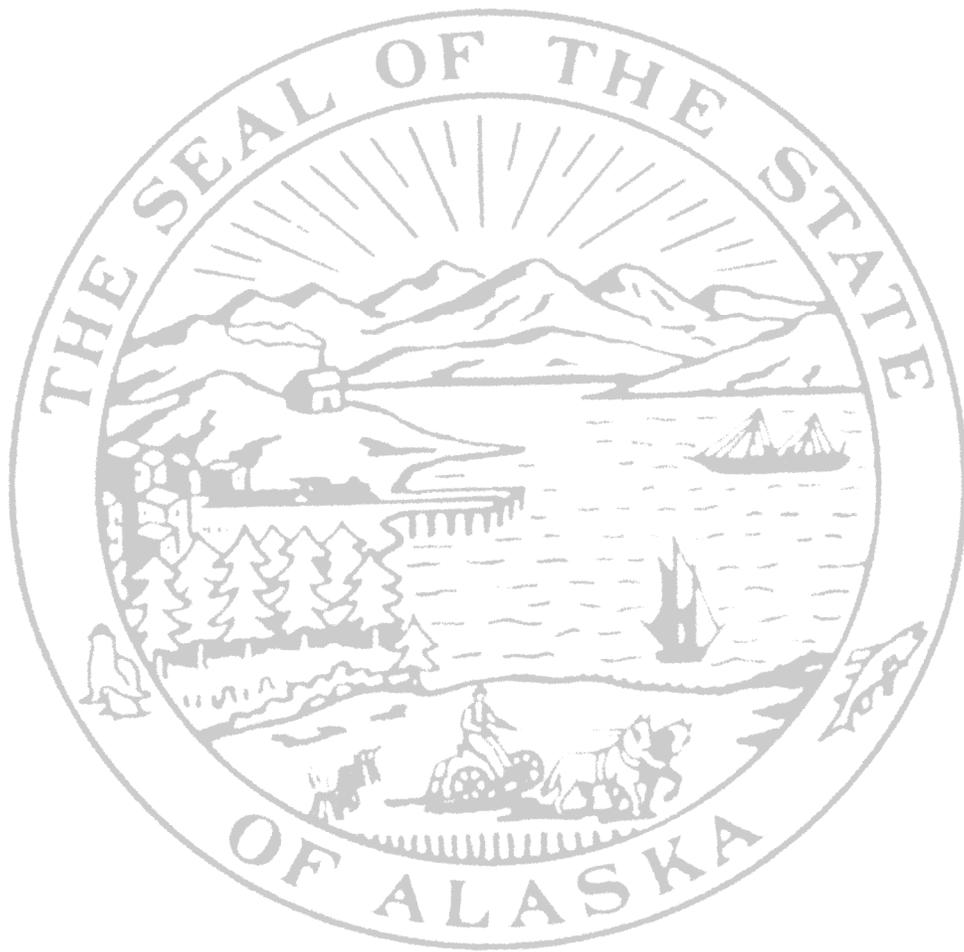


# Notes to the Basic Financial Statements

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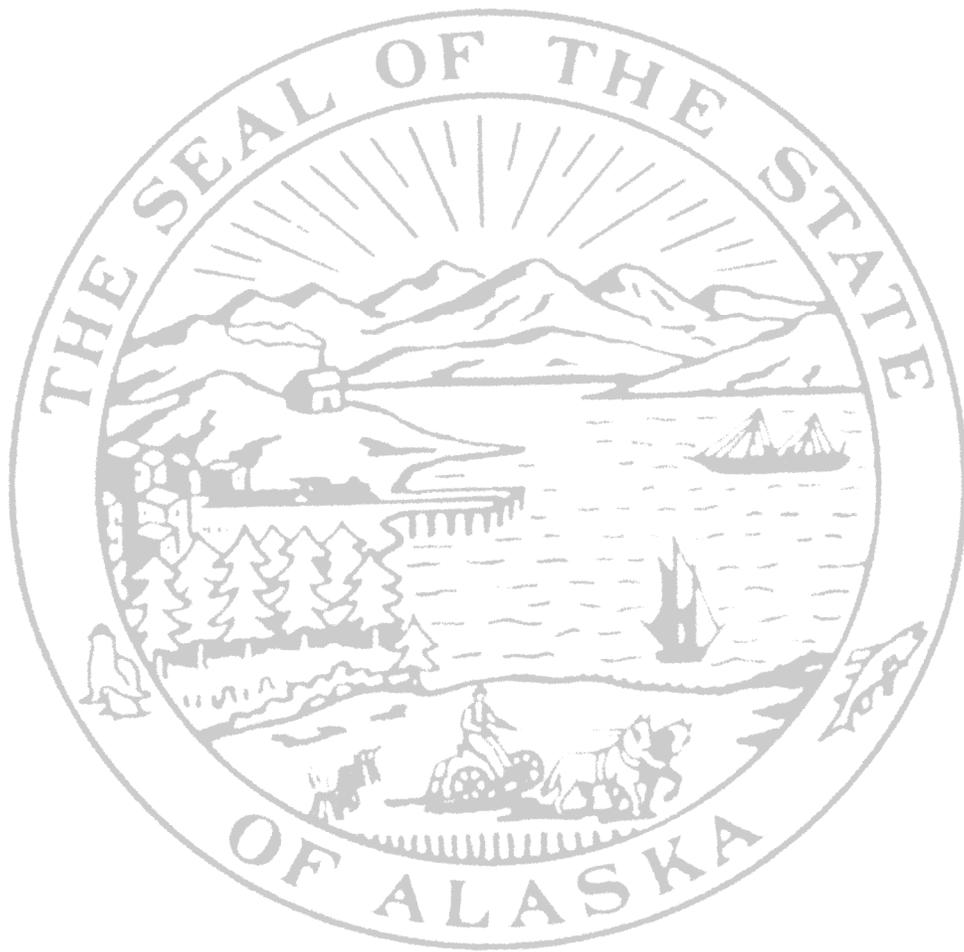




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**STATE OF ALASKA  
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For the Fiscal Year Ended June 30, 2013**

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**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. Fiduciary component units are reported in the fiduciary section of the fund financial statements and are not included in the government-wide financial statements. Individual component unit financial reports may also be obtained from these organizations as indicated.

**BLENDED COMPONENT UNITS**

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, Alaska Statute (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 65 percent of the total cash and investments and 59 percent of total government-wide net position 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](http://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, 820 East 15<sup>th</sup> Avenue, 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 position 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.

#### DISCRETELY PRESENTED COMPONENT UNITS

The **Alaska Aerospace Corporation** (AAC) is a public corporation of the State located for administrative purposes within the Department of Military and Veterans Affairs (AS 26.27.010). 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 Gasline Development Corporation (AGDC)** is a public corporation and governmental instrumentality within the Department of Commerce, Community, and Economic Development, but having a legal existence independent and separate from, the State (AS 31.25.010). Currently, the commissioners of the departments of Commerce, Community, and Economic Development; and Labor and Workforce Development, and five independent public members appointed by the Governor and confirmed by the legislature comprise the AGDC board of directors. The Legislature appropriates the budget for AGDC for the purpose to planning, constructing, and financing in-state natural gas pipeline projects. The corporation has the power to borrow money and issue bonds on its own behalf. AGDC financial statements may be obtained from the Alaska Gasline Development Corporation, 3201 C Street, Suite, 200, 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. The Alaska Legislature did not appropriate funds to ANGDA for FY 12 operations. As a result, the board members with expired terms were not reappointed to the board, there are no longer employees of ANGDA, the office was closed, and all records were transferred to the Department of Revenue. Effective May 22, 2013, Chapter 11 of Session Law 2013 repealed ANGDA's authorizing statute, terminating the authority. ANGDA 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 ANGDA.

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, P.O. Box 110505, Juneau, AK 99811-0505.

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.

#### FIDUCIARY COMPONENT UNITS

The **Public Employees' Retirement System** (PERS) was established by 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 financial statements for SBS are for the fiscal year ended January 31, 2013.

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. The financial statements for DCP are for the fiscal year ended December 31, 2012.

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.

## 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 Position 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 Position presents the reporting entity's nonfiduciary assets and deferred outflows of resources, less liabilities and deferred inflows of resources, with the difference reported as net position. Net position is reported in three categories:

- **Net Investment in Capital Assets** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other borrowing that are attributed to the acquisition, construction, or improvement of those assets.
- **Restricted Net Position** result when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted Net Position** consists of net position that does not meet the definition of the two preceding categories. The unrestricted net position often is designated to indicate management does not consider them available for general operations (see note 1.F.). The unrestricted net position 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 is 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 measurement 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.

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:

#### GOVERNMENTAL FUND TYPES

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).

### PROPRIETARY FUND TYPES

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, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION / FUND BALANCE**

#### CASH AND INVESTMENTS, CASH AND CASH EQUIVALENTS

The amounts shown on the statements of net position 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, the Short-term Fixed Income Pool, and the Short-term Liquidity Pool operate as demand deposit accounts, amounts invested in the pools are classified as cash and cash equivalents. At June 30, 2013, the assets of the GeFONSI pool were comprised of shares in the Short-term Fixed Income Pool, the Short-term Liquidity 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 Position 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, 2013, 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 Position, is \$176.4 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.

### DEFERRED OUTFLOW/INFLOW OF RESOURCES

A deferred outflow of resources represents a consumption of net position applicable to a future reporting period and therefore is not recognized as a current year expense. A deferred inflow of resources is an acquisition of net position applicable to a future reporting period and therefore is not recognized as current year revenue.

### NET POSITION / FUND BALANCE

Fund assets and deferred outflow less liabilities and deferred inflows is "net position" 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 are 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. The Alaska Legislature is the body authorized to assign amounts to a specific purpose. Alaska Statute 37.13.020 authorizes the Legislature to assign the funds in the Earnings Reserve Account, a component of the Alaska Permanent Fund.
- 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, 2013 (in thousands):

	General	Permanent	Special Revenue	Debt Service	Capital Projects
<b>Nonspendable:</b>					
Inventory	\$ 16,527	\$ -	\$ -	\$ -	\$ -
Principal	-	41,299,265	-	-	-
Advances and Prepaid Items	91,997	-	-	-	-
Total Nonspendable	<u>108,524</u>	<u>41,299,265</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Restricted:</b>					
Debt Service	10	-	-	43,587	-
Education	12,673	-	9,297	-	144,920
Health & Human Services	486	-	16,302	-	-
Development	58,254	-	33,361	-	177,944
Other Purposes	5,619	-	162	-	-
Total Restricted	<u>77,042</u>	<u>-</u>	<u>59,122</u>	<u>43,587</u>	<u>322,864</u>
<b>Committed</b>					
Debt Service	8,440	-	-	-	-
Education	2,255,055	10,328	-	-	-
Health & Human Services	295,526	-	-	-	-
Public Protection	196,014	-	-	-	-
Permanent Fund	622,166	-	-	-	-
Development	2,418,969	-	588,112	-	-
Other Purposes	201,403	-	-	-	-
Total Committed	<u>5,997,573</u>	<u>10,328</u>	<u>588,112</u>	<u>-</u>	<u>-</u>
<b>Assigned</b>					
Permanent Fund	-	4,053,792	-	-	-
<b>Unassigned</b>					
	16,440,266	-	-	-	-
Total Fund Balance	<u>\$ 22,623,405</u>	<u>\$ 45,363,385</u>	<u>\$ 647,234</u>	<u>\$ 43,587</u>	<u>\$ 322,864</u>

**Net Position Restricted by Enabling Legislation**

The government-wide statement of net position reports \$42.6 billion of restricted net position for the primary government, of which \$26.0 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 within restricted, committed or assigned fund balance based upon the resources that eventually will fund those

grants or contracts, and do not constitute expenditures or liabilities. See Note 12 for additional information on encumbrances within the governmental funds. 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 13, supplemental appropriations within the operating and capital budgets were enacted. The total supplemental reduction to appropriations for the FY 13 operating budget was \$86.7 million, of which \$77.8 million was reduced from the General Fund, \$9.3 million was reduced from other funds, and \$0.4 million was appropriated from federal funds. In addition, the total supplemental appropriations for the FY 13 capital budget of \$232.3 million were enacted, of which \$204.8 million was appropriated from the General Fund, \$26.5 million was appropriated from other funds, and \$1.0 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 13, the Office of Management and Budget estimated the limit to be approximately \$9.8 billion. The FY 13 budget passed by the legislature after vetoes was \$8.0 billion (unrestricted General Fund revenues only), or \$1.8 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, FY 12 or FY 13.

#### STATUTORY BUDGET RESERVE FUND

The Statutory Budget Reserve Fund (SBRF) was created through Alaska Statute 37.05.540. Once the full debt of CBRF was repaid in FY 10, the legislature began to make appropriated transfers from the General Fund into the SBRF in addition to directing any year-end available fund balance of the General Fund to be transferred to the SBRF. As the balance of this fund continued to increase so did the political and public interest; therefore, the presentation of SBRF was added to the Combining Balance Sheet for the General Fund for Statements 3.01 and 3.02.

A legislative transfer from the General Fund to SBRF totaling \$250 million was made at the beginning of FY 13 in accordance with SLA 2012, Chapter 15, Section 32(b). Section 32(c) states that if the unrestricted amount available for appropriation in the fiscal year ending June 30, 2013, is insufficient to cover General Fund appropriations, the amount

necessary to balance revenue and General Fund appropriations or to prevent a cash deficiency in the General Fund is appropriated from the SBRF to the General Fund. For FY 13, this resulted in a year-end transfer from the SBRF to the General Fund for \$776 million, for a net impact to the SBRF of \$526 million.

**NOTE 3 – PRIOR PERIOD AND FUND BALANCE/NET ASSETS/NET POSITION ADJUSTMENTS**

**PUBLIC EMPLOYEES’ RETIREMENT SYSTEM (PERS)**

The Department of Administration, Division of Retirement and Benefits, identified in FY 13 the total amount of activity for those employees participating in the PERS Defined Contribution Retirement (DCR) Individual Plan that refunds prior to fully vesting in employer contributions. As a result, the employers should be given credit for those employer contributions made and forfeited once a refund has occurred. The amount of this liability for the PERS was previously booked as unrestricted revenue miscellaneous fines and forfeitures and was moved to a liability account in FY 13. This prior period adjustment of \$9,166 thousand is the forfeiture total associated with years prior to FY 13 for PERS DCR Individual Plan.

**TEACHERS’ RETIREMENT SYSTEM (TRS)**

The Department of Administration, Division of Retirement and Benefits, identified in FY 13 the total amount of activity for those employees participating in the TRS DCR Individual Plan that refunds prior to fully vesting in the employer contributions. As a result, the employers should be given credit for those employer contributions made and forfeited once a refund has occurred. The amount of this liability for the TRS plan was previously booked as unrestricted revenue miscellaneous fines and forfeitures and was moved to a liability account in FY 13. This prior period adjustment of \$3,247 thousand is the forfeiture total associated with years prior to FY 13 for TRS DCR Individual Plan.

**RETIREMENT FUND STATEMENTS**

Statements for PERS, TRS and the Judicial Retirement System were expanded to report postemployment healthcare benefits separate from the pension plan. Additionally, FY 13 Net Position for PERS and TRS Defined Contribution pension benefits, \$346,118 thousand and \$153,234 thousand respectfully, are reported as held in trust for individuals since these are individual retirement accounts. This activity was reported within Held in Trust for Pension Benefits in FY 12. For Defined Benefit plans the net position is held in trust for pension benefits for all plan members. This information will assist in the comparison to the prior year for these funds.

**Combining Statement of Fiduciary Net Position  
 Statement 5.01**

(In Thousands)

**Public Employees’ Retirement**

**NET POSITION**

	<u>FY 2012</u>	<u>FY 2013</u>
Held in Trust for:		
Pension Benefits	\$ 6,372,867	\$ 6,706,103
Postemployment Healthcare Benefits	5,263,082	5,959,578
Individuals, Organizations, and Other Governments	-	346,118
Total Net Position	<u>\$ 11,635,949</u>	<u>\$ 13,011,799</u>

**Teachers’ Retirement**

**NET POSITION**

	<u>FY 2012</u>	<u>FY 2013</u>
Held in Trust for:		
Pension Benefits	\$ 3,119,347	\$ 3,281,725
Postemployment Healthcare Benefits	1,664,590	1,910,013
Individuals, Organizations, and Other Governments	-	153,234
Total Net Position	<u>\$ 4,783,937</u>	<u>\$ 5,344,972</u>

ALASKA GASLINE DEVELOPMENT CORPORATION (AGDC)

For the year ended June 30, 2012, AGDC was a blended component unit, and presented as a special revenue fund. AGDC was a wholly-owned subsidiary of Alaska Housing Finance Corporation (AHFC), a discretely presented component unit of the State of Alaska. Effective FY 13, legislation was passed to continue the existence of AGDC, but changed it to an independent public corporation of the State of Alaska having legal existence independent of and separate from AHFC and the State of Alaska. AGDC is reported in FY 13 as a discretely presented component unit of the State of Alaska.

As a component unit, AGDC is incorporated into the Government-wide statements using the full accrual basis of accounting. The effect of the change in reporting resulted in the FY 13 beginning fund balance of \$849 thousand, while the prior year ending balance reported as a special revenue fund for FY 12 was \$204 thousand. The difference is attributable to the change in the basis of accounting from modified to full accrual which resulted in reporting capital assets and long term liabilities.

GENERAL FUND BALANCE - NONSPENDABLE

For the year ended June 30, 2013, a detailed review was made on the amount reported as Nonspendable, Compensating Balances within the General Fund. It was determined that this activity did not meet the criteria of Nonspendable, and should be reclassified as Unassigned. In FY 2012, the General Fund Nonspendable Compensated Balances were reported as \$110,000 thousand, and in FY 13 this amount was \$137,500 thousand.

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

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://www.dor.alaska.gov/treasury>.

Deposits and investments at June 30, 2013, are as follows:

Investment Type	Fair Value (in thousands)						
	Short-term Fixed Income Pool	Short-term Liquidity Fixed Income Pool	Intermediate- term Fixed Income Pool	Broad Market Fixed Income Pool	Tobacco Revenue Fixed Income	Other	Total
	Deposits	\$ 180,221	\$ -	\$ -	\$ (35)	\$ -	\$ 147,288
Money Market	-	-	-	-	22,410	-	22,410
Commercial Paper	351,700	-	-	-	-	-	351,700
Corporate Bonds	431,115	-	718,136	852,913	-	-	2,002,164
Mortgage-backed	18,089	-	189,159	1,364,957	-	-	1,572,205
Municipal Bonds	4,220	-	1,938	-	-	-	6,158
Other Asset-backed	3,598,791	-	237,838	142,211	-	-	3,978,840
U.S. Government Agency Discount Notes	600	-	-	-	-	-	600
U.S. Government Agency	-	-	284,051	122,928	-	-	406,979
Treasury Bills	3,552,079	1,159,880	599,439	-	-	-	5,311,398
Treasury Bonds	-	-	-	88,016	-	-	88,016
Treasury Notes	-	-	6,353,467	1,235,575	-	-	7,589,042
Treasury Strips	-	-	52,256	18,393	-	-	70,649
Yankees:							
Corporate	112,952	-	128,108	183,495	-	-	424,555
Government	-	-	34,290	40,831	-	-	75,121
Domestic Equity	-	-	-	-	-	3,279,675	3,279,675
International Equity	-	-	-	-	-	1,752,037	1,752,037
Total Invested Assets	8,249,767	1,159,880	8,598,682	4,049,284	22,410	5,179,000	27,259,023
Pool related net assets (liabilities)	(148,621)	-	(79,418)	(119,104)	-	693	(346,450)
Net Invested Assets before earnings distribution to participants	8,101,146	1,159,880	8,519,264	3,930,180	22,410	5,179,693	26,912,573
Earnings payable to participants	3,619	-	-	-	-	-	3,619
Other pool ownership	(719,308)	800	535,939	182,570	-	-	1
Ownership under other fiduciary responsibility:							
Alaska Retirement Management Board	(467,172)	-	-	-	-	-	(467,172)
Exxon Valdez Oil Spill Trustee Council	(3)	-	-	(55,766)	-	(44,399)	(100,168)
Alaska Student Loan Corporation	(5,887)	-	-	-	-	-	(5,887)
Alaska Mental Health Trust Authority	(3,636)	-	-	(10,349)	-	(118,227)	(132,212)
Total Commissioner's Fiduciary Responsibility	\$ 6,908,759	\$ 1,160,680	\$ 9,055,203	\$ 4,046,635	\$ 22,410	\$ 5,017,067	\$ 26,210,754

**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. These constraints apply to trade date, except for securities bought at new issue, for which settlement dates applies. At June 30, 2013, the expected average life of individual fixed rate securities ranged from three days to 34 years and the expected average life of floating rate securities ranged from 14 days to 22 years.

Short-term Liquidity Fixed Income Pool

Treasury's investment policy limits individual fixed rate securities to six months to maturity. These constraints apply to trade date, except for securities bought at new issue, for which settlement date applies. At June 30, 2013, the expected average life of fixed rate securities ranged from 46 to 67 days.

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

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

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

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

Intermediate-term Fixed Income Pool -  $\pm 20\%$  of the Barclays 1-3 year Government Bond Index. The effective duration for the Barclays 1-3 year Government Bond Index at June 30, 2013 was 1.87 years.

Broad Market Fixed Income Pool -  $\pm 20\%$  of the Barclays Capital U.S. Aggregate Bond Index. The effective duration for the Barclays Capital U.S. Aggregate Bond Index at June 30, 2013 was 5.49 years.

At June 30, 2013, the effective duration by investment type was as follows:

	Effective Duration (in years)	
	Intermediate-term Fixed Income Pool	Broad Market Fixed Income Pool
Corporate Bonds	2.42	7.31
Mortgage-backed	1.45	4.13
Municipal Bonds	4.41	-
Other Asset-backed	0.59	1.37
U.S. Government Agency	1.70	8.23
Treasury Bill	0.11	-
Treasury Bonds	-	19.69
Treasury Notes	2.04	5.10
Treasury Strip	4.43	4.89
Yankees:		
Corporate	1.85	3.99
Government	2.06	5.17
Portfolio Effective Duration	1.77	5.23

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. Commercial paper must be rated at least P-1 by Moody's and A-1 by Standard and Poor's. Asset-backed and non-agency mortgage securities must be rated A3 or equivalent. The A3 rating is defined as the median rating of the following three rating agencies: Standard & Poor's Corporation, Moody's, and Fitch. Asset-backed and non-agency mortgage securities may be purchased if only rated by one of these agencies if they are rated AAA.

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

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

The bond indentures governing the investment of tobacco revenue related bond proceeds limit the investment in commercial paper to only those securities rated A-1 or equivalent. At June 30, 2013, the Tobacco Revenue Fixed Income Securities consisted of commercial paper rated A-1.

At June 30, 2013, 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	Short-term Liquidity Fixed Income Pool	Intermediate- term Fixed Income Pool	Broad Market Fixed
Deposits	Not Rated	2.22%	-	-	-
Commercial Paper	Not Rated	4.34%	-	-	-
Corporate Bonds	AAA	-	-	0.40%	0.61%
Corporate Bonds	AA	2.41%	-	1.73%	2.85%
Corporate Bonds	A	2.91%	-	4.80%	11.79%
Corporate Bonds	BBB	-	-	0.83%	4.95%
Corporate Bonds	BB	-	-	0.16%	0.41%
Corporate Bonds	Not Rated	-	-	-	0.12%
U.S. Government Agency	AA	-	-	2.75%	0.45%
U.S. Government Agency	BBB	-	-	-	0.09%
U.S. Government Agency	Not Rated	0.01%	-	0.38%	2.45%
Mortgage-backed	AAA	0.07%	-	0.80%	2.88%
Mortgage-backed	AA	0.08%	-	0.76%	27.88%
Mortgage-backed	A	0.07%	-	0.09%	0.27%
Mortgage-backed	BBB	-	-	-	0.05%
Mortgage-backed	Not Rated	-	-	0.43%	2.12%
Municipal Bonds	AA	0.05%	-	-	-
Municipal Bonds	A	-	-	0.02%	-
Other Asset-backed	AAA	39.98%	-	1.86%	2.33%
Other Asset-backed	AA	0.72%	-	-	0.56%
Other Asset-backed	Not Rated	3.71%	-	0.76%	0.56%
Other Pool Ownership	Not Rated	-	0.07%	5.92%	4.44%
Treasury Bill	AA	43.83%	99.93%	6.62%	-
Treasury Bond	AA	-	-	-	2.14%
Treasury Note	AA	-	-	70.18%	30.04%
Treasury Strip	AA	-	-	0.58%	0.45%
Yankees:					
Corporate	AAA	-	-	0.18%	0.79%
Corporate	AA	0.55%	-	0.69%	1.14%
Corporate	A	0.84%	-	0.42%	1.40%
Corporate	BBB	-	-	0.13%	1.13%
Government	AA	-	-	0.34%	0.53%
Government	BBB	-	-	-	0.18%
Government	Not Rated	-	-	0.04%	0.28%
No Credit Risk		(1.79%)	-	(0.87%)	(2.89%)
		<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

**Custodial Credit Risk – Deposits**

Treasury's investment policy requires the State's depository banks to collateralize State deposits to the extent they exceed insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). As part of the Dodd-Frank Wall Street Reform and Consumer Protection Act, unlimited FDIC coverage for noninterest-bearing accounts was in effect through December 31, 2012. Deposits held in noninterest-bearing transaction accounts are now aggregated with interest-bearing deposits and the combined total is insured up to \$250 thousand. In accordance with Treasury's investment policy, all accounts are required to retain collateral equal to 110 percent of the uninsured deposits at all FDIC insured depository institutions, thereby limiting custodial credit risk.

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, 2013, the State had the following uncollateralized and uninsured deposits:

	Amount (in thousands)
International Equity Pool	<u>\$ 141</u>

**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, 2013, The Commissioner did not have any exposure to any one issuer greater than five percent of invested assets.

**Foreign Currency Risk**

The Commissioner of Revenue formally adopts asset allocation policies for each fund at the beginning of each fiscal year which places policy limitations on the amount of international securities each fund is allowed to hold. The following policies were in place during FY 13 and invested assets included the following holdings at June 30, 2013, for the funds invested in the International Equity Pool:

	Policy	Actual
Constitutional Budget Reserve Fund, Subaccount	20% ± 7%	22.36%
Exxon Valdez Settlement Investments	23% ± 7%	22.77%
Higher Education Fund	20% ± 7%	19.40%
Mental Health Trust Reserve	21% ± 5%	19.26%
Power Cost Equalization Endowment Fund	26% ± 5%	25.24%
Retiree Health Insurance Fund, Long Term Care	11% ± 4%	11.61%

At June 30, 2013, the funds invested in the International Equity Pool had exposure to foreign currency risk as follows:

Currency	Fair Value (in thousands)
Deposits:	
Japanese Yen	<u>\$ 141</u>
Investments - International Equity:	
Australian Dollar	5,260
Canadian Dollar	7,803
Danish Krone	2,159
Euro Currency	60,895
Japanese Yen	43,268
New Zealand Dollar	1,488
Norwegian Krone	2,442
Pound Sterling	54,688
Swedish Krona	12,346
Swiss Franc	13,592
	<u>203,941</u>
Total	<u>\$ 204,082</u>

**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, 2013 (in thousands):

	Changes in Fair Value		Fair Value		
	Classification	Amount	Classification	Amount	Notional
FX Forwards	Investment Revenue	\$ 9	Long-term Instruments	\$ -	\$ -

Additionally the International Equity Pool had the following income from foreign exchange transactions at June 30, 2013 (in thousands):

Net Realized Gain on Foreign Currency	\$ 47
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The International Equity Pool includes foreign currency forward contracts to buy and sell specified amounts of foreign currencies at specified rates on specified future dates for the purpose of hedging existing security positions. The counterparties to the foreign currency forward contracts consist of a diversified group of financial institutions. Credit risk exposure exists to the extent of non-performance by these counterparties; however, the risk of default is considered to be remote. The market risk is limited to the difference between contractual rates and forward rates at the balance sheet date. At June 30, 2013, the International Equity Pool had no outstanding contracts.

Pursuant to Alaska Statute 37.10.089(d), the Commissioner of Revenue entered into a Standby Bond Purchase Agreement (SBPA), which supports a liquidity facility provided by State Street Bank on Alaska Student Loan Corporation (ASLC) Education Loan Revenue Refunding Bonds-Senior Series 2012. In the event that the bonds have been tendered and cannot be remarketed, the Commissioner has agreed to purchase Bank Bonds held by the Bank upon satisfaction of the conditions set forth in the SBPA. The annual facility fee is 15 basis points payable by the ASLC quarterly through the termination date of September 30, 2016. Bonds outstanding at June 30, 2013 were \$78,435 thousand.

**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 (TIPS) 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, 2013 are as follows:

	Fair Value (in thousands)			
	Fixed Income Pools			
	Short-term	U.S. Treasury	High Yield	International
Commercial Paper	\$ 19,969	\$ -	\$ -	\$ -
Convertible Bonds	-	-	1,844	-
Corporate Bonds	24,478	55,792	437,605	-
Deposits	10,233	-	17,862	1,216
Foreign Corporate Bonds	-	-	-	27,386
Foreign Government Bonds	-	-	-	319,358
Mortgage-backed	1,027	74,822	-	-
Municipal Bonds	240	1,913	-	-
Other Asset-backed	204,337	42,365	1,774	-
Short-term Investment Fund	-	-	-	3,300
U.S. Government Agency	-	34,384	-	-
U.S. Government Agency Discount Notes	34	-	-	-
Treasury Bills	201,685	-	-	-
Treasury Bonds	-	-	-	-
Treasury Notes	-	1,080,704	-	-
Treasury Strips	-	1,994	-	-
Yankees: Corporate	6,413	7,689	47,685	-
Yankees: Government	-	28,505	-	-
Fixed Income Pools: Equity	-	-	-	-
Fixed Income Pools: Warrants	-	-	52	-
Emerging Markets Debt Pool	-	-	-	-
Broad Domestic Equity Pools: Deposits	-	-	-	-
Broad Domestic Equity Pools: Equity	-	-	-	-
Broad Domestic Equity Pools: Futures	-	-	-	-
Broad Domestic Equity Pools: Limited Partnership	-	-	-	-
Broad Domestic Equity Pools: Options	-	-	-	-
Broad Domestic Equity Pools: Treasury Bills	-	-	-	-
Broad Domestic Equity Pools: Warrants	-	-	-	-
Broad International Equity Pool: Deposits	-	-	-	-
Broad International Equity Pool: Equity	-	-	-	-
Broad International Equity Pool: Rights	-	-	-	-
Broad International Equity Pool: Mutual Fund	-	-	-	-
Broad International Equity Pool: Short-term Investment Fund	-	-	-	-
Broad International Equity Pool: Warrants	-	-	-	-
Emerging Markets Equity Pool	-	-	-	-
Private Equity Pool: Limited Partnerships	-	-	-	-
Private Equity Pool: Equity	-	-	-	-
Absolute Return Pool: Limited Partnerships	-	-	-	-
Real Estate Pool: Commingled Funds	-	-	-	-
Real Estate Pool: Limited Partnerships	-	-	-	-
Real Estate Pool: Real Estate	-	-	-	-
Real Estate Investment Trust Pool: Equity	-	-	-	-
Master Limited Partnership Pool: Equity	-	-	-	-
Energy Pool: Limited Partnerships	-	-	-	-
Farmland Pool: Agricultural Holdings	-	-	-	-
Farmland Water Pool: Agricultural Holdings	-	-	-	-
Timber Pool: Timber Holdings	-	-	-	-
Participant Directed: Collective Investment Funds	-	-	-	-
Participant Directed: Pooled Investment Funds	-	-	-	-
Net Other Assets/(Liabilities)	(8,351)	5,720	3,644	5,706
Other Pool Ownership	(190,208)	44,774	-	-
Total Invested Assets	\$ 269,857	\$ 1,378,662	\$ 510,466	\$ 356,966

This table continued on the next page.

Deposits and investments at June 30, 2013 are as follows (continued):

	Fair Value (in thousands)			
	Fixed Income Pools			Total
	Convertible	TIPS	Other	
Commercial Paper	\$ -	\$ -	\$ -	\$ 19,969
Convertible Bonds	112,235	-	-	114,079
Corporate Bonds	-	-	-	517,875
Deposits	468	-	-	29,779
Foreign Corporate Bonds	-	-	-	27,386
Foreign Government Bonds	-	-	-	319,358
Mortgage-backed	-	-	-	75,849
Municipal Bonds	-	-	-	2,153
Other Asset-backed	-	-	-	248,476
Short-term Investment Fund	-	-	-	3,300
U.S. Government Agency	-	-	-	34,384
U.S. Government Agency Discount Notes	-	-	-	34
Treasury Bills	-	-	-	201,685
Treasury Bonds	-	3,444	-	3,444
Treasury Notes	-	4,709	-	1,085,413
Treasury Strips	-	-	-	1,994
Yankees: Corporate	-	-	-	61,787
Yankees: Government	-	-	-	28,505
Fixed Income Pools: Equity	13,997	-	-	13,997
Fixed Income Pools: Warrants	-	-	-	52
Emerging Markets Debt Pool	-	-	151,950	151,950
Broad Domestic Equity Pools: Deposits	-	-	34,113	34,113
Broad Domestic Equity Pools: Equity	-	-	5,315,938	5,315,938
Broad Domestic Equity Pools: Futures	-	-	(307)	(307)
Broad Domestic Equity Pools: Limited Partnership	-	-	269,526	269,526
Broad Domestic Equity Pools: Options	-	-	(18,513)	(18,513)
Broad Domestic Equity Pools: Treasury Bills	-	-	2,923	2,923
Broad Domestic Equity Pools: Warrants	-	-	1	1
Broad International Equity Pool: Deposits	-	-	62,018	62,018
Broad International Equity Pool: Equity	-	-	3,008,564	3,008,564
Broad International Equity Pool: Rights	-	-	22	22
Broad International Equity Pool: Mutual Fund	-	-	410,389	410,389
Broad International Equity Pool: Short-term Investment Fund	-	-	11,260	11,260
Broad International Equity Pool: Warrants	-	-	105	105
Emerging Markets Equity Pool	-	-	529,223	529,223
Private Equity Pool: Limited Partnerships	-	-	1,610,705	1,610,705
Private Equity Pool: Equity	-	-	1,046	1,046
Absolute Return Pool: Limited Partnerships	-	-	793,809	793,809
Real Estate Pool: Commingled Funds	-	-	294,488	294,488
Real Estate Pool: Limited Partnerships	-	-	339,833	339,833
Real Estate Pool: Real Estate	-	-	738,763	738,763
Real Estate Investment Trust Pool: Equity	-	-	269,756	269,756
Master Limited Partnership Pool: Equity	-	-	358,497	358,497
Energy Pool: Limited Partnerships	-	-	107,778	107,778
Farmland Pool: Agricultural Holdings	-	-	680,377	680,377
Farmland Water Pool: Agricultural Holdings	-	-	35,588	35,588
Timber Pool: Timber Holdings	-	-	261,186	261,186
Participant Directed: Collective Investment Funds	-	-	285,028	285,028
Participant Directed: Pooled Investment Funds	-	-	204,130	204,130
Net Other Assets/(Liabilities)	1,290	44	17,902	25,955
Other Pool Ownership	-	137	145,297	-
Total Invested Assets	\$ 127,990	\$ 8,334	\$ 15,921,395	\$ 18,573,670

## 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. These constraints apply to trade date, except for securities bought at new issue, for which settlement date applies. At June 30, 2013, the expected average life of individual fixed rate securities ranged from three days to 34 years and the expected average life of floating rate securities ranged from 14 days to 22 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  $\pm 20$  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, 2013 was 5.49 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 portfolio to  $\pm 20$  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, 2013 was 3.68 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  $\pm 20$  percent of the Bank of America Merrill Lynch U.S. High Yield Master II Constrained Index. The effective duration for the Bank of America Merrill Lynch U.S. High Yield Master II Constrained Index at June 30, 2013 was 4.46 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  $\pm 25$  percent of the blended benchmark of 70% Citigroup Non-USD World Government Bond Index and 30% JP Morgan Global Bond Emerging Markets Broad Diversification Index. The effective duration for the Citigroup Non-USD World Government Bond Index at June 30, 2013, was 7.25 years and the effective duration of the JP Morgan Global Bond Index at June 30, 2013 was 4.89 years, for a blended duration of 6.54 years at June 30, 2013.

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  $\pm 20$  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, 2013 was 9.32 years.

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

At June 30, 2013, the effective duration of the ARMB's fixed income pools, by investment type, was as follows:

	Effective Duration (in years)			
	U.S. Treasury	High Yield	International	TIPS
Corporate Bonds	2.83	4.29	-	-
Foreign Corporate Bonds	-	-	3.16	-
Foreign Government Bonds	-	-	5.74	-
Mortgage-backed	2.59	-	-	-
Municipal Bonds	11.85	-	-	-
Other Asset-backed	0.48	3.88	-	-
Treasury Bonds	-	-	-	10.90
Treasury Notes	3.64	-	-	3.40
Treasury Strips	5.12	-	-	-
U.S. Government Agency	8.31	-	-	-
Yankees:				
Corporate	3.77	4.31	-	-
Government	6.00	-	-	-
Portfolio Effective Duration	3.52	4.13	5.46	6.46

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, the Trust will invest in cash equivalent instruments with maturities of less than one year. Additionally, under normal conditions, for government debt, corporate debt, and mortgage-backed securities, duration is limited to  $\pm 0.2$  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  $\pm 0.4$  years relative to the index.

At June 30, 2013, the duration of the government corporate debt, and mortgage-backed securities was 5.48 years and the duration of the Barclays Capital Aggregate Bond Index was 5.39 years.

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, 2013, the modified duration of collective investment funds that consisted solely of debt securities were as follows – SSgA Money Market Trust: 46 days, SSgA World Government Bond Ex-U.S. Index: 7.35 years, SSgA Long U.S. Treasury Bond Index: 16.27 years, SSgA TIPS Index: 7.17 years, Barclays Government Credit Bond Fund: 5.38 years, and the Barclays Intermediate Bond Fund: 3.55 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, 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. Intermediate Treasury Fixed Income:

- No more than 30 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 ten percent of the portfolio's assets may be invested in securities rated A3 or higher by any rating agency (including government instruments). Cash held in the portfolio will be included in this limitation.
- No more than 25 percent of the portfolio's assets may be invested in securities rated below B3.
- No more than five percent of the portfolio's assets may be invested in unrated securities.

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. Only one rating is necessary.

International Fixed Income:

- 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. In the event a split rating exists, the lower of the ratings shall apply for evaluating credit quality.

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. Non-rated securities to which the manager assigns a non-investment grade rating are subject to the below investment grade limitations.
- The weighted-average rating of the portfolio shall not fall below the Standard & Poor's equivalent of B. The manager shall not purchase any security with a credit rating at or below a CCC- by Standard & Poor's and C3 by Moody's. However, the manager may continue to hold securities downgraded below CCC- by Standard & Poor's and C3 by Moody's if such an investment is considered appropriate given the ARMB's investment objective.

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.
- Non-U.S. Treasury-issued 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, 2013, 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):

	Rating	Fixed Income Pools					
		Short-term	U.S. Treasury	High Yield	International	Convertible	TIPS
Deposits	Not rated	2.22%	-	3.50%	0.34%	0.37%	-
Commercial Paper	BBB	-	-	-	-	-	-
Commercial Paper	Not Rated	4.34%	-	-	-	-	-
Corporate Bonds	AA	2.41%	0.65%	-	-	-	-
Corporate Bonds	A	2.91%	2.50%	0.11%	-	-	-
Corporate Bonds	BBB	-	0.82%	3.21%	-	-	-
Corporate Bonds	BB	-	0.09%	32.85%	-	-	-
Corporate Bonds	B	-	-	41.86%	-	-	-
Corporate Bonds	CCC	-	-	3.44%	-	-	-
Corporate Bonds	CC	-	-	0.28%	-	-	-
Corporate Bonds	D	-	-	0.47%	-	-	-
Corporate Bonds	Not Rated	-	-	3.55%	-	-	-
Convertible Bonds	A	-	-	-	-	5.08%	-
Convertible Bonds	BBB	-	-	0.33%	-	17.94%	-
Convertible Bonds	BB	-	-	-	-	15.86%	-
Convertible Bonds	B	-	-	-	-	14.47%	-
Convertible Bonds	CCC	-	-	-	-	2.73%	-
Convertible Bonds	Not Rated	-	-	0.03%	-	31.60%	-
Equity	BBB	-	-	-	-	2.88%	-
Equity	BB	-	-	-	-	3.97%	-
Equity	B	-	-	-	-	2.08%	-
Equity	Not Rated	-	-	-	-	2.01%	-
Foreign Corporate Bonds	A	-	-	-	1.27%	-	-
Foreign Corporate Bonds	BBB	-	-	-	0.56%	-	-
Foreign Corporate Bonds	Not Rated	-	-	-	5.84%	-	-
Foreign Government Bonds	AAA	-	-	-	6.77%	-	-
Foreign Government Bonds	AA	-	-	-	1.68%	-	-
Foreign Government Bonds	A	-	-	-	22.90%	-	-
Foreign Government Bonds	BBB	-	-	-	3.58%	-	-
Foreign Government Bonds	BB	-	-	-	1.41%	-	-
Foreign Government Bonds	Not Rated	-	-	-	53.11%	-	-
U.S. Government Agency	Not Rated	0.01%	2.48%	-	-	-	-

This table continued on the next page.

Continued from previous page:

	Rating	Fixed Income Pools					TIPS
		Short-term	U.S. Treasury	High Yield	International	Convertible	
Mortgage-backed	AAA	0.07%	1.35%	-	-	-	-
Mortgage-backed	AA	0.08%	1.82%	-	-	-	-
Mortgage-backed	A	0.07%	0.38%	-	-	-	-
Mortgage-backed	Not Rated	-	1.88%	-	-	-	-
Municipal Bonds	AA	0.05%	0.14%	-	-	-	-
Other Asset-backed	AAA	39.98%	1.71%	-	-	-	-
Other Asset-backed	AA	0.72%	-	-	-	-	-
Other Asset-backed	BB	-	-	0.10%	-	-	-
Other Asset-backed	B	-	-	0.25%	-	-	-
Other Asset-backed	Not Rated	3.71%	1.36%	-	-	-	-
Other Pool Ownership	Not Rated	-	3.25%	-	-	-	1.65%
Treasury Bills	AA	43.83%	-	-	-	-	-
Treasury Bonds	AA	-	-	-	-	-	41.32%
Treasury Notes	AA	-	78.40%	-	-	-	56.50%
Treasury Strips	AA	-	0.14%	-	-	-	-
Short-Term Investment Fund	Not Rated	-	-	-	0.92%	-	-
Warrants	Not Rated	-	-	0.01%	-	-	-
Yankees Corporate	AAA	-	0.06%	-	-	-	-
Yankees Corporate	AA	0.55%	0.28%	-	-	-	-
Yankees Corporate	A	0.84%	0.07%	-	-	-	-
Yankees Corporate	BBB	-	0.14%	-	-	-	-
Yankees Corporate	BB	-	-	3.37%	-	-	-
Yankees Corporate	B	-	-	4.80%	-	-	-
Yankees Corporate	CCC	-	-	0.55%	-	-	-
Yankees Corporate	Not Rated	-	-	0.58%	-	-	-
Yankees Government	AAA	-	0.33%	-	-	-	-
Yankees Government	AA	-	0.35%	-	-	-	-
Yankees Government	Not Rated	-	1.38%	-	-	-	-
No Credit Risk		(1.79%)	0.42%	0.71%	1.62%	1.01%	0.53%
		<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

### Custodial Credit Risk – Deposits

The ARMB does not have a policy in relation to custodial credit risk for deposits; however, Treasury investment policy requires the State's depository banks to collateralize State deposits to the extent they exceed insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). The FDIC provides \$250,000 of coverage. In accordance with Treasury policy, they are required to retain collateral equal to 110 percent of uninsured deposits.

At June 30, 2013, the ARMB's invested assets had the following uncollateralized and uninsured deposits (in thousands):

International Equity Pool	\$ 62,020
International Fixed Income Pool	1,217
	<u>\$ 63,237</u>

### 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, 2013, 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 these 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, Romania, Russia, Singapore, South Africa, South Korea, Sweden, Switzerland, Thailand, Turkey, United Kingdom, and United States. The ARMB has no specific policy regarding foreign currency risk relating to international or private equity. The ARMB has no policy regarding foreign currency risk in the Defined Contribution Pooled Investment Funds and Collective Investment Funds. 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:

<u>Pension Fund</u>	<u>Fixed - Income</u>	<u>Global Equity Ex- U.S.</u>	<u>Private Equity Pool</u>
Public Employees' Retirement System	19%	27%	13%
Teachers' Retirement System	19%	27%	13%
Judicial Retirement System	19%	27%	13%
Alaska National Guard and Naval Militia System	61%	21%	-

At June 30, 2013, the ARMB had exposure to foreign currency risk with the following deposits and investments (in thousands):

Currency	International Fixed Income Pool			International Equity			Private Equity	
	Deposits	Foreign Government Bonds	Foreign Corporate Bonds	Deposits	Equity	Mutal Funds	Rights	Limited Partnerships
Australian Dollar	\$ 65	\$ 12,003	\$ -	\$ 698	\$ 67,513	\$ -	\$ 2	\$ 293
Brazilian Real	-	22,208	-	40	12,380	-	-	-
Canadian Dollar	-	-	-	185	84,812	-	-	-
Chilean Peso	-	3,983	-	-	-	-	-	-
Columbian Peso	126	4,895	-	-	-	-	-	-
Danish Krone	-	-	-	104	28,184	-	-	-
Euro Currency	-	48,537	24,945	52,625	775,972	-	20	120,933
Hong Kong Dollar	-	-	-	721	103,190	-	-	-
Hungarian Forint	-	5,037	-	-	-	-	-	-
Indian Rupee	-	-	-	-	1,569	-	-	-
Indonesian Rupiah	-	-	-	194	12,027	-	-	-
Israeli Shekel	-	-	-	67	1,203	-	-	-
Japanese Yen	225	100,468	-	4,335	602,433	-	-	-
Malaysian Ringgit	289	17,627	-	-	6,258	-	-	-
Mexican Peso	424	21,305	2,441	12	1,811	-	-	-
New Russian Ruble	-	8,177	-	-	-	-	-	-
New Taiwan Dollar	-	-	-	56	13,733	-	-	-
New Zealand Dollar	-	-	-	2	9,107	-	-	-
Norwegian Krone	-	-	-	92	16,842	-	-	-
Peruvian Nouveau Sol	-	5,028	-	-	-	-	-	-
Philippine Peso	-	-	-	-	2,147	-	-	-
Polish Zloty	-	29,946	-	-	-	-	-	-
Pound Sterling	-	-	-	2,024	549,477	448	-	31,499
Singapore Dollar	-	-	-	199	39,512	-	-	-
South African Rand	-	9,287	-	-	-	-	-	-
South Korean Won	50	-	-	-	41,746	-	-	-
Swedish Krona	-	24,179	-	296	73,593	-	-	-
Swiss Franc	-	-	-	317	191,561	-	-	-
Thailand Baht	38	-	-	53	16,160	-	-	-
Turkish Lira	-	6,679	-	-	-	-	-	-
UAE Dirham	-	-	-	-	1,666	-	-	-
	<u>\$ 1,217</u>	<u>\$ 319,359</u>	<u>\$ 27,386</u>	<u>\$ 62,020</u>	<u>\$ 2,652,896</u>	<u>\$ 448</u>	<u>\$ 22</u>	<u>\$ 152,725</u>

At June 30, 2013, the ARMB also had exposure to foreign currency risk in the Emerging Markets Equity Pool and the Emerging Markets Debt Pool. These pools consist 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, 2013, the ARMB had the following derivative instruments outstanding (in thousands):

Type	Change in Fair Value		Fair Value		
	Classification	Amount	Classification	Amount	Notional
Equity Options Written	Investment Revenue	\$ 275	Options	\$ (18,447)	\$ (2,889)
FX Forwards	Investment Revenue	3,411	Long Term Instruments	1,997	27,875
Index Futures Long	Investment Revenue	13,646	Futures	-	56
Index Options Written	Investment Revenue	733	Options	(66)	(4)
Rights	Investment Revenue	(155)	Common Stock	22	69
Warrants	Investment Revenue	62	Common Stock	158	337
		<u>\$ 17,972</u>		<u>\$ (16,336)</u>	<u>\$ 25,444</u>

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, 2013, the ARMB had the following foreign currency risk related to forward contracts (in thousands):

Currency Name	Options	Net Receivables	Net Payables	Total Exposure
Australian Dollar	\$ 2	\$ (123)	\$ 1,879	\$ 1,758
Euro Currency	20	-	3	23
Japanese Yen	-	-	86	86
New Zeland Dollar	-	-	152	152
	<u>\$ 22</u>	<u>\$ (123)</u>	<u>\$ 2,120</u>	<u>\$ 2,019</u>

At June 30, 2013 the ARMB had the following counterparty credit and counterparty concentration risk associated with its investment derivative positions:

Counterparty Name	Net Exposure (in thousands)	S&P Rating	Fitch Rating	Moody's Rating
Bank of New York	\$ 86	A+	A+	A1
State Street Bank Location	2,031	A+	AA-	Aa3
USB AG	<u>3</u>	A	A	A2
Maximum Amount of Loss in Case of Default by All Counterparties	\$ 2,120			
Effect of Collateral Reducing Maximum Exposure	-			
Liabilities Subject to Netting Arrangements Reducing Exposure	-			
Resulting Net Exposure	<u>\$ 2,120</u>			

#### 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, 2012, Deferred Compensation Plan investments totaled \$657.9 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/dr/b/>.

**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, 2012, are as follows:

	Fair Value (in thousands)	Weighted Average Maturity
Bond Fund	\$ 74	4.45 years
Government/Credit Bond Index Fund	33,946	7.79 years
State Street Money Market Fund	9,757	51 days
Intermediate Bond Fund	16,547	3.77 years
Long U.S. Treasury Bond Index Fund	5,491	17.01 years
U.S. TIPS Index Fund	12,178	5.52 years
World Government Bond Ex-U.S. Index Fund	2,263	7.28 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 3.24 years at December 31, 2012. The duration of the Barclays Capital Intermediate Aggregate Index was 3.53 years at December 31, 2012.

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 51 days at December 31, 2012.

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  $\pm 0.2$  years of the Barclays Aggregate Bond Index. At December 31, 2012, the duration of the Barclays Aggregate Bond Index was 5.06 years, and the duration of the Aggregate Bond Trust was 5.10 years.

The weighted average maturity of the money market portfolio was 19.33 days at December 31, 2012.

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,
- Commercial paper and other short-term debt obligations must be rated A1 or equivalent.

At December 31, 2012, 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	\$ -	\$ 319	\$ 319
Short-term Investment Fund	Not Rated	3,449	-	3,449
U.S. Government Agency	AA	10,505	-	10,505
Mortgage-backed	AAA	3,047	-	3,047
Mortgage-backed	AA	29	-	29
Mortgage-backed	A	1,558	-	1,558
Mortgage-backed	Not Rated	61,455	-	61,455
Other Asset-backed	AAA	1,539	-	1,539
Other Asset-backed	AA	200	-	200
Other Asset-backed	Not Rated	1,129	-	1,129
Corporate Bonds	AAA	55	-	55
Corporate Bonds	AA	3,717	-	3,717
Corporate Bonds	A	16,493	-	16,493
Corporate Bonds	BBB	12,568	-	12,568
Yankees:				
Corporate	AA	1,761	-	1,761
Corporate	A	2,838	-	2,838
Corporate	BBB	1,845	-	1,845
Government	AAA	3,574	-	3,574
Government	AA	1,214	-	1,214
Government	A	1,027	-	1,027
Government	BBB	27	-	27
Deposits and Investments with no credit exposure:				
Deposits		(2,780)	-	(2,780)
U.S. Treasury Notes	AAA	53,781	-	53,781
Collective Investment Funds		-	311,527	311,527
Pooled Investment Funds		-	70,329	70,329
Domestic Equity		-	84,228	84,228
Total Invested Assets		\$ 179,031	\$ 466,403	\$ 645,434

### Custodial Credit Risk

The ARMB does not have a policy for custodial credit risk. At December 31, 2012, 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. Agency 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, 2012, the Deferred Compensation Plan 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. 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, 2013, SBS investments totaled \$2.854 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.

	Fair Value (in thousands)	Weighted Average Maturity
Government/Credit Bond Index Fund	\$ 50,793	7.67 years
State Street Money Market Fund	37,638	56 days
Intermediate Bond Fund	15,538	3.74 years
Long U.S. Treasury Bond Index Fund	17,022	16.46 years
U.S. TIPS Index Fund	24,601	5.86 years
World Government Bond ex-U.S. Index Fund	6,358	7.48 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, 2013, the expected average life of individual fixed rate securities ranged from one day to 31.3 years and the expected average life of floating rate securities ranged from 41 days to 7.6 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 3.47 years at January 31, 2013. The duration of the Barclays Capital Intermediate Aggregate Index was 3.75 years at January 31, 2013.

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.

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  $\pm 0.20$  years of the Barclays Aggregate Bond Index. At January 31, 2013, the duration of the Barclays Aggregate Bond Index was 5.20 years and the duration of the Aggregate Bond Trust was 5.17 years.

The weighted average maturity of the money market portfolio was 28.38 days at January 31, 2013.

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 A1 or equivalent.

At January 31, 2013, 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):

Investment type	Rating	Fair Value (in thousands)				Total
		Short-term Fixed Income Pool	Underlying		Other	
			Investment Contracts	Investment Loss Trust		
Investments with Credit Exposure:						
Money Market Fund	Not Rated	\$ -	\$ -	\$ -	\$ 1,309	\$ 1,309
Short-term Investment Fund	Not Rated	-	7,005	-	-	7,005
Commercial Paper	Not Rated	418	-	125	-	543
U.S. Government Agency	AA	67	12,000	20	-	12,087
U.S. Government Agency	Not Rated	639	-	192	-	831
U.S. Government Agency:						
Discount Notes	Not Rated	1	-	1	-	2
Municipal Government	AA	4	-	1	-	5
Mortgage-backed	AAA	9	5,733	3	-	5,745
Mortgage-backed	AA	5	63	2	-	70
Mortgage-backed	A	4	1,861	1	-	1,866
Mortgage-backed	Not Rated	4	101,109	1	-	101,114
Other Asset-backed	AAA	2,712	2,279	813	-	5,804
Other Asset-backed	AA	45	233	13	-	291
Other Asset-backed	Not Rated	359	2,245	107	-	2,711
Corporate Bonds	AAA	-	84	-	-	84
Corporate Bonds	AA	105	6,397	32	-	6,534
Corporate Bonds	A	151	26,966	45	-	27,162
Corporate Bonds	BBB	-	19,689	-	-	19,689
Corporate Bonds	Not Rated	-	392	-	-	392
Yankees:						
Corporate	AA	45	3,172	13	-	3,230
Corporate	A	46	5,621	14	-	5,681
Corporate	BBB	-	2,222	-	-	2,222
Government	AAA	-	6,481	-	-	6,481
Government	AA	-	2,021	-	-	2,021
Government	A	-	1,710	-	-	1,710
Government	BBB	-	55	-	-	55
Deposits and Investments with No Credit Exposure:						
Deposits		-	(6,239)	-	-	(6,239)
U.S. Treasury Bills	Not Rated	1,678	-	503	-	2,181
U.S. Treasury Notes	Not Rated	147	91,966	44	-	92,157
Participant-directed Funds						
Collective Investment Funds		-	-	-	605,770	605,770
Pooled Investment Funds		-	-	-	1,773,721	1,773,721
Wholly Owned Domestic Equity		-	-	-	129,934	129,934
Total Invested Assets		6,439	293,065	1,930	2,510,734	2,812,168
Pool Related Net (Liabilities)		(370)	-	(1)	-	(371)
Total		\$ 6,069	\$ 293,065	\$ 1,929	\$ 2,510,734	\$ 2,811,797

### Custodial Credit Risk

The ARMB does not have a policy for custodial credit risk. At January 31, 2013, 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, 2013, 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.

State investment regulations

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.

Investment policy – Asset allocation

The Trustees have established a long-term goal of achieving a five percent real rate of return over time on the Fund's investment portfolio. To help achieve this goal, the Trustees allocate the Fund's investments among various risk and asset classes.

At June 30, 2013, 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		55%	
	Global Credit		11%
	Public/Private Credit		2%
	Global Equity		36%
	Private Equity		6%
Real Assets		19%	
	Real Estate		12%
	Infrastructure		4%
	U.S. Treasury Inflation Protection Securities		3%
Special Opportunities		18%	
	Absolute Return Mandate		6%
	Real Return Mandate		7%
	Emerging Markets Multi-Asset		2%
	Debt Opportunities		1%
	Other (future opportunities)		2%

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 dollar allocation for the interest rate risk class is six percent, with the green zone range set at six to 12 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.

**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 five percent.

At June 30, 2013, the Fund held fixed income investments with floating, variable, and step interest rates, valued at \$249,410 thousand. These fixed income investments were both domestic and non-domestic, and had current annual interest rates ranging from zero to 7.5 percent.

### **Credit Risk**

The APFC requires that its investment grade fixed income managers, both internal and external, 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. 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/decrease 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.

### **Futures**

Certain equity and fixed income managers for the Fund are permitted to buy and sell equity and interest rate index futures. The gross fair value of 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.

**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, 2013 (in thousands):

Cash	\$ 62,405
Pooled Funds	1,543,820
U.S. Treasury Bills	681,898
Total Cash and Temporary Investments	<u>\$ 2,288,123</u>

Uninvested cash was held at the custodian, sub-custodian, or futures broker banks, primarily in interest-bearing accounts. All pooled funds were invested in a money market fund. U.S. Treasury bills are explicitly guaranteed by the U.S. government.

**Marketable Debt Securities**

Marketable debt securities at June 30, 2013, are summarized as follows (in thousands), categorized by debt instrument type and by country of registration:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gains/(Losses)</u>
Treasury and Government Notes/Bonds	\$ 2,363,136	\$ 2,333,773	\$ (29,363)
Mortgage-backed Securities	833,794	830,363	(3,431)
Corporate Bonds	2,519,717	2,521,280	1,563
Commercial Mortgage/Asset-backed Securities	319,598	325,323	5,725
Non-U.S. Treasury and Government Bonds	1,022,837	987,832	(35,005)
Non-U.S. Corporate Bonds	519,215	516,762	(2,453)
Total Marketable Debt Securities	<u>\$ 7,578,297</u>	<u>\$ 7,515,333</u>	<u>\$ (62,964)</u>

**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 88 percent of bond mandates at June 30, 2013), issues falling below the minimum standards are required to be sold within seven months of the downgrade date. Minimum standards are a Standard & Poor's Corporation rating BBB or better, or Moody's Investors Service, Inc. rating of Baa or better, or a comparable rating by another Nationally Recognized Statistical Rating Organizations (NRSRO) or by a recognized rating service in the jurisdiction of the issuer. Managers with high yield mandates (approximately 12 percent of bond mandates at June 30, 2013) 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 NRSROs used, the rating with the highest degree of risk (the lowest rating) is reported.

At June 30, 2013, 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	\$ 476,614	\$ 125,463	\$ 602,077	8.01%
AA	320,079	113,546	433,625	5.77%
A	1,059,986	145,493	1,205,479	16.04%
BBB	1,302,427	249,902	1,552,329	20.66%
BB	93,465	25,152	118,617	1.58%
B	89,820	-	89,820	1.19%
CCC	37,153	-	37,153	0.49%
CC	3,578	-	3,578	0.05%
D	2,003	-	2,003	0.03%
Total Fair Value of Rated Debt Securities	3,385,125	659,556	4,044,681	53.82%
Commingled Bond Funds	320,757	-	320,757	4.27%
Not Rated	15,384	49,669	65,053	0.86%
U.S. Government Explicitly Backed by the U.S. Government (AA)	2,467,189	-	2,467,189	32.83%
U.S. Government Implicitly Backed by the U.S. Government (AA)	617,653	-	617,653	8.22%
Total Fair Value Debt Securities	\$ 6,806,108	\$ 709,225	\$ 7,515,333	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, 2013, the effective duration by investment type, based on fair value, is as follows:

	Percent of bond holdings	Duration
<b>Domestic Bonds</b>		
Treasuries and Government Notes/Bonds	40.61%	5.53
Mortgage-backed Securities	14.67%	4.14
Corporate Bonds	38.93%	6.95
Commercial Mortgage and Asset-backed Securities	5.79%	3.80
Total Domestic Bonds	100.00%	5.78
<b>Non-domestic Bonds</b>		
Non-U.S. Treasury and Government Bonds	60.83%	6.69
Non-U.S. Corporate Bonds	39.17%	6.23
Total Non-domestic Bonds	100.00%	6.51

#### 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 also invests in commingled stock funds, which are held by the custodian bank of the fund manager on behalf of fund investors.

Preferred and common stocks and commingled stock funds at June 30, 2013 are summarized as follows (based on currency of trade), and include the net fair value of equity index futures of \$781 thousand:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gains/(Losses)</u>
Direct Investments			
Domestic	\$ 6,263,232	\$ 8,121,463	\$ 1,858,231
Non-domestic	9,483,462	10,322,555	839,093
Commingled Funds	<u>1,827,756</u>	<u>1,582,971</u>	<u>(244,785)</u>
Total Preferred and Common Stock	<u>\$ 17,574,450</u>	<u>\$ 20,026,989</u>	<u>\$ 2,452,539</u>

### 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, 2013, the Fund's cash holdings, foreign currency forward contracts, 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 and Equivalents	Foreign Exchange Forward Contracts	Public and Private Equity	Debt	Total Foreign Currency Exposure
Australian Dollar	\$ (7,053)	\$ (12,399)	\$ 430,896	\$ 13,132	\$ 424,576
Brazilian Real	3,238	(31,244)	198,731	60,232	230,957
British Pound Sterling	4,919	(133,113)	1,465,358	32,195	1,369,359
Canadian Dollar	7,519	(81,192)	604,958	25,857	557,142
Chilean Peso	(581)	(78)	18,461	14,991	32,793
Chinese Yuan Renminbi	-	(5,289)	-	386	(4,903)
Colombian Peso	-	(10,414)	9,039	23,497	22,122
Czech Koruna	56	(9,648)	3,248	9,275	2,931
Danish Krone	(102)	(1,242)	73,554	-	72,210
Egyptian Pound	58	-	990	-	1,048
Euro Currency	18,217	(200,424)	2,222,656	172,640	2,213,089
Hong Kong Dollar	4,265	18,046	611,813	-	634,124
Hungarian Forint	-	-	3,169	7,001	10,170
Indian Rupee	1,899	(6,139)	175,265	-	171,025
Indonesian Rupiah	(2,289)	3,220	127,796	1,361	130,088
Israeli Shekel	455	(7,232)	34,334	10,153	37,710
Japanese Yen	3,821	(90,681)	1,674,792	125,929	1,713,861
Malaysian Ringgit	(2,781)	(2,794)	76,177	3,361	73,963
Mexican Peso	2,463	(51,153)	100,698	87,838	139,846
Moroccan Dirham	13	-	818	-	831
New Zealand Dollar	117	(56,337)	12,211	8,350	(35,659)
Nigerian Naira	-	-	-	18,008	18,008
Norwegian Krone	563	23,482	70,915	6,969	101,929
Peruvian Nuevo Sol	3	(2,571)	-	5,071	2,503
Philippine Peso	136	(10,820)	32,410	23,087	44,813
Polish Zloty	154	(12,555)	21,278	34,339	43,216
Russian Ruble	-	(12,395)	-	35,095	22,700
Singapore Dollar	878	18,047	96,584	588	116,097
South African Rand	1,154	(11,090)	128,442	36,114	154,620
South Korean Won	(141)	(24,961)	346,716	19,388	341,002
Swedish Krona	1,246	20,752	227,794	2,469	252,261
Swiss Franc	6,165	14,522	513,268	-	533,955
Taiwan Dollar	1,194	(6,356)	226,174	-	221,012
Thai Baht	388	(915)	154,052	671	154,196
Turkish Lira	4,529	(25,858)	91,290	35,321	105,282
Uruguayan Peso	-	-	-	11,870	11,870
Total foreign currency exposure	<u>\$ 50,503</u>	<u>\$ (708,831)</u>	<u>\$ 9,753,887</u>	<u>\$ 825,188</u>	<u>\$ 9,920,747</u>

Cash amounts in the schedule above include receivables, payables, certificates of deposit, 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. The remaining Fund assets are invested in U.S. cash, equities, and debt, as well as in direct real estate properties, real return mandates, absolute return and similar funds, and infrastructure, all of which are denominated in U.S. dollars, and are not included in the schedule above.

### Real Estate

The Fund holds a variety of real estate interests, including directly owned real estate, real estate investment trusts, a multi-family real estate operating company, and other entities in which the 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.

The APFC periodically reviews real estate investments for other than temporary impairment. There was no impairment recognized in FY 13.

Real estate investments at June 30, 2013 are summarized as follows (in thousands):

	Cost	Fair Value	Unrealized Gains/(Losses)
Real Estate Investment Trusts	\$ 852,648	\$ 1,041,141	\$ 188,493
Alaska Residential Mortgage	3	3	-
Directly Owned Real Estate:			
Retail	771,350	1,447,403	676,053
Office	1,371,761	1,572,324	200,563
Industrial	227,534	246,694	19,160
Multifamily	990,894	1,227,377	236,483
Total Real Estate	<u>\$ 4,214,190</u>	<u>\$ 5,534,942</u>	<u>\$ 1,320,752</u>

### 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 APFC periodically reviews alternative investments for other than temporary impairment.

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 by their nature 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 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. There was no impairment recognized in FY 13.

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 or credit opportunity 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 and funds 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, 2013 are summarized as follows (in thousands):

	Cost	Fair Value	Unrealized Holding Gains/(Losses)
Real return	\$ 2,715,569	\$ 3,061,731	\$ 346,162
Absolute return	2,297,612	2,640,327	342,715
Private equity	1,835,260	2,089,273	254,013
Infrastructure	814,351	852,643	38,292
Distressed and mezzanine debt	1,136,492	1,290,216	153,724
Total alternative investments	<u>\$ 8,799,284</u>	<u>\$ 9,934,190</u>	<u>\$ 1,134,906</u>

As of June 30, 2013, the APFC, on behalf of the Fund, had outstanding future funding commitments of: \$1.66 billion for private equity; \$800 million for infrastructure; and \$249.1 million for distressed and mezzanine debt investments combined. Many alternative investments have liquidity constraints and may not be available for cash withdrawal until a specified period of time has elapsed.

### Emerging Markets Total Opportunities

APFC's emerging market multi-asset class mandates represent portfolios that invest across the spectrum of liquid securities: stocks, bonds and currency. This flexibility gives the managers the ability to select the most advantageous publicly traded investments from both a risk and return perspective without the limitation of security type.

Emerging market mandates at June 30, 2013 are summarized as follows (in thousands):

	Cost	Fair Value	Unrealized Holding Gains/(Losses)
Emerging Markets Total Opportunities	\$ 914,233	\$ 806,805	\$ (107,428)

### 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.

In FY 13, APFC did not renew its certificates of deposit.

### 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, 2013, 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, 2013 the value of securities on loan is as follows (in thousands):

Fair Value of Securities on Loan	\$ 3,261,466
Cash Collateral	3,451,974

The Fund receives 80 percent of earnings derived from securities lending transactions, and the Bank retains 20 percent. During the year ended June 30, 2013, the Fund incurred no losses from securities lending transactions. The Fund received income of \$10,839 thousand from securities lending for the year ended June 30, 2013, 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, 2013, is summarized as follows (in thousands):

<b>Interest</b>	
Marketable Debt Securities	\$ 258,504
Alaska Certificates of Deposit	1,227
Short-term Domestic and Other	9,674
Total Interest	<u>\$ 269,405</u>
<b>Dividends</b>	<u>\$ 531,486</u>
<b>Real Estate and Other Income</b>	
Directly Owned Real Estate Net Rental Income	\$ 164,688
Real Estate Investment Trust Dividends	12,283
Real Return Interest and Dividends	27,075
Absolute Return Management Expenses, Net of Dividend and Interest Income	(17,277)
Distressed and Mezzanine Debt Interest Income, Net of Fees	35,553
Infrastructure Interest and Dividend Income, Net of Fees	29,180
Private Equity Dividend Income, Net of Management Expenses	15,532
Class Action Litigation Income	2,689
Loaned Securities, Commission Recapture and Other Income	11,283
Total Real Estate and Other Income	<u>\$ 281,006</u>

**Foreign Exchange Contracts Futures 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, 2013 ranged between one and 101 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, 2013 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 FY 13 are summarized as follows (in thousands):

Face Value of FX Forward Contracts	\$ 1,681,427
Net Unrealized Holding Gains on FX Forward Contracts	<u>15,575</u>
Fair Value of FX Forward Contracts	<u>\$ 1,697,002</u>
Change in Unrealized Holding Losses	\$ 25,084
Realized Gains	<u>38,526</u>
Net Increase in Fair Value of FX Forward Contracts	<u>\$ 63,610</u>

Certain APFC equity investment managers are permitted to trade in equity index futures for the Fund's account, and beginning in FY 13, the internal fixed income management team began trading U.S. Treasury index futures. Equity index futures are traded in both domestic and non-domestic markets based on an underlying stock exchange value. Equity and fixed income 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 FY 13 is summarized as follows (in thousands):

Face Value of Equity Index Futures	\$ 138,182
Net Unrealized Holding Gains on Futures	<u>781</u>
Fair Value of Equity Index Futures	<u>\$ 138,963</u>
Change in Unrealized Holding Losses	\$ (11,428)
Realized Gains	<u>46,759</u>
Net Increase in Fair Value of Futures	<u>\$ 35,331</u>

Activity and balances related to U.S. Treasury index futures for FY 13 is summarized as follows (in thousands):

Face Value of U.S. Treasury Index Futures	\$ 195,197
Net Unrealized Holding Losses on Futures	<u>(1,355)</u>
Fair Value of U.S. Treasury Index Futures	<u>\$ 193,842</u>
Change in Unrealized Holding Losses	\$ (425)
Realized Losses	<u>(4,080)</u>
Net Decrease in Fair Value of U.S. Treasury Futures	<u>\$ (4,505)</u>

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 within the net increase/ (decrease) in fair value of investments on the Statement of Revenues, Expenditures and Changes in Fund Balances.

**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. Intangibles are reported separately in the notes to the financial statements; however, on the face of the financial statements, intangibles are grouped with the asset class they most resemble. Easements and right of way are grouped with land, and software is grouped with equipment.

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

Capital Asset	Governmental Activities		Business-type Activities	
	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				

When a proprietary or fiduciary fund has its own capitalization policy, capital assets will be capitalized under that policy rather than in accordance with the above table.

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, 2013, are as follows (in millions):

Governmental Activities	Beginning Balance (Restated)	Additions	Deletions	Ending Balance
Capital assets not being depreciated:				
Intangible - Easements and Right-of-Way	\$ 545	\$ 36	\$ (8)	\$ 573
Land	323	16	-	339
Construction in progress	1,367	515	(576)	1,306
Total capital assets not being depreciated	2,235	567	(584)	2,218
Capital assets being depreciated:				
Buildings	1,726	238	(25)	1,939
Intangible - Software	53	8	-	61
Equipment	899	55	(17)	937
Infrastructure	6,684	419	-	7,103
Total capital assets being depreciated	9,362	720	(42)	10,040
Less accumulated depreciation for:				
Buildings	(536)	(86)	17	(605)
Intangible - Software	(46)	(8)	-	(54)
Equipment	(456)	(45)	10	(491)
Infrastructure	(4,070)	(321)	-	(4,391)
Total accumulated depreciation	(5,108)	(460)	27	(5,541)
Total capital assets being depreciated, net	4,254	260	(15)	4,499
Capital assets, net	\$ 6,489	\$ 827	\$ (599)	\$ 6,717

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	\$ 31	\$ -	\$ -	\$ 31
Construction in progress	70	55	(43)	82
Total capital assets not being depreciated	<u>101</u>	<u>55</u>	<u>(43)</u>	<u>113</u>
Capital assets being depreciated:				
Buildings	1,035	53	-	1,088
Equipment	89	11	-	100
Infrastructure	771	30	-	801
Total capital assets being depreciated	<u>1,895</u>	<u>94</u>	<u>-</u>	<u>1,989</u>
Less accumulated depreciation for:				
Buildings	(285)	(32)	-	(317)
Equipment	(57)	(7)	-	(64)
Infrastructure	(359)	(27)	-	(386)
Total accumulated depreciation	<u>(701)</u>	<u>(66)</u>	<u>-</u>	<u>(767)</u>
Total capital assets being depreciated, net	<u>1,194</u>	<u>28</u>	<u>-</u>	<u>1,222</u>
Capital assets, net	<u>\$ 1,295</u>	<u>\$ 83</u>	<u>\$ (43)</u>	<u>\$ 1,335</u>

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), 100.5 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):

	<u>Amount</u>
Governmental Activities	
General Government	\$ 18
Education	9
Health and Human Services	5
Law and Justice	3
Natural Resources	5
Development	1
Public Protection	56
Transportation	334
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.	<u>29</u>
 Total Depreciation Expense – Governmental Activities	 <u><u>\$ 460</u></u>
 Business-type Activities	
Enterprise	<u><u>\$ 66</u></u>

**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, 2013 (in millions):

	Beginning Balance (restated)	Additions	Deletions	Ending Balance
Capital assets not being depreciated:				
Land	\$ 101	\$ 6	\$ (1)	\$ 106
Library, media, and museum collections	60	2	-	62
Construction in progress	363	479	(227)	615
Infrastructure	-	-	-	-
Total capital assets not being depreciated	<u>524</u>	<u>487</u>	<u>(228)</u>	<u>783</u>
Capital assets being depreciated/depleted:				
Intangible - Software	1	-	-	1
Intangible - Right of Use	21	-	-	21
Land	4	-	-	4
Buildings	1,630	165	(7)	1,788
Equipment	576	30	(13)	593
Infrastructure	1,407	48	-	1,455
Total capital assets being depreciated/depleted	<u>3,639</u>	<u>243</u>	<u>(20)</u>	<u>3,862</u>
Less accumulated depreciation/depletion for:				
Intangible - Software	(1)	-	-	(1)
Intangible - Right of Use	(4)	(1)	-	(5)
Buildings	(826)	(56)	3	(879)
Equipment	(322)	(34)	12	(344)
Infrastructure	(562)	(51)	-	(613)
Total accumulated depreciation/depletion	<u>(1,715)</u>	<u>(142)</u>	<u>15</u>	<u>(1,842)</u>
Total capital assets being depreciated/depletion, net	<u>1,924</u>	<u>101</u>	<u>(5)</u>	<u>2,020</u>
Capital assets, net	<u>\$ 2,448</u>	<u>\$ 588</u>	<u>\$ (233)</u>	<u>\$ 2,803</u>

University of Alaska art, library, and museum collections, which are capitalized but not depreciated, 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.

Beginning balances for the discretely presented component units have been restated. In FY 2013, the 28<sup>th</sup> Legislature eliminated the Alaska Natural Gas Development Authority and moved the Alaska Gasline Development Corporation from being a subsidiary of the Alaska Housing Finance Corporation to being an independent public corporation of the State.

**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 2013 totaling \$1,689 thousand and \$1,800 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.

The State issued bond anticipation notes during FY 2013 totaling \$150,000 thousand that will mature in FY 2014.

Short-term debt activity for the primary government for the fiscal year ended June 30, 2013 is as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Bond Anticipation Notes	\$ -	\$ 153,489	\$ 3,489	\$ 150,000

LONG-TERM LIABILITIES

The following table summarizes changes in long-term liabilities for the fiscal year ended June 30, 2013 (in thousands):

<b>Governmental Activities</b>	Beginning Balance (Restated)	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Revenue bonds payable	\$ 414,060	\$ 1,548	\$ 12,562	\$ 403,046	\$ 6,713
General obligation debt	609,957	348,462	64,453	893,966	191,828
Capital leases payable	359,516	5,279	23,030	341,765	23,717
Unearned revenue	379,654	29,594	12,067	397,181	29,488
Certificates of participation	11,375	-	6,465	4,910	1,565
Compensated absences	170,167	180,206	174,013	176,360	155,522
Claims and judgments	98,250	49,145	36,801	110,594	38,680
Pollution Remediation	108,099	11,032	19,846	99,285	10,713
Other noncurrent liabilities	938	63	10	991	523
Net pension obligation	2,861	-	2,861	-	-
Total	<u>\$2,154,877</u>	<u>\$ 625,329</u>	<u>\$ 352,108</u>	<u>\$2,428,098</u>	<u>\$ 458,749</u>

Beginning balances for revenue bonds payable and general obligation debt were restated (\$85 thousand and \$4 thousand respectively) due to the State's conversion to a debt management software system that resulted in more precise calculations of debt activity.

In FY 2013, the legislature made an additional contribution to the Judicial Retirement System that decreased the net pension obligation to zero. Please refer to Note 7 for information on the additional contribution.

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			Ending		Amounts
	Balance	Increases	Decreases	Balance	Due Within	One Year
Revenue bonds payable	\$ 579,579	\$ -	\$ 14,550	\$ 565,029	\$ 14,350	
Unearned revenue	783	1,462	783	1,462	1,462	
Compensated absences	4,770	4,077	4,209	4,638	3,770	
Pollution Remediation	1,313	-	60	1,253	81	
Total	<u>\$ 586,445</u>	<u>\$ 5,539</u>	<u>\$ 19,602</u>	<u>\$ 572,382</u>	<u>\$ 19,663</u>	

**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, 2013, the following were the general obligation bond debt outstanding (in millions):

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 189.7	\$ 34.0	\$ 223.7
2015	38.3	29.7	68.0
2016	39.5	28.3	67.8
2017	40.9	26.7	67.6
2018	42.7	24.8	67.5
2019-2023	173.2	98.3	271.5
2024-2028	146.4	62.7	209.1
2029-2033	139.1	25.2	164.3
2034-2038	23.0	2.8	25.8
Total debt service requirements	832.8	<u>\$ 332.5</u>	<u>\$ 1,165.3</u>
Unamortized bond premium	61.2		
Total principal outstanding	<u>\$ 894.0</u>		

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 and B Bonds were issued for the purpose of paying \$164,570,000 of the costs of State education projects. The Series 2012A Bonds were issued for the purpose of refunding \$191,410,000 on the 2003A Series Bonds. The Series 2013 A and B Bonds were issued for the purpose of paying \$162,480,000 of the costs of State education projects. The Series 2013C Bonds were issued for the purpose of paying \$149,645,000 of the costs of State transportation projects.

Federal subsidies related to the interest payments made during the year on the bonds were \$4.8 million.

The amount of General Obligation Bonds authorized but not issued at June 30, 2013 was \$336.6 million.

REVENUE BONDS

As of June 30, 2013, the following were the revenue bonds outstanding (in millions):

<u>Year Ending June 30</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 6.7	\$ 19.1	\$ 14.4	\$ 26.9
2015	13.6	18.9	20.6	26.1
2016	14.3	18.3	21.7	25.1
2017	12.0	17.6	21.4	24.0
2018	7.2	17.0	27.9	22.9
2019-2023	43.1	79.6	160.7	91.3
2024-2028	44.4	68.3	202.1	45.8
2029-2033	46.4	57.7	64.3	11.7
2034-2038	59.9	44.8	20.1	1.9
2039-2043	80.7	28.0	-	-
2044-2048	73.6	131.5	-	-
Total debt service requirements	401.9	<u>\$ 500.8</u>	553.2	<u>\$ 275.7</u>
Unamortized bond (discounts)/premiums	(5.1)		11.8	
Plus accreted value	6.3		-	
Total principal outstanding	<u>\$ 403.1</u>		<u>\$ 565.0</u>	

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 Position.

**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, 2013 includes \$362.0 million in principal, \$486.3 million in interest, \$7.5 million in unamortized discount, and \$6.3 million in accreted value on the Series 2006B and Series 2006C Bonds.

**Alaska Sport Fishing Revenue Bonds**

The State of Alaska Sport Fishing 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 \$39.9 million in principal, \$14.5 million in interest, and \$2.4 million in unamortized premium.

**International Airports Revenue Bonds**

The business activities revenue bonds include bond issuances by the International Airports Fund. 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. No International Airports Revenue Bonds were refunded during FY 13. At June 30, 2013 there was no bond interest arbitrage rebate liability. Federal subsidies related to the interest payments made during the year on Build American Bonds were \$430 thousand.

**C. CAPITAL AND OPERATING LEASES**

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

<u>Governmental Activities</u> <u>Year Ending June 30</u>	Operating Leases	Capital Leases		
		Principal	Interest	Total
2014	\$ 37.5	\$ 23.7	\$ 18.0	\$ 41.7
2015	25.5	23.9	16.8	40.7
2016	19.9	21.1	15.7	36.8
2017	14.2	19.8	14.6	34.4
2018	10.0	17.1	13.7	30.8
2019-2023	15.7	85.1	54.9	140.0
2024-2028	3.7	72.5	34.5	107.0
2029-2033	1.7	77.0	12.5	89.5
2034-2038	0.5	-	0.4	0.4
2039-2043	0.2	-	0.3	0.3
2044-2048	0.2	-	0.3	0.3
2049-2053	0.2	-	0.3	0.3
2054-2058	0.1	-	0.3	0.3
2059-2063	1.7	1.6	1.9	3.5
Total	<u>\$ 131.1</u>	<u>\$ 341.8</u>	<u>\$ 184.2</u>	<u>\$ 526.0</u>

Leases at June 30, 2013 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, 2013 include the following (in thousands):

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>
Buildings	\$ 462,984	\$ -
Equipment	8,871	-
Less: Accumulated Depreciation	(76,309)	-
	<u>\$ 395,546</u>	<u>\$ -</u>

**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, 2013 (in millions):

<u>Governmental Activities</u> Year Ending June 30	<u>Certificates of Participation</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 1.6	\$ 0.2	\$ 1.8
2015	1.6	0.2	1.8
2016	1.7	0.1	1.8
Total	<u>\$ 4.9</u>	<u>\$ 0.5</u>	<u>\$ 5.4</u>

#### E. DISCRETELY PRESENTED COMPONENT UNITS

Debt service requirements are (in millions):

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 201.8	\$ 151.0	\$ 352.8
2015	183.9	144.6	328.5
2016	186.9	137.6	324.5
2017	192.7	130.7	323.4
2018	191.1	123.4	314.5
2019-2023	880.0	507.9	1,387.9
2024-2028	693.4	345.1	1,038.5
2029-2033	636.0	196.5	832.5
2034-2038	433.9	85.5	519.4
2039-2043	324.3	18.4	342.7
2044-2048	11.6	1.5	13.1
Total debt service requirements	3,935.6	<u>\$ 1,842.2</u>	<u>\$ 5,777.8</u>
Unamortized (discounts)/premiums	40.0		
Unamortized swap termination penalty	(15.0)		
Deferred amount on refunding	(19.4)		
Total principal outstanding	<u>\$ 3,941.2</u>		

The preceding table does not include \$1,141 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 rate 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 swaps' fair value. As of June 30, 2013, 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, 2013, are shown below:

Related Bond Issue	Effective Dates	Fixed Rate Paid	Variable Rate Received	SWAP Termination Date	Counterparty Credit Rating <sup>7</sup>
GP01A <sup>1</sup>	12/1/2008	2.4530%	67% of 1M LIBOR <sup>4</sup>	12/1/2030	A+/Aa3
GP01B	8/2/2001	4.1427%	67% of 1M LIBOR	12/1/2030	AAA/Aa3
E021A1 <sup>2</sup>	10/9/2008	2.9800%	70% of 3M LIBOR <sup>5</sup>	6/1/2032	AAA/Aa1
E021A2	10/9/2008	3.4480%	70% of 1M LIBOR	12/1/2036	AAA/Aa3
SC02C <sup>3</sup>	12/5/2002	4.3030%	SIFMA <sup>6</sup> +0.115%	7/1/2022	A+/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	A+/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
E091ABD	5/28/2009	3.7400%	70% of 3M LIBOR	12/1/2040	A+/Aa1

<sup>1</sup> Governmental Purpose Bonds

<sup>2</sup> Home Mortgage Revenue Bonds

<sup>3</sup> State Capital Project Bonds

<sup>4</sup> London Interbank Offered Rate 1 month

<sup>5</sup> London Interbank Offered Rate 3 month

<sup>6</sup> Securities Industry and Financial Markets Municipal Swap Index

<sup>7</sup> Standard & Poor's/Moody's

The change in fair value and ending balance of AHFC's hedging derivatives as of June 30, 2013, is shown below (in thousands). The fair value is reported as a deferred outflow/inflow of resources in the Statement of Net Position.

Related Bond Issue	Notional Amounts	Present Values	Fair Values June 30, 2013	Fair Values June 30, 2012	Change in Fair Values
GP01A	\$ 55,705	\$ 58,793	\$ (3,088)	\$ (6,419)	\$ 3,331
GP01B	68,075	81,828	(13,753)	(19,306)	5,553
E021A1	43,255	47,361	(4,106)	(7,397)	3,291
E021A2	77,240	82,251	(5,011)	(8,764)	3,753
SC02C	55,610	62,712	(7,102)	(9,689)	2,587
E071AB	143,622	174,084	(30,462)	(48,522)	18,060
E071BD	95,748	115,704	(19,956)	(31,966)	12,010
E091A	72,789	88,750	(15,961)	(25,233)	9,272
E091B	72,789	88,682	(15,893)	(25,267)	9,374
E091ABD	97,052	117,790	(20,738)	(33,194)	12,456
Total	<u>\$ 781,885</u>	<u>\$ 917,955</u>	<u>\$ (136,070)</u>	<u>\$ (215,757)</u>	<u>\$ 79,687</u>

As of June 30, 2013, 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	Outstanding Variable-Rate Debt	Swap	Total
	Principal	Interest	Net Payment	Payment
2014	\$ 12,645	\$ 788	\$ 27,073	\$ 40,506
2015	13,175	782	26,620	40,577
2016	13,745	775	26,148	40,668
2017	16,765	767	25,655	43,187
2018	20,040	752	25,011	45,803
2019-2023	137,120	3,447	112,306	252,873
2024-2028	150,400	2,806	87,243	240,449
2029-2033	161,830	2,040	59,850	223,720
2034-2038	158,930	1,171	32,518	192,619
2039-2043	97,235	257	6,252	103,744
	<u>\$ 781,885</u>	<u>\$ 13,585</u>	<u>\$ 428,676</u>	<u>\$ 1,224,146</u>

### Interest Rate Risk

AHFC is exposed to interest rate risk on all of its interest rate swaps. As the London Interbank Offered Rate (LIBOR) or the Securities Industry and Financial Markets Association (SIFMA) index decreases, AHFC's net payment on the swaps increases.

### Credit Risk

As of June 30, 2013, AHFC is not exposed to credit risk on any of the swaps because the swaps all have negative fair values. If interest rates rise and the fair value of the swaps becomes 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 33 percent of the total notional amount of the swaps is held with one counterparty rated AAA/Aa1. Another 32 percent of the total notional amount of the swaps is held with one counterparty rated A+/Aa1. Of the remaining swaps, one counterparty is rated AAA/Aa3, another counterparty is rated A/A1, and the remaining counterparty is rated A+/Aa3, approximating 19 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, 2013, SIFMA was 0.06 percent and 1 month LIBOR was 0.19535 percent, resulting in a SIFMA/LIBOR ratio of 30.7 percent. The 3 month LIBOR was 0.2756 percent resulting in a SIFMA/LIBOR ratio of 21.8 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 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. An additional payment of \$150 thousand was made to a former counterparty in fiscal year 2013 as settlement of any and all claims relating to that counterparty's swap termination. This payment was expensed as insurance and financing expense in fiscal year 2013.

**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, 2013, 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	A+/Aa1

The change in fair value of the investment derivatives as of June 30, 2013, 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, 2013	Fair Values June 30, 2012	Change in Fair Values
SC02B	\$ 14,555	\$ 17,120	\$ (2,565)	\$ (3,723)	\$ 1,158

**Credit Risk**

As of June 30, 2013, AHFC was not exposed to credit risk on this outstanding swap because the swap had a negative fair value. If interest rates rise and the fair value of the swap becomes positive, AHFC would be exposed to credit risk in the amount of the swaps' fair value. The swap agreement 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 A+/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 24<sup>th</sup> 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, the Teacher’s Retirement System – Defined Benefit (TRS-DB), the Judicial Retirement System (JRS) and the Elected Public Officers Retirement System (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 ARHCT. 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, 2013 the number of PERS participating employers was:

State of Alaska	3
Municipalities	77
School Districts	53
Other	26
Total Employers	<u>159</u>

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, 2013 was capped at 22 percent of compensation.

The state’s contributions to PERS-DB for the fiscal years ended June 30, 2013, 2012 and 2011 were \$244.9, \$201.2, and \$237.7 million respectively for the year. For the FY 13 contributions, \$107.4 million was for pensions and \$137.5 million was for postemployment benefits. The contributions were equal to the required contributions in FY 13.

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 15 SLA 2012 appropriated \$307.3 million from the General Fund to the PERS-DB as an additional state contribution for FY 13. The portion of this payment attributable to State of Alaska employers is \$181,818 thousand, of which \$97,084 thousand is for pensions and \$84,735 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 Schedule of Required Contributions follows (in thousands):

Year ended June 30	Actuarial valuation year ended June 30	Annual required contributions			Pension percentage contributed	Postemployment healthcare percentage contributed
		Pension	Postemployment healthcare	Total		
2010	2007	\$ 217,080	\$ 790,793	\$ 1,007,873	86.0%	86.4%
2011	2008	220,419	525,075	745,494	92.7%	71.4%
2012	2009	351,674	498,433	850,107	89.2%	73.6%

**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 24<sup>th</sup> 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 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 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 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 the ARHCT 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 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, 2013 the number of participating employers was:

State of Alaska	2
School Districts	53
Other	3
Total Employers	<u>58</u>

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 1.11 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, 2013 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, 2013, 2012, and 2011 were \$5.3, \$5.7, and \$6.0, million respectively, equal to the required contributions for each year. For the FY 13 contributions, \$2.7 million was for pensions and \$2.6 million was for postemployment benefits. The contributions were equal to the required contributions in FY 13.

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 ARMB for that fiscal year.

Chapter 15 SLA 2012 appropriated \$302.8 million from the General Fund to the TRS-DB as an additional state contribution for FY 13. The portion of this payment attributable to State of Alaska employers is \$18,549 thousand, of which \$12,066 thousand is for pensions and \$6,484 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 Schedule of Required Contributions follows (in thousands):

Year ended June 30	Actuarial valuation year ended June 30	Annual required contributions			Pension percentage contributed	Postemployment healthcare percentage contributed
		Pension	Postemployment healthcare	Total		
2010	2007	\$170,788	\$ 312,922	\$483,710	78.6%	52.4%
2011	2008	167,978	167,686	335,664	84.6%	77.3%
2012	2009	229,509	192,700	422,209	85.2%	65.4%

**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 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 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.

Senate Bill 123 was passed during the 2007 legislative session and which created the 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, 2012, was 69.48 percent of compensation. Total contributions for FY 13 were \$8 million for pensions, and \$1 million for postemployment benefits.

The Schedule of Required Contributions follows (in thousands):

Year ended June 30	Actuarial valuation year ended June 30	Annual required contributions			Pension percentage contributed	Postemployment healthcare percentage contributed
		Pension	Postemployment healthcare	Total		
2010	2010	\$ 5,236	\$ 1,433	\$ 6,669	69.8%	60.9%
2011	2012	3,896	723	4,619	98.5%	80.1%
2012	2012	5,052	713	5,765	107.3%	97.8%

Included in the total contributions amounts above is \$3.8 million appropriated in Chapter 15 SLA 2012 from the General Fund to JRS as an additional state contribution for FY 13 for the purpose of funding the retirement system.

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
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%)
2012	112,870	182,267	(69,397)	61.9%	11,803	(588.0%)

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
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%)
2012	20,836	18,236	2,600	114.3%	11,803	22.0%

The actuarial valuation as of June 30, 2012 set the contribution rates for the year ended June 30, 2013. The State of Alaska's net pension and other postemployment benefit (OPEB) obligations for FY 13 follows (in thousands):

	Pension	OPEB
Annual Required Contribution	\$ 5,052	\$ 713
Interest on net pension asset	17	(26)
Adjustment to annual required contribution	(15)	23
Annual Pension Cost (APC)/OPEB Cost (AOC)	5,054	710
Contributions Made	(7,760)	(1,169)
Increase in Obligation	(2,706)	(459)
Net Pension Obligation/(Asset) Beginning of Year	212	(326)
Net Pension Obligation/(Asset) End of the Year	<u>\$ (2,494)</u>	<u>\$ (785)</u>

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

Pension	Year Ended June 30	APC	Percentage of APC Contributed	Net Pension Obligation/(Asset)
	2011	\$ 5,246	85.0%	\$ 1,541
	2012	5,255	96.0%	1,751
	2013	5,054	153.5%	(5,494)

OPEB	Year Ended June 30	AOC	Percentage of AOC Contributed	Net OPEB Obligation/(Asset)
	2011	\$ 1,432	49.4%	\$ 642
	2012	1,441	67.5%	1,110
	2013	710	164.7%	(785)

**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.

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
2008	\$ 28,371	\$ 28,905	\$ (534)	98.2%
2010	32,001	30,034	1,966	106.5%
2012	33,682	32,771	911	102.8%

The actuarial valuation as of June 30, 2012 set the contribution rates for the year ended June 30, 2015. The State of Alaska's net pension obligation for FY 13 follows:

Annual Required Contribution	\$ 431,367
Interest on net pension asset	(11,126)
Adjustment to annual required contribution	24,877
Annual Pension Cost (APC)	445,118
Contributions Made	(739,100)
Decrease in Net Pension Asset	(293,982)
Net Pension Obligation/(Asset) Beginning of Year	(158,948)
Net Pension Obligation/(Asset) End of the Year	<u><u>\$ (452,930)</u></u>

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

Year Ended June 30	APC	Percentage of APC Contributed	Net Pension Obligation /(Asset)
2011	\$ 965	100.0%	\$ (174)
2012	896	100.0%	(159)
2013	431	171.3%	(453)

**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, 2013, 2012, and 2011 was \$2.0 million per year. In FY13 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, 2012.

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

Actuarial Valuation Year ` June 30	Actuarial Value of Plan Assets	Actuarial Accrued Liabilities (AAL)	Funding Excess (FE)/(Unfunded Actuarial Accrued Liabilities) (UAAL)	Funded Ratio
2008	\$0	\$22,194	\$(22,194)	0.0%
2010	0	19,551	(19,551)	0.0%
2012	0	18,221	(18,221)	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)	Funding Excess (FE)/(Unfunded Actuarial Accrued Liabilities) (UAAL)	Funded Ratio
2008	\$0	\$5,168	\$(5,168)	0.0%
2010	0	4,707	(4,707)	0.0%
2012	0	4,353	(4,353)	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	Net
			of APC Contributed	Pension Obligation /(Asset)
	2011	\$ 1,510	100.0%	\$ -
	2012	1,501	100.0%	-
	2013	1,505	100.0%	-

OPEB	Year Ended June 30	AOC	Percentage	OPEB
			of AOC Contributed	Obligation /(Asset)
	2011	\$ 483	100.0%	\$ -
	2012	505	100.0%	-
	2013	522	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.

<u>Systems</u>	<u>Fair Value</u>
Public Employees' Retirement System	\$12,551,625
Teachers' Retirement System	5,163,183
Judicial Retirement System	141,264
Alaska National Guard and Alaska Naval Militia Retirement System	34,141

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.

	<u>PERS</u>	<u>TRS</u>	<u>JRS</u>	<u>NGNMRS</u>	<u>EPORS</u>
	6/30/12	6/30/12	6/30/12	6/30/12	6/30/12
Retirees & beneficiaries receiving benefits & Terminated members with future benefits	34,834	12,169	113	1,916	37
Current active employees:					
Vested	20,842	5,918	43	*	-
Nonvested	1,888	927	26	4,397	-
Total	<u>57,564</u>	<u>19,014</u>	<u>182</u>	<u>6,313</u>	<u>37</u>

\* 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	18 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% grading down to 0% Productivity – 0.5% per year.	6/30/2012
TRS	8% Includes Inflation at 3.12%	Entry age normal; level percentage of pay for pension; level dollar for healthcare	Level dollar, closed	18 years	6.11% for first 5 years of service grading down to 3.62% after 20 years	6/30/2012
JRS	8% Includes Inflation at 3.12%	Entry age normal; level percentage of pay for pension; level dollar for healthcare	Level dollar, closed	20 years	4.12%	6/30/2012
NGNMR	7% Includes Inflation at 3.12%	Entry age normal	Level dollar, open	20 years less average military service of active members	None	6/30/2012
EPORS	4.75% Includes Inflation at 3.12%	Entry age	Level dollar basis	25 years	None	6/30/2012
<u>Health Care Inflation</u>						
			<u>Medical Pre-65</u>	<u>Medical Post-65</u>	<u>Rx</u>	
For all systems above:		FY13	9.00%	6.50%	6.40%	
		FY14	8.70%	6.40%	6.30%	

For PERS assets are at fair value, with 20 percent of the investment gains or losses recognized in each of the current and preceding four years. For 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 \$2,335.2 thousand in FY 13.

## **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 24<sup>th</sup> 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, 2013, there were 159 employers participating in PERS-DCR. There were four retirees or beneficiaries currently receiving benefits, 1,132 terminated plan members entitled to future benefits, and 14,637 active members, of which 13,516 are general employees and 1,121 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 13 for each member's compensation was 0.48 percent for medical coverage and 0.20 percent for death and disability (1.14 percent for peace officers and firefighters). HRA is \$158.06 per month for full time employees and \$1.22 per hour for part time employees.

The PERS pension contributions for the year ended June 30, 2013 by the employees were \$29,809 thousand and the State of Alaska employers were \$18,631 thousand. The PERS other postemployment contributions for the year ended June 30, 2013 were \$14,471 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, 2013 is \$492,416 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 24<sup>th</sup> 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, 2013, there were 58 employers participating in TRS-DCR. There were no retirees or beneficiaries currently receiving benefits, 829 terminated plan members entitled to future benefits, and 3,376 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 RMP and HRA. The TRS 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 13 for each member's compensation was 0.47 percent for medical coverage, zero percent for death and disability. HRA is \$158.06 per month for full-time employees and \$1.22 per hour for part-time employees.

The TRS pension contributions for the year ended June 30, 2013 by the employees were \$522 thousand and the State of Alaska employers were \$456 thousand. The TRS other postemployment contributions for the year ended June 30, 2013 were \$233 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, 2013 is \$201,753 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, 2013, there were twenty-one other employers participating in SBS. There were 41,494 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, 2013, were \$142,862 thousand. The State's covered payroll was approximately \$1,165,271 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, 2013, were \$3,426 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, 2013. 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 \$1,229 thousand in FY 13.

### **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, 2012 the Deferred Compensation Plan had approximately 10,100 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 record-keeping. 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, 2012 were \$660,729 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, 2013, and interfund transfers for the year then ended (in thousands):

**INTERFUND RECEIVABLE / PAYABLE BALANCES**

Due to Other Funds	Due from Other Funds						Total
	General Fund	Nonmajor Governmental Funds	International Airports	Nonmajor Enterprise Funds	Internal Service Funds	Fiduciary Funds	
General Fund	\$ -	\$ 5,858	\$ 90	\$ 934	\$ 9,204	\$ 25,440	\$ 41,526
Alaska Permanent Fund	633,735	-	-	-	-	-	633,735
Nonmajor							
Governmental Funds	33,116	-	-	-	-	-	33,116
International Airports	62,564	186	-	-	-	-	62,750
Nonmajor							
Enterprise Funds	1,663	-	-	-	-	-	1,663
Internal Service Funds	1,002	-	-	-	-	-	1,002
Fiduciary Funds	15,591	-	-	-	-	4	15,595
Other	201	-	-	-	-	-	201
Total	<u>\$ 747,872</u>	<u>\$ 6,044</u>	<u>\$ 90</u>	<u>\$ 934</u>	<u>\$ 9,204</u>	<u>\$ 25,444</u>	<u>\$ 789,588</u>

The \$633 million balance due from the Alaska Permanent Fund to the General Fund includes \$568.3 million for payment of 2013 Permanent Fund dividends to qualified residents of the State and \$29.6 million to be transferred to the Alaska Capital Income Fund. The balance is for administrative and associated costs of the 2013 Permanent Fund Dividend Program.

The amounts reported as “Other” are for the SBS and DCP Funds. As explained in Note 1, the annual financial statements for SBS and DCP Funds are for fiscal years ended January 31, 2013 and December 31, 2012, respectively. Therefore, because of the different fiscal year-end of the SBS and DCP Funds, the total amount reported as due from other funds exceeds the total amount reported as due to other funds by \$201 thousand.

**INTERFUND TRANSFERS**

Transfers From	Transfers to						Total
	General Fund	Nonmajor Governmental Funds	International Airports	Nonmajor Enterprise Funds	Internal Service Funds	Other	
General Fund	\$ -	\$ 69,274	\$ 4,252	\$ 22,537	\$ 15,689	\$ -	\$ 111,752
Alaska Permanent Fund	633,735	-	-	-	-	-	633,735
Nonmajor Governmental Funds	-	9,356	-	-	-	64	9,420
Nonmajor Enterprise Funds	3,662	-	-	-	-	-	3,662
Total	<u>\$ 637,397</u>	<u>\$ 78,630</u>	<u>\$ 4,252</u>	<u>\$ 22,537</u>	<u>\$ 15,689</u>	<u>\$ 64</u>	<u>\$ 758,569</u>

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 a \$568.3 million transfer for payment of the Permanent Fund dividends and for administrative and associated costs of the dividend program and a \$29.6 million transfer to the Alaska Capital Income Fund.

**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, personnel, data processing, communications and other services to AEA. AIDEA recognized revenue totaling \$7,993 thousand for providing these services during the year ending June 30, 2013. At June 30, 2013 AIDEA had \$3,538 thousand receivable from AEA 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. The current loan outstanding balance at June 30, 2013 is \$19,463 thousand.

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, 2013 was approximately \$9 thousand.

Alaska Gasline Development Corporation (AGDC) utilizes certain AHFC administrative and support services and products such as general commercial liability insurance and risk management, employee medical plans, accounting and financial systems and treasury, IS equipment and software, contract support and other administrative services. The total due to AHFC at June 30, 2013 was \$707 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, 2013, is \$20,728 thousand. This amount was calculated using the base pay on file for each employee as of June 30, 2013. 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 13 expended for school debt was \$112,613 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 \$1,124,496 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).

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 (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 13, 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, \$750,000 for marine risks, and \$250,000 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, 2012 and June 30, 2013. The State records its related liability using discounted amounts provided by actuaries. The amount of unpaid claim liabilities for Risk Management are presented at their present value using a 3.0 percent discount interest rate for FY 12 and a 3.0 percent discount interest rate for FY 13. 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
2012	\$ 72,467,020	\$ 54,545,742	\$ (34,565,411)	\$ 92,447,351
2013	92,447,351	47,239,404	(36,801,179)	102,885,576

**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 \$7,423 thousand, with an additional possible liability of \$13,663 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, 2013, 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, 2013, 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 \$104,359 thousand and \$38,302 thousand respectively.

As of June 30, 2013, the Department of Commerce, Community and Economic Development, Division of Investment, identified outstanding loan commitments. Agreements have been entered into, yet funds have not yet been disbursed. The open loan commitments include the Alaska Commercial Fishing Revolving Loan Fund for \$1,820 thousand, the Alaska Fisheries Enhancement Revolving Loan Fund for \$535 thousand, and the Alaska Bulk Fuel Loan Program for \$783 thousand.

At June 30, 2013, the Alaska Energy Authority had open loan commitments of \$1,374 thousand.

At June 30, 2013, the Alaska Industrial Development and Export Authority (AIDEA) had extended loan participation purchase commitments of \$7,496 thousand and loan guarantees of \$1,265 thousand.

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 any time of \$30 million. No loans have been made pursuant to this authorization.

**H. POTENTIAL DEVELOPMENT PROJECTS**

During 2013 AIDEA became the project sponsor for two potential infrastructure projects, the Interior Energy Project (IEP) and the Ambler road. Later in 2013 the State Legislature re-appropriated \$57.5 million from the initial Sustainable Energy Transmission and Supply Development Fund to the IEP. During the 2013 legislative session, AIDEA was given authorization to provide financing up to a principal amount of \$275 million for the development, construction, and installation of, and the start-up costs of operation and maintenance for, a liquefied natural gas production system and affiliated infrastructure on the North Slope and a natural gas distribution system and affiliated infrastructure in Interior Alaska. The authority is currently evaluating the feasibility of both projects.

The Alaska Gasline Development Corporation entered into an agreement where \$4,658 thousand would become due and payable when (a) the State awards permits, work product, and other results of the North Slope to Tidewater Preliminary Development Project to a Qualified Builder (other than a public corporation owned by the State); or (b) the State determined it will construct the North Slope to Tidewater pipeline itself, either through a public corporation owned by the State or otherwise, and (i) the Legislature of the State of Alaska appropriates some or all of the funding for the North Slope to Tidewater Development and Construction Expenses, or (ii) bonds are issued by the State or a public corporation owned by the State intended to finance some or all of the North Slope to Tidewater Development and Construction Expenses.

**I. INVESTMENT COMMITMENTS**

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

Investment Type/Term	Amounts in thousands			
	PERS	TRS	JRS	NMRS
Domestic Equity Limited Partnerships				
Withdrawn annually in December with 90-days notice.	\$ 5,988	\$ 2,457	\$ 67	\$ 13
Private Equity				
To be paid through 2023.	550,291	225,778	6,133	-
To be paid through 2019.	-	-	-	-
Energy				
To be paid through 2022.	80,140	32,881	893	-
Real Estate				
To be paid through 2015.	61,273	24,387	621	-
	<u>\$697,692</u>	<u>\$285,503</u>	<u>\$ 7,714</u>	<u>\$ 13</u>

**J. 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 AMHTA. 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 the 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, 2012, the General Fund had pollution remediation obligations of \$108,099 thousand. As of June 30, 2013, the State had an increase to the obligation of \$11,032 thousand and recognized a decrease of \$19,846 thousand, for an ending balance of \$99,285 thousand in pollution remediation obligation related activities. The State has an estimated potential recovery of \$21,582 thousand from other responsible parties.

At July 1, 2012, the International Airports Fund (IAF) reported pollution remediation liabilities of \$1,313 thousand for which IAF is in whole or in part a responsible party. As of June 30, 2013 IAF had recognized a decrease of \$60 thousand, and no increase for an ending balance of \$1,253 thousand. IAF has an identified \$30 thousand expected to be collected from third parties. 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 17 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, 2011, the Alaska Railroad Corporation had pollution remediation obligations of \$2,019 thousand. As of December 31, 2012, the Alaska Railroad Corporation had additional obligations of \$1,390 thousand and reductions in obligations of \$1,571 thousand, for an ending liability of \$1,838 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.

**K. ENCUMBRANCES**

The State of Alaska utilizes encumbrance accounting to identify fund obligations. The following shows encumbrances within the governmental funds for the fiscal year ended June 30, 2013 (in thousands):

	Amount (in thousands)
General Fund	\$ 1,682,041
Special Revenue Funds	34,024
Capital Project Funds	238,150
Permanent Funds	42
Total Encumbrances	<u>\$ 1,954,257</u>

A review of the appropriations with encumbrance balances over \$5 million were identified and analyzed below:

The Department of Commerce, Community and Economic Development administers grants to municipalities and named recipients which total \$522.6 million of which \$402.1 million is in the General Fund, and \$120.5 million is within Capital

Project Funds. These projects are funded by the general funds, investment income from a settlement, gambling tax revenues, and bond proceeds.

The Department of Education and Early Development, Department of Health and Social Services, Department of Labor and Workforce Development and the Department of Transportation and Public Facilities have several construction/maintenance projects underway totaling \$288.2 million of which \$196.6 million is in the General Fund and \$91.6 million are Capital Project Funds. These projects are funded by a mixture of general funds and bond proceeds.

The Department of Administration and the Department of Revenue have information technology projects underway within the General Fund totaling \$58.9 million funded by general fund resources.

### **NOTE 13 – SUBSEQUENT EVENTS**

#### **A. ALASKA MUNICIPAL BOND BANK AUTHORITY**

In July 2013, the Alaska Municipal Bond Bank Authority released the 2002A Revenue Bond Resolution reserve to the custodian account due to the defeasance on the 2002A Revenue Bond Resolution bonds. The amount released was approximately \$627 thousand.

On November 14, 2013 the AMBBA closed on the \$72,045 thousand General Obligation Bonds, 2013 Series Three bond issue. The bonds were sold with an original issue premium that generated \$5,821 thousand in addition to the stated par value. Proceeds of the 2013 Series Three bonds were used to make loans to the City and Borough of Juneau for \$8,143 thousand, the Kenai Peninsula Borough for \$22,985 thousand, the Lake & Peninsula Borough for \$20,081 thousand, and to the City and Borough of Sitka for \$26,657 thousand.

#### **B. ALASKA CLEAN WATER FUND**

Pursuant to legislative authorization obtained during the 2013 session of the Alaska Legislature, the State issued the \$1,289 thousand Alaska Clean Water Revenue Bond Anticipation Note, 2013, Series A for fiscal year 2014. This transaction was closed on October 22, 2013 and the notes were repaid on October 23, 2013. The borrowing was secured, and paid for by interest earnings of the Alaska Clean Water Fund.

#### **C. ALASKA DRINKING WATER FUND**

Pursuant to legislative authorization obtained during the 2013 session of the Alaska Legislature, the State issued the \$1,687 thousand Alaska Drinking Water Fund Revenue Bond Anticipation Note, 2013, Series B for fiscal year 2014. This transaction was closed on October 22, 2013 and the notes were repaid on October 23, 2013. The borrowing was secured, and paid for by interest earnings of the Alaska Drinking Water Fund.

#### **D. STATE OF ALASKA – GENERAL OBLIGATION BONDS**

The State of Alaska received \$815 thousand back into the General Fund during FY 14. The Department of Revenue received notification from the Internal Revenue Service on September 30, 2013 that funds will be returned from the 2008 arbitrage rebate payments associated with the General Obligation Bonds 2003A and 2003B construction funds in the amount of \$756 thousand and \$33 thousand respectively. This refund is due to investment performance on the funds in the construction accounts following the 2008 analysis through fund close-out in 2013. In addition, the third party paying agent for these bonds returned the earned interest on the bond issues' debt service funds in the amount of \$25 thousand that will also be returned to the General Fund. The checks were received and funds were deposited in mid-November 2013.

#### **E. ALASKA HOUSING FINANCE CORPORATION (AHCC)**

In FY 14 monies totaling \$355 million were transferred out of AHCC to the Alaska Gasline Development Corporation pursuant to appropriations by the Alaska Legislature.