdown of active employees between vested and nonvested was not available for NGNMRS.

FUNDING STATUS AND PROGRESS

Actuarial Method and Assumptions

The objective under the entry age normal actuarial funding method is to fund each participant's benefits under the Plan as a level percentage of covered compensation, starting at original participation date, and continuing until the assumed retirement, disability, termination, or death. On introduction, this method produces a liability which represents the contributions which would have been accumulated had this method always been in effect. This liability is generally funded over a period of years as a level percentage of compensation. This component is known as the Amortization Cost Percentage. The total employer appropriation cost of the system is the total of the Normal Cost Percentage and the Amortization Cost Percentage.

The following main assumptions were used in the actuarial valuation.

System	Investment Rate of Return	Actuarial Cost Method	Amortization Method	Equivalent Single Amorization Period	Salary Scale Increase	Valuation Date
PERS	8% Includes Inflation at 3.12%	Entry age normal; level percentage of pay for pension; level dollar for healthcare	Level dollar, closed	19 years	Peace Officer/Firefighter: Merit –2.75% per year for the first 4 years of employment, grading down to 0.5% at 7 years and thereafter. Productivity – 0.5% per year. Others: Merit – 6.00% per year grading down to 2.00% after 5 years; for more than 6 years of services, 1.50% granding down to 0% Productivity – 0.5% per year.	6/30/2010
TRS	8% Includes Inflation at 3.12%	Entry age normal; level percentage of pay for pension; level dollar for healthcare	Level dollar, closed	19 years	6.11% for first 5 years of service grading down to 3.2% after 20 years	6/30/2010
JRS	8% Includes Inflation at 3.12%	Entry age normal; level percentage of pay for pension; level dollar for healthcare	Level dollar, closed	21 years	4.12%	6/30/2010
NGNMRS	7% Includes Inflation at 3.12%	Entry age normal	Level dollar, open	20 years less average military service of active members	None	6/30/2010
EPORS	4.75% Includes Inflation at 3.12%	Entry age	Level dollar basis	25 years	None	6/30/2010

		Health Care Inflation	
		Medical	Rx
For all systems above:	FY11	6.90%	8.30%
	FY12	6.40%	7.10%

For PERS, TRS, and JRS assets are at market value, with 20 percent of the investment gains or losses recognized in each of the current and preceding four years. Valuation assets cannot be outside a range of 80 to 120 percent of the fair value of assets. NGNMRS and JRS assets valuation was changed from using the market value of assets without smoothing of gains and losses to a five year smoothing asset valuation method. This method is being phased in over five years with the first phase-in recognized during FY 07.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Actuarially determined amounts are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presents multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial report purposes are based on the substantive plan and included in the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The actuarial method and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

B. NON-STATE ADMINISTERED PLANS

THE MARINE ENGINEERS' BENEFICIAL ASSOCIATION (MEBA) PENSION PLAN

The MEBA plan is a defined benefit pension plan administered by MEBA for its members. Engineer Officers of the Alaska Marine Highway System participate in this program and the State contributes an amount (set by union contract) for each employee. The State assumes no liability for this pension plan or its participants other than the payment of required contributions. The State contributed $844.9 thousand in FY 11.

NOTE 8 – DEFINED CONTRIBUTION PENSION PLANS

A. STATE ADMINISTERED PLANS

DESCRIPTION OF PLANS

The Public Employees' Retirement System – Defined Contribution Retirement Plan (PERS-DCR)

PERS-DCR is a defined contribution, cost-sharing, multiple-employer public employee retirement plan established by the State to provide pension and postemployment healthcare benefits for eligible state and local government employees. Benefit and contribution provisions are established by state law and may be amended only by the State Legislature. The 24th Alaska Legislature enacted into law Senate Bill 141, which created PERS-DCR effective July 1, 2006. The PERS-DCR Plan savings are accumulated in an individual retirement account for exclusive benefit of the members or beneficiaries.

The PERS-DCR Plan is a plan within the Public Employees' Retirement System (PERS). PERS is a component unit of the State of Alaska financial reporting entity. The PERS component unit is comprised of the PERS-DB (see note 7), PERS-DCR Plans, and the PERS Retiree Major Medical Insurance Plan and Health Reimbursement Arrangement Plan, and Occupational Death and Disability. PERS is reported as a pension (and other employee benefit) trust fund by the State. PERS separately issued financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Participants should refer to the plan agreement for more complete information. Copies of the audited financial statements and required supplementary information may be obtained from the Division of Retirement and Benefits, P.O. Box 110203, Juneau, AK 99811-0203.

As of June 30, 2011, there were 160 employers participating in PERS-DCR. There were no retirees or beneficiaries currently receiving benefits, 554 terminated plan members entitled to future benefits, and 11,182 active members, of which 10,409 are general employees and 773 are peace officers and firefighters.

PERS-DCR pension contribution rates are eight percent for PERS-DCR members, as required by statute. The employer shall deduct the contribution from the member's compensation at the end of each payroll period, and the contribution shall be credited by the plan to the member's individual account. The contributions shall be deducted from the member's compensation before the computation of applicable federal taxes. An employer shall contribute to each member's individual pension account an amount equal to five percent of the member's compensation. Participant accounts under the PERS-DCR Plan are self-directed with respect to investment options.

On July 1, 2006, three pension trust sub-funds were created within PERS, the Retiree Major Medical Insurance (RMP), Health Reimbursement Arrangement (HRA), and Occupation Death and Disability (OD&D). RMP allows eligible members who retire directly from the plan to obtain medical benefits. The HRA allows medical care expenses to be reimbursed from individual savings accounts established for eligible persons. OD&D provides employees with benefits as a result of death or disability on the job. PERS-DCR participants are eligible members of RMP and HRA and their postemployment healthcare benefits are paid out of these funds. The employer RMP contribution rate for FY 11 for each member's compensation was 0.55 percent for medical coverage and 0.31 percent for death and disability (1.18 percent for peace officers and firefighters). HRA is $143.40 per month for full time employees and $1.10 per hour for part time employees.

The PERS pension contributions for the year ended June 30, 2011 by the employees were $20,018 thousand and the State of Alaska employers were $12,507 thousand. The PERS other postemployment contributions for the year ended June 30, 2011 were $10,333 thousand.

See note 4 for information on pension funds' deposit and investment risk categories. The fair value of the PERS-DCR cash and investments as of June 30, 2011 is $256,101 thousand. PERS-DCR investments in collective investment funds, held in trust, are stated at fair value based on the unit value as reported by the Trustees multiplied by the number of units held by PERS-DCR. The unit value is determined by the Trustees based on the fair value of the underlying assets. Purchases and sales of securities are recorded on a trade-date basis.

The Teachers' Retirement System – Defined Contribution Retirement Plan (TRS-DCR)

TRS-DCR is a defined contribution, cost-sharing, multiple-employer public employee retirement plan established by the State to provide pension and postemployment healthcare benefits for teachers and other eligible members. Benefit and contribution provisions are established by state law and may be amended only by the State Legislature. The 24th Alaska Legislature enacted into law Senate Bill 141, which created TRS-DCR effective July 1, 2006. TRS-DCR Plan savings are accumulated by an individual retirement account for exclusive benefit of the members or beneficiaries.

The TRS-DCR Plan is a plan within the Teachers' Retirement System (TRS). TRS is a component unit of the State of Alaska financial reporting entity. The TRS component unit is comprised of the TRS-DB (see note 7), TRS-DCR Plans, TRS Retiree Major Medical Insurance Plan and Health Reimbursement Arrangement Plan, and Occupation Death and Disability. TRS is reported as a pension (and other employee benefit) trust fund by the State. TRS separately issued financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Participants should refer to the plan agreement for more complete information. Copies of the audited financial statements and required supplementary information may be obtained from the Division of Retirement and Benefits, P.O. Box 110203, Juneau, AK 99811-0203.

As of June 30, 2011, there were 58 employers participating in TRS-DCR. There were no retirees or beneficiaries currently receiving benefits, 502 terminated plan members entitled to future benefits, and 2,738 active members.

TRS-DCR pension contribution rates are eight percent for TRS-DCR members, as required by statute. The employer shall deduct the contribution from the member's compensation at the end of each payroll period, and the contribution shall be credited by the plan to the member's individual account. The contributions shall be deducted from the member's compensation before the computation of applicable federal taxes. An employer shall contribute to each member's individual pension account an amount equal to seven percent of the member's compensation. Participant accounts under the TRS-DCR Plan are self-directed with respect to investment options.

On July 1, 2006, two pension trust sub-funds were created in TRS, the Retiree Major Medical Insurance (RMP) and Health Reimbursement Arrangement (HRA). The TRS Occupational Death and Disability (OD&D) trust sub-fund was created on July 1, 2007. RMP allows eligible members who retire directly from the plan to obtain medical benefits. The HRA allows medical care expenses to be reimbursed from individual savings accounts established for eligible persons. OD&D provides employees with benefits as a result of death or disability on the job. TRS-DCR participants are eligible members of RMP and HRA and their postemployment healthcare benefits are paid out of these funds. The employer RMP contribution rate for FY 11 for each member's compensation was 0.68 percent for medical coverage, 0.28 percent for death and disability. HRA is $143.40 per month for full-time employees and $1.10 per hour for part-time employees.

The TRS pension contributions for the year ended June 30, 2011 by the employees were $309 thousand and the State of Alaska employers were $270 thousand. The TRS other postemployment contributions for the year ended June 30, 2011 were $130 thousand.

See note 4 for information on pension funds' deposit and investment risk categories. The fair value of the TRS-DCR cash and investments as of June 30, 2011 is $107,951 thousand. TRS-DCR investments in collective investment funds, held in trust, are stated at fair value based on the unit value as reported by the Trustees multiplied by the number of units held by TRS-DCR. The unit value is determined by the Trustees based on the fair value of the underlying assets. Purchases and sales of securities are recorded on a trade-date basis.

Supplemental Benefits System

In addition to the pension plans (note 7) and deferred compensation plan (note 9), all state employees, as well as employees of political subdivisions which have elected to participate in the program, are covered under the Alaska Supplemental Benefits System (SBS). SBS is comprised of the Supplemental Annuity Plan and the Supplemental Benefits Plan. The Supplemental Annuity Plan is a defined contribution plan that was created under Alaska statutes effective January 1, 1980, to provide benefits in lieu of those provided by the federal Social Security System (Social Security). All State employees, who would have participated in Social Security if the State had not withdrawn, participate in SBS. Other employers whose employees participate in the State Public Employees' Retirement System and meet other requirements are eligible to have their employees participate in SBS as provided by Alaska Statute. As of January 31, 2011, there were nineteen other employers participating in SBS. There were approximately 39,000 participants in the Plan.

The Division of Retirement and Benefits is responsible for administration and record keeping. Through September 30, 2005, the Alaska State Pension Investment Board (ASPIB) was responsible for the specific investment of monies in SBS. Effective October 1, 2005, ASPIB was disbanded and their duties were assumed by the Alaska Retirement Management Board.

SBS is considered a component unit of the State financial reporting entity. SBS issues a separate stand-alone financial report that includes financial statements and required supplementary information, and SBS is also reported as a pension (and other employee benefit) trust fund by the State. Copies of the audited financial statements may be obtained from the Division of Retirement and Benefits, P.O. Box 110203, Juneau, AK 99811-0203.

Mandatory contributions are made to the Supplemental Annuity Plan and voluntary contributions to the Supplemental Benefits Plan. Participating employees are vested at all times. Supplemental Annuity Plan contributions are made in lieu of contributions to Social Security. The State is required to contribute 12.26 percent of an employee's wages up to the taxable wage base in effect under Social Security regulations. Each employee is considered to have agreed to a wage reduction equal to one-half the contribution made on the employee's behalf. The State's mandatory contributions for the year ending January 31, 2011, were $144,555 thousand. The State's covered payroll was approximately $1,179,079 thousand.

Supplemental Benefit Plan contributions are voluntary based upon the optional benefits elected by each employee enrolled in SBS. Each employee agrees to a wage reduction based upon the benefit options selected. The benefit amounts are deducted from each employee's wages and remitted by the employer to SBS on the employee's behalf. State employee voluntary contributions for the year ending January 31, 2011, were $3,944 thousand.

Employees are eligible to withdraw from the Supplemental Annuity Plan 60 days after termination. Benefits are payable in the form of a lump sum annuity or one of various continuing annuities purchased from an insurance carrier, which are excluded from Plan assets. The SBS administrator issues lump-sum payments through its contracted record keeper.

Benefits available under the Supplemental Benefits Plan include death, disability, survivor benefits, and dependent care reimbursement. Selection of these benefits is at the discretion of the employee, with certain restrictions, and may be amended and/or changed on an annual basis or in conjunction with an employee change in status. All other supplemental benefits, except dependent care reimbursement, are provided through insurance policies. The State administers the Dependent Care Assistance Program.

Supplemental annuity contributions were deposited with investment managers under contract with SBS for the year ended January 31, 2011. Participant accounts under the Supplemental Annuity Plan are self-directed with respect to investment options. Each participant designates how contributions are allocated among the investment options. Each participant's account is credited with the contributions, the increase or decrease in unit value for the investment funds, and reduced for administrative fees.

B. NON-STATE ADMINISTERED PLANS

THE NORTHWEST MARINE RETIREMENT TRUST (NMRT)

NMRT is an agent multiple-employer pension plan with defined contributions and is administered by the Pacific Northwest Marine Retirement Trust. The State assumes no liability for this pension plan or its participants other than the payment of required contributions. The State contributed $998 thousand in FY 11.

NOTE 9 – DEFERRED COMPENSATION PLAN

The State of Alaska Deferred Compensation Plan was created by Alaska statutes. It is a deferred compensation plan under Section 457 of the Internal Revenue Code. It is available to all permanent and long-term non-permanent employees, and elected officials of the State (and with the March 1, 2006 amendment, members of State of Alaska boards and commissions) who have completed a pay period of employment. Participants authorize the State to reduce their current salary so that they can receive the amount deferred at a later date. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency, within the definition allowed by the applicable Internal Revenue Code. As of December 31, 2010 the Deferred Compensation Plan had approximately 9,000 participants.

As a result of the passage of The Small Business Job Protection Act of 1996 (SBJPA), all amounts deferred, including amounts deferred before the effective date of the law, under an eligible 457 plan must be held in a trust for the exclusive benefit of employees and beneficiaries. This law repealed the requirement that a Section 457 plan sponsored by a government be solely the property of the employer, subject only to the claims of the employer's general creditors. The trust requirement generally applies to assets and income held by a plan on and after the date of enactment of the SBJPA. The Plan Document for the State of Alaska Deferred Compensation Plan was amended to recognize and establish the trust requirement for the Deferred Compensation Plan.

The Division of Retirement and Benefits is responsible for Deferred Compensation Plan administration and recordkeeping. The Alaska Retirement Management Board is responsible for the specific investment of monies in the Deferred Compensation Plan.

Participant accounts are self-directed with respect to investment options. Each participant designates how his or her contribution is to be allocated among the investment options. Each participant's account is credited with the participant's contributions and the increase or decrease in unit value for the investment funds and deductions for administrative fees.

Deferred Compensation Plan net assets as of December 31, 2010 were $583,348 thousand. The Deferred Compensation Plan is reported in the accompanying financial statements as a pension (and other employee benefit) trust fund.

NOTE 10 – INTERFUND TRANSACTIONS

The following schedules summarize individual interfund receivable and payable balances at June 30, 2011, and interfund transfers for the year then ended (in thousands):

INTERFUND RECEIVABLE / PAYABLE BALANCES

	Due from Other Funds					
Due to Other Funds	General Fund	Nonmajor Governmental Funds	Nonmajor Enterprise Funds	Internal Service Funds	Fiduciary Funds	Total
General Fund	$ -	$ 401,739	$ 51	$ 4,862	$ 24,549	$ 431,201
Alaska Permanent Fund	813,404	-	-	-	-	813,404
Nonmajor Governmental Funds	11,329	-	-	-	-	11,329
International Airports	64,566	-	-	-	-	64,566
Nonmajor Enterprise Funds	2,832	-	-	-	-	2,832
Internal Service Funds	1,566	-	-	-	-	1,566
Fiduciary Funds	16,427	-	-	-	-	16,427
Other	20,165	3,719	42	(193)	(5)	23,728
Total	$ 930,289	$ 405,458	$ 93	$ 4,669	$ 24,544	$ 1,365,053

The $813 million balance due from the Alaska Permanent Fund to the General Fund includes $758.4 million for payment of 2011 Permanent Fund dividends to qualified residents of the State and $12.8 million to be transferred to the Alaska Capital Income Fund. The balance is for administrative and associated costs of the 2011 Permanent Fund Dividend Program.

The majority of the "Other" due from Other Funds and due to Other Funds balances are attributable to FY 11 activity during the reappropriation period in July and August 2011 that caused the movement of cash balances between funds after June 30, 2011. The amounts reported as "Other" are reconciling amounts resulting from reporting differences for certain funds included in the fund financial statements at June 30, 2011.

INTERFUND TRANSFERS

	Transfers to						
Transfers From	General Fund	Nonmajor Governmental Funds	International Airports	Nonmajor Enterprise Funds	Internal Service Funds	Other	Total
General Fund	$ -	$ 444,491	$ 2,243	$ 39	$ 12,975	$ 77	$ 459,825
Alaska Permanent Fund	813,404	-	-	-	-	-	813,404
Nonmajor Governmental Funds	-	14,873	-	-	-	-	14,873
International Airports	14	-	-	-	-	(14)	-
Nonmajor Enterprise Funds	921	-	-	-	-	51	972
Fiduciary Funds	3,738	-	-	-	-	(3,738)	-
Total	$ 818,077	$ 459,364	$ 2,243	$ 39	$ 12,975	$ (3,624)	$ 1,289,074

The general purpose for transfers is to move monies from funds required by statute to collect them to the funds required by statute or budget to expend them, to move receipts restricted to debt service from the funds collecting the receipts to the Debt Service Fund as debt service payments come due, and transfer accumulated surpluses from "Other" funds to the General Fund.

The transfer from Alaska Permanent Fund to the General Fund includes an $800.6 million transfer for payment of the Permanent Fund dividends and for administrative and associated costs of the dividend program and a $12.8 million transfer to the Alaska Capital Income Fund.

The transfer from International Airports to “Other” represents an amount for the Art in Public Places Fund not reported as a transfer out in the International Airports Fund.

The transfer from the fiduciary funds to “Other” represents the activity to the General Fund not reported in the financial statements.

The transfer from a Nonmajor Enterprise, the Unemployment Compensation Fund, to “Other” represents the difference between the General fund and the Nonmajor Enterprise Fund.

The transfer from General Fund to “Other” represents transfers to Knik Arm Bridge and Toll Authority and the Group Health and Life Benefits fund for employer relief not recorded as a transfer in on the financial statements of those funds.

The transfer from the General Fund to Nonmajor Governmental Funds includes $400 million to the Alaska Housing Capital Corporation.

NOTE 11 – RELATED PARTY ACTIVITY

Pursuant to understanding and agreements between the Alaska Industrial Development and Export Authority (AIDEA) and Alaska Energy Authority (AEA), AIDEA provides administrative, treasury, personnel, data processing, communications and other services to AEA. During FY 11, AEA expensed $5.7 million for such services. During FY 11, AEA capitalized $14 thousand for such services. AEA has a borrowing arrangement with AIDEA to provide working capital funds. At June 30, 2011 AEA had $1.7 million payable to AIDEA for services and borrowings.

On September 30, 2010, pursuant to legislation and an agreement, AIDEA purchased 37 loans from AEA with an outstanding balance of $24,254 thousand, plus accrued interest, for $20,631 thousand. Under the agreement, at AIDEA’s request, AEA is required to repurchase any loan upon a payment default.

On July 17, 2009, the Alaska Student Loan Corporation (ASLC) entered into a Trust and Loan Agreement with the State of Alaska Department of Revenue. The Loan Agreement provides up to $100 million to ASLC for the purposes of financing education loans. The loan is a four-year bullet loan accruing interest on the outstanding principal balance using a variable rate of interest equal to the most current rolling five-year average return on the State’s General Fund. The interest rate is reset annually and was 4.4 percent for FY 11. Interest is payable semi-annually in January and July. The loan is a limited obligation secured by pledged assets. ASLC has the right to prepay the loan, in whole or in part, at any time, without penalty or premium. The Trust Agreement was entered into to secure payment of the loan. Loan proceeds drawn are deposited in the trust until education loans are originated. Education loans originated with loan proceeds, payments received on those loans, and earnings on pledged assets are all pledged to the trust. The loan payable was $67.5 thousand at June 30, 2011.

Northern Tobacco Securitization Corporation (NTSC) entered into a Memorandum of Agreement with Alaska Housing Finance Corporation (AHFC) that retains AHFC as administrator with respect to the preparation of all reports and other instruments and documents that are required by NTSC to prepare, execute, file or deliver pursuant to the bond indentures and the related agreements for a monthly fee. NTSC also entered into a Sub-Lease Agreement with AHFC for office space, overhead and operating services from AHFC for a monthly fee. The cost to NTSC for these services provided by AHFC for the year ended June 30, 2011 was approximately $9 thousand.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

A. SICK LEAVE

The cost of state employee sick leave is charged against agency appropriations when leave is used rather than when leave is earned. There is no recorded liability for sick leave in the financial records of the State. Accordingly, the statements in this report do not include an estimate of this obligation as either a liability or a reserve.

The estimated amount of unused accumulated sick leave as of June 30, 2011, is $23,480 thousand. This amount was calculated using the base pay on file for each employee as of June 30, 2011. It does not include an estimate of the cost of fringe benefits (supplemental benefits, retirement, group insurance, etc.) which can vary depending on the status of the employee when leave is taken.

B. SCHOOL DEBT

Under a program enacted in 1970 (AS 14.11.100), the State may reimburse municipalities up to 60, 70, 80, 90, or 100 percent of debt service on bonds issued to finance school construction. The percentage depends on the year in which the costs are incurred. The 60 percent limitation, enacted in 2002, applies to fiscal years after June 30, 1999. The higher percentages apply to earlier years.

Although the statute provides that the State may reimburse school districts 60, 70, 80, 90, or 100 percent of construction costs, the actual funding for the program is dependent on annual legislative appropriations to the school construction account. When amounts in the account are insufficient, the available funds are allocated pro rata among the eligible school districts. There is no contractual commitment by the State to make these payments. The amount for FY 11 expended for school debt was $99,461 thousand, which was 100 percent of the entitlement. The total debt requirement, assuming the State makes full payment of its share of school debt service, would be approximately $1,172,799 thousand. The State has in the past and may in the future appropriate less than the full amount to which the municipalities are entitled under statute.

C. RISK MANAGEMENT AND SELF-INSURANCE

The state maintains a risk management program that is administered by the Department of Administration, Division of Risk Management. The Division of Risk Management's objective is to protect the financial assets and operations of the State of Alaska from accidental loss through a comprehensive self-insurance program for normal and expected property and casualty claims of high frequency and low severity, combined with high-limit, broad-form excess insurance protection for catastrophic loss exposures.

Risk Management acts as the insurance carrier for each state agency, funding all sudden and accidental property and casualty claims. The annual premiums allocated by Risk Management are the maximum each agency is called upon to pay. This planning for known and catastrophic losses forestalls the need for the affected agency to request a supplemental appropriation or disrupt vital state services after a major property loss, adverse civil jury award, or significant workers' compensation claim.

By effectively managing the state's property and liability exposures through a comprehensive self-insurance program, Risk Management expends less public funds than would be paid to private insurance companies, while at the same time providing streamlined claims services utilizing professional adjusting firms located throughout Alaska.

Property insurance with all-risk (including earthquake and flood) coverage is provided on a replacement cost basis for all state-owned or leased property; buildings (including contents, museum fine arts, etc.), aircraft, watercraft (Alaska Marine Highway System ferries and other agency vessels), and large highway bridges.

Casualty coverages protect each state agency and their personnel from third-party civil (tort) liability claims alleged to have arisen from combined liability - general (premises/operations), automobile, professional (errors and omissions), medical malpractice, aviation (aircraft and airport), or marine (crew and passenger injuries).

Additional specialty coverage include blanket public employee faithful performance and custom bonding, accidental death and disability (including medical expenses) for volunteers, computer fraud and foreign liability, etc. These insurance programs continually evolve, responding to new activities and special projects undertaken by each state agency. The state has not incurred a loss in excess of its insurance program.

In FY 11, the state completely self-insured all statutory workers' compensation claims, general (premises and operations) and professional liability, and automobile liability. The State had Self-Insured Retention (SIR) levels of $1 million per claim for property, $750 thousand for marine risks, and $250 thousand per incident for airport and aviation liability exposures. Limits of excess insurance vary by risk: $500 million per occurrence for marine, $200 million for property, and $500 million for aviation.

Both domestic and international insurance companies and various Lloyd's of London underwriting syndicates participate in the State of Alaska's excess insurance program. Independent brokers provide marketing. The state obtains an annual independent actuarial assessment of the state insurance program as required by AS 37.05.287(b) which calculates unfunded claims and allocated loss adjustment expenses (ALAE).

An unconstrained audit of the State of Alaska's overall property and casualty insurance program performed by an independent risk management consultant found the retention levels and excess insurance coverage purchased are appropriate.

Risk Management's budget is funded entirely through interagency receipts annually billed to each agency through a "Cost of Risk" premium allocation system. The Risk Management information system generates the annual cost of risk allocation to each agency, reflecting their proportionate share of the state's overall cost of risk. Designed to achieve equitable distribution of the self-insurance program costs, it factors exposure values subject to loss and considers the past five years actual claims experience incurred by each department.

For most cost of risk allocations, 80 percent of the premium billing is based on the average of the past five years actual claims experience. This provides a direct fiscal incentive to each agency to reduce or control their claim costs.

The program compiles a property inventory schedule of all owned or leased buildings used or occupied by state agencies, listing age and type of building construction, occupancy, fire protection services and sprinkler systems, and projected replacement cost value. Individual premiums are then determined and, in cases of multiple occupancy, allocated to each department on the basis of their square foot use.

The "Cost of Risk" premium is collected through two methods from individual state agency operating budgets. Reimbursable Services Agreements (RSAs) are used for all categories of insurance other than Workers' Compensation and Combined Liability (general, auto, and professional), which are assessed on a rate per $100 payroll applied monthly to each agency's actual payroll until the allocated premium is paid.

The table below presents changes in policy claim liabilities for the fiscal years ending June 30, 2010 and June 30, 2011. The state records its related liability using discounted amounts provided by actuaries. The amount of unpaid claim liabilities for Risk Management is presented at their present value using a 3.0 percent discount interest rate for FY 10 and a 3.0 percent discount interest rate for FY 11. Claims payment amounts include allocated loss adjustment expenses (legal and adjusting).

Fiscal Year	Beginning Balance	Current Year Claims and Changes in Estimates	Claim Payments	Ending Balance
2010	$ 63,158,406	$ 41,560,102	$ (32,517,581)	$ 72,200,927
2011	72,200,927	35,340,735	(35,074,642)	72,467,020

D. LITIGATION

The State is involved in a number of legal actions. The Department of Law estimates the probable maximum liability for the cases associated with the governmental fund types to be approximately $1,990 thousand, with an additional possible liability of $5,669 thousand. The probable loss amount has been reported as long-term debt obligations.

The amount of revenue recognized by the Northern Tobacco Securitization Corporation could be adversely impacted by certain third party litigation involving tobacco companies and others.

E. FEDERAL GRANTS

The State has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowance under terms of the grants, it is believed that any required reimbursements will not be material.

F. DISASTER RELIEF FUND

The State may be liable to reimburse communities for expenditures related to disasters in excess of the amount allocated by the State.

G. FUTURE LOAN COMMITMENTS

As of June 30, 2011, the Alaska Clean Water and the Alaska Drinking Water Funds are committed to funding loans for which they have entered into agreements for communities but funds have not yet been disbursed. The total amounts to be disbursed under these agreements is uncertain as not all of the loans are expected to be fully drawn and some loans may increase with changes in scope of the underlying projects; accordingly, they are not included in the financial statements for these funds. As of June 30, 2011, the Alaska Clean Water and the Alaska Drinking Water Funds have entered into binding commitments, as evidenced by signed loan agreements, for which funds remain to be disbursed totaling $72,550 thousand and $31,277 thousand respectively.

At June 30, 2011, the Alaska Energy Authority had open loan commitments of $23,516 thousand.

At June 30, 2011, the Alaska Industrial Development and Export Authority (AIDEA) had extended loan participation purchase commitments of $19,328 thousand and loan guarantees of $614 thousand. Under an agreement dated August 2009, AIDEA agreed to sell the Healy Project to Tri-VEC for $50 million, finance the sale, and loan up to an additional $45 million to refurbish, put into operation, and integrate the Healy Project into Golden Valley Electric Association's system.

In addition, AIDEA has legislative authorization to guarantee loans made to the Alaska Insurance Guarantee Association (AIGA). The AIGA pays, from assessments to member insurers, the claims of insurance companies put into liquidation by insurance regulators. Any guarantee is limited to loans necessary to make the AIGA financially able to meet cash flow needs up to a maximum outstanding principal balance at anytime of $30 million. No loans have been made pursuant to this authorization.

During 2011 the State legislature appropriated $2,450 thousand to the Alaska Municipal Bond Bank Authority to issue a 15 year, one percent interest loan to the City of Galena to retire existing debt obligations and make certain utility improvements.

H. INVESTMENT COMMITMENTS

The Alaska Retirement Management Board (ARMB) has entered into agreements with external investment managers to provide funding for future investments.

	Amounts in thousands			
Investment Type/Term	PERS	TRS	JRS	NMRS
Domestic Equity Limited Partnerships				
Withdrawn annually in December with 90-days notice.	$ 54,668	$ 22,765	$ 626	$ 172
Limited Partership				
To be paid through 2020.	636,963	264,674	7,271	-
To be paid through 2019.	50,020	20,588	605	-
Real Estate Investment				
To be paid through 2018.	96,137	38,909	1,018	-
	$ 837,788	$ 346,936	$ 9,520	$ 172

I. POLLUTION REMEDIATION

Governmental Accounting Standards Board Statement (GASBS) 49 provides guidance for state and local governments in estimating and reporting the potential costs of pollution remediation. While GASBS 49 does not require the state to search for pollution, it does require the state to reasonably estimate and report a remediation liability when an obligating event occurs.

The State has the knowledge and expertise to estimate the remediation obligations presented in the statements based on prior experience in identifying and funding similar remediation activities. The standard requires the State to calculate pollution remediation liabilities using the expected cash flow technique. Where the State cannot reasonably estimate a pollution remediation obligation, it does not report a liability. This has occurred within two funds.

The Alaska Mental Health Trust Authority (AMHTA) has been notified by State agencies of possible obligations for pollution remediation activities on specifically identified parcels of AMHTA lands. There are several sites used by previous parties that require environmental review, subsequent remedial investigations and feasibility study and remediation and restoration of the sites. AMHTA intends to seek reimbursement of pollution remediation costs from responsible parties and any remaining costs will be recognized by the Trust. While an obligating event, as defined by GASBS 49 has occurred, no liability has been recognized by AMHTA because the amounts are not material to the financial statements.

The University of Alaska received a potentially responsible party letter from the Alaska Department of Environmental Conservation in August of 2006. The letter identified the University of Alaska as one of the potential parties that may be responsible for cleanup of costs of soil contamination found during a water line improvement project next to Northwest Campus property. The extent of the contamination source, the number of potentially responsible parties, and remediation costs are being assessed but the outcome is unknown.

The remediation obligation estimates that appear in this report are subject to change over time. Cost may vary due to price fluctuations, changes in technology, changes in potential responsible parties, results of environmental studies, changes to statutes or regulations or other factors. Prospective recoveries from responsible parties may reduce the State's obligation.

At July 1, 2010, the General Fund had pollution remediation obligations of $53,316 thousand. As of June 30, 2011, the state had an increase to the obligation of $44,319 thousand and recognized a decrease of $23,603 thousand, for an ending balance of $74,032 thousand in pollution remediation obligation related activities. The state has an estimated potential recovery of $19,707 thousand from other responsible parties.

At July 1, 2010, the International Airports Fund (IAF) reported pollution remediation liabilities of $1,429 thousand for which IAF is in whole or in part a responsible party. As of June 30, 2011 IAF had recognized a decrease of $116 thousand, including an estimate of $30 thousand expected to be collected from third parties, for an ending balance of $1,313 thousand. The estimated liabilities were measured using the estimated mean of the future cash flows of costs and recovery associated with those sites, measured at current value. This accrual includes the estimated obligation for five sites. IAF has also identified 22 other sites for which it is in whole or in part a responsible party, but for which no obligating event has occurred.

At December 31, 2009, the Alaska Railroad Corporation had pollution remediation obligations of $2,353 thousand. As of December 31, 2010, the Alaska Railroad Corporation had additional obligations of $1,500 thousand and reductions in obligations of $1,537 thousand, for an ending liability of $2,316 thousand. The Alaska Railroad Corporation estimated the liability for pollution remediation by estimating a reasonable range of potential outlays and multiplying those outlays by the probability of occurrence, reduced by the allocation of liability to other potentially responsible parties where applicable. The liabilities associated with these sites could change over time due to changes in costs of goods and services, changes in remediation technology, or changes in laws and regulations governing the remediation efforts.

J. ENCUMBRANCES

The State of Alaska utilizes encumbrance accounting to identify fund obligations.

The following shows encumbrances within the restricted and committed fund balances of the governmental funds for the fiscal year ended June 30, 2011 (in thousands):

	Amount (in thousands)
General Fund	$ 1,114,507
Alaska Permanent Fund	-
NonMajor Governmental Funds	218,008
Total Encumbrances	$ 1,332,515

NOTE 13 – SUBSEQUENT EVENTS

A. ALASKA MUNICIPAL BOND BANK AUTHORITY

Subsequent to June 30, 2011, the Alaska Municipal Bond Bank Authority (AMBBA) issued a preliminary statement for the potential upcoming 2011-Series Three Bond issuance. The 2011-Series Three Bond will be approximately $80 million in size and will require a reserve deposit of an estimated $7.2 million. This bond will be used to cover various capital improvements and will be loaned to the City of Cordova, City of Hoonah, Kenai Peninsula Borough, Kodiak Island Borough, City of Seward and the Municipality of Skagway. A portion of the 2011-Series Three Bond proceeds will be used to refund and redeem certain outstanding bonds of the Bond Bank.

On August 17, 2011 AMBBA entered into a Memorandum of Understanding (MOU) with the State of Alaska regarding a loan in the amount of $7 million to potentially cover the reserve requirements for the 2011-Series Three Bond issuance. The executed MOU would be effective September 1, 2011, with a five year term, bearing interest at a rate earned by the General Fund over the term of the loan. There would be no prepayment penalty, and it may be paid in periodic installments or in full at the end of the term of the loan.

B. ALASKA CLEAN WATER FUND

Pursuant to legislative authorization obtained during the 2011 session of the Alaska Legislature, plans are in place to issue Series A Revenue Bond Anticipation Notes for fiscal year 2012 in an amount not to exceed $2,439 thousand. Although this transaction has not yet been finalized, the issuance of the bonds will occur in mid-fiscal year 2012. The borrowing is to be secured by interest earnings of the Alaska Clean Water Fund.

C. ALASKA DRINKING WATER FUND

Pursuant to legislative authorization obtained during the 2011 session of the Alaska Legislature, plans are in place to issue Series A Revenue Bond Anticipation Notes for fiscal year 2012 in an amount not to exceed $2,715 thousand. Although this transaction has not yet been finalized, the issuance of the bonds is expected to occur in mid-fiscal year 2012. The borrowing is to be secured by interest earnings of the Alaska Drinking Water Fund.

D. UNIVERSITY OF ALASKA

On October 5, 2011 the University sold competitively general revenue bonds with a par amount of $48,870 thousand and a 20 year term. The bonds fund a portion of the Fairbanks campus Life Sciences Facility, numerous deferred maintenance projects and a food service project on the Juneau campus. Bond closing is scheduled for October 25, 2011.

E. U.S. CREDIT RATING

On August 5, 2011, Standard & Poor's downgraded its long-term sovereign credit rating on U.S. issued and U.S. backed securities from AAA to AA+. If this event had occurred prior to fiscal year end, then the U.S. securities shown in Note 4 would have been reported with a rating of AA.

F. GOVERNMENTAL ACTIVITIES - LONG-TERM LIABILITIES

The State of Alaska defeased $20.6 million of the Anchorage Jail capital lease obligations in October 2011.

Certificates of Participation totaling $22 million for the Alaska Psychiatric Institute, the Seafood Safety Lab, and the Virology Lab were defeased in November 2011.

G. ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

As of November 2011, the Alaska Industrial Development and Export Authority finalized an agreement to have a partial ownership position in a limited liability company that will own an oil and gas drilling rig. AIDEA signed an agreement to invest up to $30,000,000 in a joint project formed to acquire, modify, and mobilize a specifically identified drilling rig to be used in the Cook Inlet and other Alaska waters if certain conditions are met. Approximately $600,000 at June 30, 2011 had been spent by the Authority in transaction related costs. The conditions precedent were met subsequent to June 30, 2011 and AIDEA closed the deal on November, 14 2011, funding $17.6 million of a total investment of what will be nearly $24 million.

NOTE 14 – SPECIAL ITEMS

A. ALASKA HOUSING FINANCE CORPORATION

On June 17, 2011 the Alaska Housing Finance Corporation sold its land on 34th Avenue, with a cost of $1,459 thousand for $4,547 thousand resulting in a special item gain of $3,088 thousand.

B. ALASKA STUDENT LOAN CORPORATION

The Alaska Student Loan Corporation purchased $35,600 thousand of its outstanding auction rate securities on September 20, 2010, for $30,866 thousand. On September 20, 2010, the Alaska Student Loan Corporation cancelled the bonds purchased resulting in a gain on the cancellation of $4,734 thousand.

C. ALASKA NATURAL GAS DEVELOPMENT AUTHORITY

The Alaska Natural Gas Development Authority (ANGDA) has determined that the leg of the B2F pipeline between Delta Junction and Fairbanks (North Pole) should be removed from the spurline project definition. Therefore, a mileage-based percentage of the B2F capital expenditures were determined to be impaired. As a result a total of $810 thousand was written off as an impairment expense in FY 11.