STATE OF ALASKA
INDEX
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014

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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 69 percent of the total cash and investments and 62 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.

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 15th 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 of 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 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 and consists of nine trustees: the Commissioners of the Department of Administration and Revenue; two members of the general public; one member who is employed as a finance officer for a political subdivision participating in either the PERS or Teachers' Retirement System (TRS); two members of PERS; and two members of TRS. All members of the ARMB are appointed by and serve at the pleasure of the Governor.

The **Teachers' Retirement System** 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 and consists of nine trustees: the Commissioners of the Department of Administration and Revenue; two members of the general public; one member who is employed as a finance officer for a political subdivision participating in either the PERS or Teachers' Retirement System (TRS); two members of PERS; and two members of TRS. All members of the ARMB are appointed by and serve at the pleasure of the Governor.

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 and consists of nine trustees: the Commissioners of the Department of Administration and Revenue; two members of the general public; one member who is employed as a finance officer for a political subdivision participating in either the PERS or Teachers' Retirement System (TRS); two members of PERS; and two members of TRS. All members of the ARMB are appointed by and serve at the pleasure of the Governor.

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 NGMRS and consists of nine trustees: the Commissioners of the Department of Administration and Revenue; two members of the general public; one member who is employed as a finance officer for a political subdivision participating in either the PERS or Teachers' Retirement System (TRS); two members of PERS; and two members of TRS. All members of the ARMB are appointed by and serve at the pleasure of the Governor.

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. The ARMB is the fiduciary of SBS and consists of nine trustees: the Commissioners of the Department of Administration and Revenue; two members of the general public; one member who is employed as a finance officer for a political subdivision participating in either the PERS or Teachers' Retirement System (TRS); two members of PERS; and two members of TRS. All members of the ARMB are appointed by and serve at the pleasure of the Governor. The financial statements for SBS are for the seventeen months ended June 30, 2014.

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. The ARMB is the fiduciary of DCP and consists of nine trustees: the Commissioners of the Department of Administration and Revenue; two members of the general public; one member who is employed as a finance officer for a political subdivision participating in either the PERS or Teachers' Retirement System (TRS); two members of PERS; and two members of TRS. All members of the ARMB are appointed by and serve at the pleasure of the Governor. The financial statements for DCP are for the eighteen-month fiscal year ended June 30, 2014.

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). When an asset is recorded in governmental fund financial statements but the revenue is not available, the government reports a deferred inflow of resources until such time as the revenue becomes available. 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 whose fiscal year ends on December 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 assets and the balance sheets as Cash and Investments represent cash on deposit in banks, petty cash, cash invested in various short-term instruments, and other investments of the state and its component units. Investments are stated at fair value, which approximates market value. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Investment purchases and sales are recorded on a trade-date basis.

Marketable debt securities are valued each business day using prices obtained from a pricing service when such prices are available; otherwise, such securities are valued at the most current sale price or based on a valuation provided by investment managers. The noninterest bearing deposits are reported at cost, which approximates fair value.

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

Frontier 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, 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, Short-term Treasury 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, 2014, 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 does 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, library reserve, 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, 2014, 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 $178.4 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 Statue 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, 2014 (in thousands):

	General	Permanent	Special Revenue	Debt Service	Capital Projects
Nonspendable:					
Inventory	$ 17,623	$ -	$ -	$ -	$ -
Principal	-	45,563,618	-	-	-
Advances and Prepaid Items	202,330	-	-	-	-
Total Nonspendable	219,953	45,563,618	-	-	-
Restricted:					
Debt Service	10	-	-	42,848	-
Education	14,132	-	8,042	-	63,255
Health & Human Services	577	-	15,972	-	-
Development	39,022	-	34,682	-	7,310
Other Purposes	5,212	-	166	-	-
Total Restricted	58,953	-	58,862	42,848	70,565
Committed					
Debt Service	2,520	-	-	-	-
Education					
School Foundation Support	1,118,122	-	-	-	-
Pupil Transportation	71,370	-	-	-	-
Education Services	790,570	-	-	-	-
Construction & Maintenance	251,922	-	-	-	-
Public School Program Support	-	13,448			
Health & Human Services	264,873	-	-	-	-
Public Protection	206,500	-	-	-	-
Permanent Fund					
Dividend Payments	1,252,958	-	-	-	-
Development					
Natural Resources	237,943	-	-	-	-
Transportation	1,217,858	-	-	-	-
Other	932,849	-	115,943	-	-
Other Purposes	229,567	-	-	-	-
Total Committed	6,577,052	13,448	115,943	-	-
Assigned					
Permanent Fund					
Assigned for Future Appropriations					
Realized Earnings	-	5,236,644	-	-	-
Unrealized Appreciation on Invested Assets	-	974,681	-	-	-
Total Assigned	-	6,211,325	-	-	-
Unassigned	15,685,658	-	-	-	(18,377)
Total Fund Balance	$ 22,541,616	$51,788,391	$ 174,805	$42,848	$ 52,188

Total fund balance for the Capital Project Funds have a deficit unassigned fund balance due to a prior period adjustment recording short term Bond Anticipation Notes sold for the purpose of transportation projects in the 2012 Transportation Project Fund. Additional information on the prior period adjustment can be found in Note 3. Additional Information on the short-term debt can be found in Note 6.

Net Position Restricted by Enabling Legislation

The government-wide statement of net position reports $46.7 billion of restricted net position for the primary government, of which $24.0 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 14, supplemental appropriations within the operating and capital budgets were enacted. The total supplemental appropriations for the FY 14 operating budget were $71.6 million, of which $48.6 million was appropriated from the General Fund, and $23.0 million was appropriated from other funds. In addition, the total supplemental appropriations for the FY 14 capital budget were $93.0 million, of which $91.0 million was appropriated from the General Fund, and $2.0 million was appropriated from other 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 14, the Office of Management and Budget estimated the limit to be approximately $10.1 billion. The FY 14 budget passed by the legislature after vetoes was $7.1 billion (unrestricted General Fund revenues only), or $3.0 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, FY 13, or FY 14.

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.

SLA 2013, Chapter 14, Section 34, outlines the appropriation to the General Fund giving authority to take from the SBRF if the unrestricted state revenue available for appropriation in the fiscal year ending June 30, 2014, is insufficient to cover General Fund appropriations made for the fiscal year ending June 30, 2014, the amount necessary to balance revenue and General Fund appropriations or to prevent a cash deficiency in the General Fund. For FY 14, this resulted in a year-end transfer from the SBRF to the General Fund for $1,920 million.

NOTE 3 – PRIOR PERIOD ADJUSTMENTS AND RESTATED BEGINNING NET POSITION

PRIOR PERIOD ADJUSTMENTS

Governmental Activities – Government-wide

Bond Anticipation Notes (BANs) Series 2013C were issued on March 24, 2013. This activity was reported in FY 13 as long-term debt reporting $149.6 million in bond proceeds and $2.5 million in bond premiums for a total of $152.1 million. In FY 14, it was determined that the BANs Series 2013C should be reported as a short-term debt rather than a long-term debt. As a result, a correction to reverse this activity as a prior period adjustment for an increase of $152.1 million is reported on the government-wide financial statements. This prior period adjustment is offset by the Statement of Activities impact of the Capital Projects Fund prior period adjustment noted below.

Capital Projects Fund 2012 Transportation Project

Bond Anticipation Notes (BANs) Series 2013C were issued on March 24, 2013. In FY 14, it was determined that the BANs Series 2013C should be reported as a short-term debt rather than a long-term debt. As a result, a correction to report the previous bond proceeds and a liability are reflected as a prior period adjustment for an decrease of $152.1 million.

Alaska Housing Capital Corporation

The State of Alaska Legislature appropriated $21 million of Alaska Housing Capital Corporation (AHCC) funds in FY 13 under Senate Bill 160 for the In-State Gas Pipeline project. This appropriation was incorrectly established in the General Fund and disbursements of approximately $11 million were made in FY 13. This error was not discovered by the Department of Administration, Division of Finance until FY 14. The expenditures of $11 million were not properly reflected in AHCC's FY 13 financial statements; therefore requiring a correction of an error in the FY 14 financial statements for a decrease of $11 million.

University of Alaska

In FY 14, the University of Alaska began to depreciate library books in accordance with Generally Acceptable Accounting Principles. The change required retroactively computing depreciation expense. As a result of the change, the beginning net position as of July 1, 2012 was restated, resulting in a decrease of $42.6 million in net investment in capital assets, and capital assets, net of accumulated depreciation decreased by $42.6 million. The change represents the amount of depreciation expense that would have been recognized through that date had the University previously depreciated library books using a 20 year useful life. As part of the change, additional depreciation expense of $1.3 million was recorded in FY 13.

RESTATED BEGINNING NET POSITION

International Airports Fund

The International Airports Fund's net position at June 30, 2013 was restated to reflect a reduction in the amount due to the State of Alaska General Fund by $14,243 thousand. This is a capital project grant revenue that had been previously recognized in the General Fund rather than the International Airports Fund. This had no impact to the International Airports Fund change in net position for the year ended June 30, 2013.

Governmental Accounting Standards Board Statement No. 65

In March 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 65, Items Previously Reported as Assets and Liabilities. Statement 65 established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes as outflows of resources (expenses or expenditures) or inflows of resources (revenues), certain items that were previously reported as assets and liabilities.

The State of Alaska and its component units adopted the provisions of Statement 65 during FY 14. The effects of adopting Statement 65 are reported as a restated beginning net position. The following funds had a cumulative effect on the beginning net position due to this change as follows:

Governmental Activities – Government-wide

Government-wide activity for governmental activity reported a decrease of $5,209 thousand. This included Northern Tobacco Securitization Corporation for $2,650 thousand, General Obligation Bonds for $2,319 thousand, and Sport Fish Revenue Bonds for $240 thousand.

Enterprise Funds

International Airport Fund reported a decrease of $8,967 thousand.
Knik Bridge Arm Toll Authority had a decrease of $2,683 thousand.

Component Units

Alaska Industrial Development and Export Authority reported an increase of $3,760 thousand.
Alaska Housing Finance Corporation reported a decrease of $10,855 thousand.
Alaska Energy Authority reported a decrease of $234 thousand.
Alaska Student Loan Corporation reported a decrease of $2,483 thousand.
Alaska Railroad Corporation reported a decrease of $114 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://treasury.dor.alaska.gov/.

Deposits and investments at June 30, 2014, are as follows:

	Fair Value (in thousands)						
Investment Type	Short-term Fixed Income Pool	Short-term Liquidity Fixed Income Pool	Intermediate-term Fixed Income Pool	Broad Market Fixed Income Pool	Tobacco Revenue Fixed Income	Other	Total
Deposits	$ -	$ -	$ -	$ -	$ -	$ 42,170	$ 42,170
Money Market	-	-	-	-	18,228	-	18,228
Corporate Bonds	479,458	-	449,338	1,077,102	-	-	2,005,898
Mortgage-backed	32,946	-	207,066	1,686,790	-	-	1,926,802
Municipal Bonds	-	-	-	15,185	-	-	15,185
Other Asset-backed	2,313,886	-	224,381	263,465	-	-	2,801,732
Overnight Sweep Account (lmcs)	751,375	-	-	-	-	-	751,375
Repurchase Agreement	469,500	-	-	-	-	-	469,500
U.S. Government Agency	-	-	10,014	110,457	-	-	120,471
Treasury Bills	4,050,245	748,205	435,904	-	-	-	5,234,354
Treasury Bonds	-	-	-	144,073	-	-	144,073
Treasury Notes	911,136	25,053	5,913,532	1,741,287	-	-	8,591,008
Treasury Strips	-	-	16,004	113,841	-	-	129,845
Yankees Corporate	108,742	-	103,491	196,096	-	-	408,329
Yankees Government	-	-	34,105	64,313	-	-	98,418
Domestic Equity	-	-	-	-	-	3,654,239	3,654,239
International Equity	-	-	-	-	-	1,985,824	1,985,824
Total Invested Assets	9,117,288	773,258	7,393,835	5,412,609	18,228	5,682,233	28,397,451
Pool related net assets (liabilities)	(1,916,082)	311	592,523	5,752	-	438	(1,317,058)
Net Invested Assets before earnings distribution to participants	7,201,206	773,569	7,986,358	5,418,361	18,228	5,682,671	27,080,393
Earnings payable to participants	(941)	-	-	-	-	-	(941)
Other pool ownership	(1,157,863)	71	771,627	386,165	-	-	-
Ownership under other fiduciary responsibility:							
Alaska Retirement Management Board	(898,181)	-	-	-	-	-	(898,181)
Exxon Valdez Oil Spill Trustee Council	-	-	-	(64,236)	-	(158,706)	(222,942)
Alaska Mental Health Trust Authority	(4,014)	-	-	(11,309)	-	(24,683)	(40,006)
Total Commissioner's Fiduciary Responsibility	$ 5,140,207	$ 773,640	$ 8,757,985	$ 5,728,981	$ 18,228	$ 5,499,282	$ 25,918,323

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, 2014, the expected average life of individual fixed rate securities ranged from one day to 2.2 years and the expected average life of floating rate securities ranged from eight days to 3.2 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, 2014, the expected average life of fixed rate securities ranged from 31 to 179 days.

Short-term Treasury 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, 2014, this pool held no securities or cash.

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 - ± 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, 2014 was 1.94 years.

Broad Market Fixed Income Pool - ± 20% of the Barclays Capital U.S. Aggregate Bond Index. The effective duration for the Barclays Capital U.S. Aggregate Bond Index at June 30, 2014 was 5.52 years.

At June 30, 2014, 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	1.40	8.11
Mortgage-backed	0.99	4.24
Municipal Bonds	-	15.09
Other Asset-backed	0.70	0.69
Treasury Bill	0.42	-
Treasury Bonds	-	19.07
Treasury Notes	2.14	4.71
Treasury Strip	3.27	3.44
U.S. Government Agency	1.71	8.00
Yankees Corporate	0.62	5.89
Yankees Government	0.78	8.21
Portfolio Effective Duration	1.72	5.21

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, 2014, the Tobacco Revenue Fixed Income Securities consisted of commercial paper rated A-1.

At June 30, 2014, 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
Corporate Bonds	AAA	0.06%	-	0.10%	0.19%
Corporate Bonds	AA	2.90%	-	1.33%	2.51%
Corporate Bonds	A	3.71%	-	2.98%	9.85%
Corporate Bonds	BBB	-	-	0.73%	5.81%
Corporate Bonds	BB	-	-	-	0.09%
Corporate Bonds	Not Rated	-	-	-	0.10%
U.S. Government Agency	AA	-	-	0.11%	1.90%
Overnight Sweep Account (lmcs)	Not Rated	10.44%	-	-	-
Mortgage-backed	AAA	0.23%	-	1.19%	2.82%
Mortgage-backed	AA	0.04%	-	0.69%	24.77%
Mortgage-backed	A	0.06%	-	0.15%	0.34%
Mortgage-backed	BBB	-	-	0.01%	0.03%
Mortgage-backed	Not Rated	0.12%	-	0.32%	1.09%
Municipal Bonds	AA	-	-	-	0.10%
Municipal Bonds	A	-	-	-	0.16%
Other Asset-backed	AAA	22.93%	-	1.71%	3.13%
Other Asset-backed	AA	0.21%	-	0.34%	0.78%
Other Asset-backed	A	0.79%	-	-	-
Other Asset-backed	Not Rated	8.20%	-	0.51%	0.64%
Other Pool Ownership	Not Rated	-	0.01%	8.81%	6.65%
Repurchase Agreement	AA	6.52%	-	-	-
Treasury Bills	AA	56.25%	96.71%	4.98%	-
Treasury Bonds	AA	-	-	-	2.48%
Treasury Notes	AA	12.65%	3.24%	67.52%	30.03%
Treasury Strips	AA	-	-	0.18%	1.96%
Yankees Corporate	AAA	-	-	-	0.23%
Yankees Corporate	AA	0.77%	-	0.63%	0.81%
Yankees Corporate	A	0.74%	-	0.38%	1.08%
Yankees Corporate	BBB	-	-	0.06%	0.89%
Yankees Corporate	Not Rated	-	-	0.11%	0.36%
Yankees Government	AAA	-	-	-	0.08%
Yankees Government	AA	-	-	0.35%	0.56%
Yankees Government	BBB	-	-	-	0.37%
Yankees Government	Not Rated	-	-	0.04%	0.09%
No Credit Risk		(26.62%)	0.04%	6.77%	0.10%
		100.00%	100.00%	100.00%	100.00%

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 (The FDIC provides $250 thousand of coverage). In accordance with Treasury policy, they are required to retain collateral equal to 110 percent of uninsured deposits.

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, 2014, the State had the following uncollateralized and uninsured deposits:

	Amount (in thousands)
International Equity Pool	$ 683

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, 2014, the funds invested in the Broad market Fixed Income Pool had more than five percent of their investments in Federal National Mortgage Association and Federal Home Loan Mortgage Corporation as follows:

	Fair Value (in thousands)	Percent of Total Pool Investments
Broad Market Fixed Income Pool		
Federal National Mortgage Association	$ 1,059,217	18.25%
Federal Home Loan Mortgage Corporation	333,797	5.75%

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

Foreign Currency Risk

The Commissioner of Revenue formally adopts asset allocation policies for each fund at the beginning of each fiscal year which places policy limitations on the amount of international securities each fund is allowed to hold. The following policies were in place during FY 14 and invested assets included the following holdings at June 30, 2014, for the funds invested in the International Equity Pool:

	Policy	Actual
Constitutional Budget Reserve Fund, Subaccount	20% ± 7%	20.81%
Exxon Valdez Settlement Investments	23% ± 7%	23.39%
Higher Education Fund	22% ± 7%	22.09%
Mental Health Trust Fund	21% ± 5%	21.38%
Power Cost Equalization Endowment Fund	28% ± 5%	29.12%
Public School Trust Fund, Principal	15% ± 5%	15.91%
Retiree Health Insurance Fund, Long Term Care	14% ± 4%	14.03%

At June 30, 2014, the funds invested in the International Equity Pool had exposure to foreign currency risk as follows:

Currency	Fair Value (in thousands)
Deposits:	
Japanese Yen	$ 71
Pounds Sterling	612
Total Deposits	$ 683
Investments - International Equity:	
Australian Dollar	$ 4,930
Canadian Dollar	7,155
Danish Krone	2,601
Euro Currency	73,538
Japanese Yen	53,344
Norwegian Krone	1,641
Pound Sterling	73,066
Swedish Krona	9,095
Swiss Franc	17,127
Total Equity	242,497
Total	$ 243,180

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, 2014 (in thousands):

	Changes in Fair Value		Fair Value		
	Classification	Amount	Classification	Amount	Notional
FX Forwards	Investment Revenue	$ 37,674	Long-term Instruments	$ -	$ -

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. The counterparties to the foreign currency forward contracts consist of a diversified group of financial institutions. Credit risk exposure exists to the extent of nonperformance 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, 2014, 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, 2014 were $54,435 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 Plans 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. Treasury manages the U.S. Treasury Fixed Income Pool, Dow Jones Dividend 100 Index Fund in the Alternative Equity Strategies 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. All other investments are managed by external management companies.

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://treasury.dor.alaska.gov/armb/.

Deposits and investments at June 30, 2014 are as follows:

	Fair Value (in thousands)
Bank Loans	$ 10,910
Commercial Paper	2,780
Convertible Bonds	166,119
Corporate Bonds	592,914
Deposits	121,992
Foreign Government Bonds	350,598
Mortgage-backed	59,600
Municipal Bonds	208,274
Other Asset-backed	407,378
Overnight Sweep Accounts (lmcs)	115,124
Short-term Investment Fund	31,796
U.S. Government Agency	2,827
Treasury Bills	508,256
Treasury Bonds	802
Treasury Notes	1,057,482
Treasury Strips	2,048
Treasury TIP Bonds	9,773
Treasury TIP Notes	24,475
Yankee Corporate	82,492
Yankee Government	1,491
Equity	10,402,050
Futures	126
Limited Partnership	1,198,627
Mutual Funds	922,016
Options	(5,987)
Repo	58,505
Rights	267
Warrants	134
Absolute Return	820,709
Energy	106,912
Farmland	709,869
Private Equity	1,726,013
Real Estate	1,330,483
Timber	359,681
Participant Directed	699,133
Net Other Assets/(Liabilities)	(207,977)
Total Invested Assets	$ 21,877,692

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 14 months to maturity or 14 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, 2014, the

expected average life of individual fixed rate securities ranged from one day to 2.2 years and the expected average life of floating rate securities ranged from eight days to 3.2 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 U.S. Treasury Fixed Income portfolio to ± 20 percent of the Barclays Capital U.S. Treasury Intermediate Index. The effective duration for the Barclays Capital U.S. Treasury Intermediate Index at June 30, 2014 was 3.63 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 Taxable Municipal Bond portfolios to ± 20 percent of the Barclays Capital Aggregate Eligible Taxable Municipal Bond Index. The effective duration for the Barclays Capital Aggregate Eligible Taxable Municipal Bond Index at June 30, 2014 was 11.74 years.

Through the ARMB's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the High Yield Fixed Income portfolio to ± 20 percent of the 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, 2014 was 4.21 years.

Through the ARMB's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the International Fixed Income portfolio to ± 25 percent of the blended benchmark of 70 percent Citigroup Non-USD World Government Bond Index and 30 percent JP Morgan Global Bond Emerging Markets Broad Diversification Index. The effective duration for the Citigroup Non-USD World Government Bond Index at June 30, 2014, was 7.54 years and the effective duration of the JP Morgan Global Bond Index at June 30, 2014 was 4.87 years, for a blended duration of 6.74 years at June 30, 2014.

Through the ARMB's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the TIPS portfolio to ± 20 percent of the Barclays Capital U.S. Treasury Inflation-Protected (U.S. TIPS) Index, or a reasonable proxy thereof. The average life of the proxy index at June 30, 2014 was 8.21 years.

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

At June 30, 2014, the effective duration of the ARMB's fixed income pools, by investment type, was as follows:

	Effective Duration (in years)				
	U.S. Treasury	Municipal Bonds	High Yield	International	TIPS
Bridge Loans	-	-	0.11	-	-
Corporate Bonds	1.85	13.80	3.98	-	-
Foreign Government Bonds	-	-	-	5.96	-
Mortgage-backed	1.97	-	-	-	-
Municipal Bonds	-	11.44	-	-	-
Other Asset-backed	0.45	-	-	-	-
Treasury Bills	-	-	-	-	-
Treasury Bonds	-	18.87	-	-	-
Treasury Notes	4.36	5.79	-	4.78	-
Treasury Strips	4.11	-	-	-	-
Treasury TIP Bonds	-	-	-	-	12.08
Treasury TIP Notes	-	-	-	-	4.59
U.S. Government Agency	8.34	-	-	-	-
Yankees Corporate	1.64	-	4.08	-	-
Yankees Government	(4.00)	-	-	-	-
Portfolio Effective Duration	3.50	10.81	3.75	5.82	6.62

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 ± 0.2 years of the blended benchmark of 70 percent Barclays U.S. Intermediate Aggregate Bond Index, 15 percent Barclays U.S. Floating Rate Note Index, 10 percent Barclays TIPS Index, and five percent Barclays Long U.S. Treasury Bond Index. Further deviations are acceptable if they do not contribute significantly to the overall risk of the portfolio. In no event at time of purchase shall effective duration exceed ± 0.4 years relative to the index.

At June 30, 2014, the duration of the government corporate debt, and mortgage-backed securities was 3.93 years and the duration of the Barclays Bond Index was 3.98 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, 2014, the modified duration of collective investment funds that consisted solely of debt securities were as follows – SSgA Money Market Trust: 45 days, SSgA World Government Bond Ex-U.S. Index: 7.68 years, SSgA Long U.S. Treasury Bond Index: 16.68 years, SSgA TIPS Index: 7.28 years, Barclays Government Credit Bond Fund: 8.18 years, and the Barclays Intermediate Bond Fund: 3.82 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:

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.

Taxable Municipal Bond Pool:

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

At the time of purchase, short term securities must be rated at least A-2 or equivalent by a Nationally Recognized Statistical Rating Organization (NRSRO) or by the Contractor, if unrated. At the time of purchase, long term securities must be rated investment grade by an NRSRO or by the Contractor, if unrated. Only one rating is necessary, and the median rating will apply for securities rated by more than one NRSRO.

No more than 20 percent of the portfolio's assets may be invested in securities that are not rated by an NRSRO.

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:

Corporate debt and asset-backed obligations must be rated investment grade or better by a recognized credit rating agency. In the event of a split rating, the lower of the ratings shall apply for evaluating credit quality.

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 CCC- by S&P and C3 by Moody's. However, the manager may continue to hold securities downgraded below CCC- by Standard and Poor's and C3 by Moody's if such an investment is considered appropriate given the Board'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, 2014, ARMB's invested assets consisted of securities with credit quality ratings issued by nationally recognized statistical rating organizations as follows (using Standard & Poor's Corporation rating scale):

		Fixed Income Pools						
	Rating	Short-term	U.S. Treasury	Municipal Bond	High Yield	International	Convertible	TIPS
Deposits	Not Rated	-	-	-	3.87%	0.78%	-	-
Bank Loans	Not Rated	-	-	-	1.93%	-	-	-
Commercial Paper	Not Rated	-	-	1.25%	-	-	-	-
Corporate Bonds	AAA	0.06%	-	-	-	-	-	-
Corporate Bonds	AA	2.90%	1.85%	-	-	-	-	-
Corporate Bonds	A	3.71%	2.90%	-	0.11%	-	-	-
Corporate Bonds	BBB	-	0.24%	-	4.00%	-	-	-
Corporate Bonds	BB	-	-	-	35.21%	-	-	-
Corporate Bonds	B	-	-	-	36.94%	-	-	-
Corporate Bonds	CCC	-	-	-	3.94%	-	-	-
Corporate Bonds	Not Rated	-	-	0.56%	2.93%	-	-	-
Convertible Bonds	A	-	-	-	-	-	2.17%	-
Convertible Bonds	BBB	-	-	-	0.29%	-	14.36%	-
Convertible Bonds	BB	-	-	-	-	-	19.98%	-
Convertible Bonds	B	-	-	-	-	-	10.16%	-
Convertible Bonds	CCC	-	-	-	-	-	1.92%	-
Convertible Bonds	Not Rated	-	-	-	0.03%	-	35.37%	-
Equity	BBB	-	-	-	-	-	2.42%	-
Equity	BB	-	-	-	-	-	3.75%	-
Equity	B	-	-	-	-	-	1.36%	-
Equity	Not Rated	-	-	-	-	-	2.10%	-
Foreign Government Bonds	AAA	-	-	-	-	36.26%	-	-
Foreign Government Bonds	AA	-	-	-	-	16.92%	-	-
Foreign Government Bonds	A	-	-	-	-	18.92%	-	-
Foreign Government Bonds	BBB	-	-	-	-	17.02%	-	-
Foreign Government Bonds	BB	-	-	-	-	2.73%	-	-
Foreign Government Bonds	Not Rated	-	-	-	-	0.60%	-	-
U.S. Government Agency	AA	-	0.23%	-	-	-	-	-
Overnight Sweep Account (lmcs)	Not Rated	10.44%	-	4.48%	-	-	5.90%	-
Mortgage-backed	AAA	0.23%	1.08%	-	-	-	-	-
Mortgage-backed	AA	0.04%	1.62%	-	-	-	-	-
Mortgage-backed	A	0.06%	0.26%	-	-	-	-	-
Mortgage-backed	Not Rated	0.12%	1.49%	-	-	-	-	-

Continued from previous page:

		Fixed Income Pools						
	Rating	Short-term	U.S. Treasury	Municipal Bond	High Yield	International	Convertible	TIPS
Municipal Bonds	AAA	-	-	11.03%	-	-	-	-
Municipal Bonds	AA	-	-	52.76%	-	-	-	-
Municipal Bonds	A	-	-	29.12%	-	-	-	-
Municipal Bonds	Not Rated	-	-	0.77%	-	-	-	-
Other Asset-backed	AAA	22.93%	6.81%	-	-	-	-	-
Other Asset-backed	AA	0.21%	0.34%	-	-	-	-	-
Other Asset-backed	A	0.79%	-	-	-	-	-	-
Other Asset-backed	Not Rated	8.20%	2.41%	-	-	-	-	-
Other Pool Ownership	Not Rated	-	5.08%	-	-	-	-	1.64%
Repurchase Agreement	AA	6.52%	-	-	-	-	-	-
Treasury Bills	AA	56.25%	-	-	-	-	-	-
Treasury Bonds	AA	-	-	0.36%	-	-	-	-
Treasury Notes	AA	12.65%	74.36%	0.22%	-	4.73%	-	-
Treasury Strips	AA	-	0.16%	-	-	-	-	-
Treasury TIP Bonds	AA	-	-	-	-	-	-	27.96%
Treasury TIP Notes	AA	-	-	-	-	-	-	70.01%
Short-Term Investment Fund	Not Rated	-	-	-	-	0.58%	-	-
Warrants	Not Rated	-	-	-	0.01%	-	-	-
Yankees Corporate	AAA	-	0.08%	-	-	-	-	-
Yankees Corporate	AA	0.77%	0.45%	-	-	-	-	-
Yankees Corporate	A	0.74%	-	-	-	-	-	-
Yankees Corporate	BBB	-	0.08%	-	-	-	-	-
Yankees Corporate	BB	-	-	-	4.68%	-	-	-
Yankees Corporate	B	-	-	-	4.96%	-	-	-
Yankees Corporate	CCC	-	-	-	0.44%	-	-	-
Yankees Corporate	Not Rated	-	0.23%	-	0.28%	-	-	-
Yankees Government	Not Rated	-	0.12%	-	-	-	-	-
No Credit Risk		(26.62%)	0.21%	(0.55%)	0.38%	1.46%	0.51%	0.39%
		100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Custodial Credit Risk – Deposits

The ARMB does not have a policy in relation to custodial credit risk for deposits; however, 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 thousand of coverage. In accordance with Treasury policy, they are required to retain collateral equal to 110 percent of uninsured deposits.

At June 30, 2014, the ARMB's invested assets had the following uncollateralized and uninsured deposits (in thousands):

International Equity Pool	$ 85,450
International Fixed Income Pool	2,938
	$ 88,388

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, Taxable Municipal Bond Pool or TIPS Pools.

At June 30, 2014, 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:

Pension System	Fixed - Income	Global Equity Ex-U.S.	Private Equity Pool
Public Employees' Retirement System	17%	29%	14%
Teachers' Retirement System	17%	29%	14%
Judicial Retirement System	17%	29%	14%
Alaska National Guard and Naval Militia System	58%	24%	-

At June 30, 2014, the ARMB had exposure to foreign currency risk with the following deposits and investments (in thousands):

	International Fixed Income Pool		International Equity					Private Equity
Currency	Deposits	Foreign Government Bonds	Deposits	Equity	Mutal Funds	Rights	Warrants	Limited Partnerships
Australian Dollar	$ 202	$ 25,964	$ 57	$ 100,030	$ -	$ -	$ -	$ 835
Brazilian Real	-	27,099	78	14,822	-	-	-	-
Canadian Dollar	-	-	219	155,562	-	-	-	-
Columbian Peso	19	3,417	-	-	-	-	-	-
Danish Krone	-	-	1	53,829	-	-	-	-
Euro Currency	-	66,539	79,021	961,023	-	88	15	139,724
Hong Kong Dollar	-	-	314	133,391	-	179	-	-
Indian Rupee	-	-	12	10,150	-	-	-	-
Indonesian Rupiah	194	10,353	4	11,612	-	-	-	-
Israeli Shekel	-	-	73	1,373	-	-	-	-
Japanese Yen	82	64,261	3,927	770,563	-	-	-	-
Malaysian Ringgit	408	8,215	-	2,184	-	-	-	-
Mexican Peso	937	26,504	-	476	-	-	-	-
New Israeli Sheqel	-	-	-	-	-	-	-	-
New Russian Ruble	-	13,213	-	-	-	-	-	-
New Taiwan Dollar	-	-	148	3,852	-	-	-	-
New Zealand Dollar	-	-	42	9,232	-	-	-	-
Norwegian Krone	-	-	81	16,432	-	-	-	-
Peruvian Nouveau Sol	182	7,109	-	-	-	-	-	-
Philippine Peso	-	-	-	4,583	-	-	-	-
Polish Zloty	-	32,163	-	-	-	-	-	-
Pound Sterling	199	20,459	1,208	726,163	164	-	-	37,998
Singapore Dollar	-	-	184	37,141	-	-	-	-
South African Rand	226	11,494	-	11,262	-	-	-	-
South Korean Won	-	-	-	57,643	-	-	-	-
Swedish Krona	489	24,494	68	79,975	-	-	-	-
Swiss Franc	-	-	13	211,157	-	-	-	-
Thailand Baht	-	-	-	5,224	-	-	-	-
Turkish Lira	-	9,313	-	7,278	-	-	-	-
	$ 2,938	$ 350,597	$ 85,450	$ 3,384,957	$ 164	$ 267	$ 15	$ 178,557

At June 30, 2014, 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, 2014, the ARMB had the following derivative instruments outstanding (in thousands):

	Change in Fair Value		Fair Value		
Type	Classification	Amount	Classification	Amount	Notional
Equity Options Written	Investment Revenue	$ 5,288	Options	$ (5,966)	$ (1,640)
FX Forwards	Investment Revenue	(995)	Long Term Instruments	(655)	39,412
Index Futures Long	Investment Revenue	17,988	Futures	-	42
Index Options Bought	Investment Revenue	34	Options	-	-
Index Options Written	Investment Revenue	587	Options	(21)	(1)
Rights	Investment Revenue	362	Common Stock	267	751
Warrants	Investment Revenue	213	Common Stock	134	140
		$ 23,477		$ (6,241)	$ 38,704

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, 2014, 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	$ -	$ -	$ (538)	$ (538)
Canadian Dollar	-	3	(10)	(7)
Euro Currency	103	-	-	103
Hong Kong Dollar	179	-	-	179
New Israeli Shekel	-	-	-	-
Japanese Yen	-	-	(61)	(61)
New Zeland Dollar	-	-	(49)	(49)
	$ 282	$ 3	$ (658)	$ (373)

At June 30, 2014 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	$ 3	A+	AA-	A1
Maximum Amount of Loss in Case of Default by all Counterparties	3			
Effect of Collateral Reducing Maximum Exposure	-			
Liabilities Subject to Netting Arrangements Reducing Maximum Exposure	-			
Resulting Net Exposure	$ 3			

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 June 30, 2014, Deferred Compensation Plan investments totaled $794.7 million.

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

Interest Rate Risk

Collective Investment and Money Market Funds

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

The ARMB does not have a policy to limit interest rate risk for the collective investment funds or the commingled money market portfolio. These investments with their related weighted average maturities at June 30, 2014, are as follows:

	Fair Value (in thousands)	Weighted Average Maturity
Government/Credit Bond Index Fund	$ 28,932	8.18 years
Institutional Treasury Money Market Fund	12,081	45 days
Intermediate Bond Fund	14,519	3.82 years
Long U.S. Treasury Bond Index Fund	3,098	16.68 years
U.S. TIPS Index Fund	7,957	7.28 years
World Government Bond Ex-U.S. Index Fund	3,895	7.68 years
Bond Fund	63	5.27 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 3.89 years at June 30, 2014. The duration of the Barclays Capital Intermediate Aggregate Index was 4.19 years at June 30, 2014.
>
> 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 32 days at June 30, 2014.

Pooled Investment Funds

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

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

For government and corporate debt securities, duration is limited to ± 0.2 years of the blended benchmark of 70 percent Barclays U.S. Intermediate Aggregate Bond Index, 15 percent Barclays U.S. Floating Rate Note Index, 10 percent Barclay's TIPS Index, and five percent Barclays Long U.S. Treasury Bond Index. At June 30, 2014, the blended Barclays Bond Index duration was 3.98 years, and the duration of the Aggregate Bond Trust was 3.93 years.

The weighted average maturity of the money market portfolio was 34.14 days at June 30, 2014.

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 June 30, 2014, 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):

		Fair Value (in thousands)		
Investment type	Rating	Underlying Synthetic Investment Contracts	Other	Total
Investments with credit exposure:				
Money Market Fund	Not Rated	$ -	$ 260	$ 260
Short-term Investment Fund	Not Rated	8,839	-	8,839
U.S. Government Agency	AA	9,436	-	9,436
Mortgage-backed	AAA	2,280	-	2,280
Mortgage-backed	A	1,393	-	1,393
Mortgage-backed	Not Rated	52,439	-	52,439
Other Asset-backed	AAA	4,209	-	4,209
Other Asset-backed	AA	96	-	96
Other Asset-backed	Not Rated	4,305	-	4,305
Corporate Bonds	AAA	361	-	361
Corporate Bonds	AA	5,419	-	5,419
Corporate Bonds	A	18,538	-	18,538
Corporate Bonds	BBB	13,740	-	13,740
Corporate Bonds	Not Rated	183	-	183
Yankees Corporate	AAA	1,466	-	1,466
Yankees Corporate	AA	4,428	-	4,428
Yankees Corporate	A	5,819	-	5,819
Yankees Corporate	BBB	2,201	-	2,201
Yankees Government	AAA	1,210	-	1,210
Yankees Government	AA	584	-	584
Yankees Government	A	437	-	437
Yankees Government	BBB	70	-	70
Deposits and Investments with no credit exposure:				
Deposits	Not Rated	(923)	-	(923)
U.S. Treasury Notes	AA	46,138	-	46,138
U.S. Treasury Notes	Not Rated	6,253	-	6,253
Collective Investment Funds	Not Rated	-	377,096	377,096
Wholly Owned Pooled	Not Rated	-	114,127	114,127
Wholly Owned Domestic Equity	Not Rated	-	116,079	116,079
Total Invested Assets		$ 188,921	$ 607,562	$ 796,483

Custodial Credit Risk

The ARMB does not have a policy for custodial credit risk. At June 30, 2014, 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 June 30, 2014, 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 June 30, 2014, SBS investments totaled $3.323 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	$ 45,349	8.18 years
Institutional Treasury Money Market Fund	37,375	45 days
Intermediate Bond Fund	12,896	3.82 years
Long U.S. Treasury Bond Index Fund	10,379	16.58 years
U.S. TIPS Index Fund	16,792	7.28 years
World Government Bond Ex-U.S. Index Fund	10,433	7.68 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 June 30, 2014, the expected average life of individual fixed rate securities ranged from one day to 2.19 years and the expected average life of floating rate securities ranged from eight days to 3.21 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 3.90 years at June 30, 2014. The duration of the Barclays Capital Intermediate Aggregate Index was 4.19 years at June 30, 2014.
>
> 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 ± 0.2 years of the blended benchmark of 70 percent Barclays U.S. Intermediate Aggregate Bond Index, 15 percent Barclays U.S. Floating Rate Note Index, 10 percent Barclays TIPS Index, and 5 percent Barclays Long U.S. Treasury Bond Index. At June 30, 2014, the blended Barclays Bond Index duration was 3.98 years, and the duration of the Aggregate Bond Trust was 3.93 years.

The weighted average maturity of the money market portfolio was 34.14 days at June, 30, 2014.

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 June 30, 2014, SBS investments consisted of securities with credit quality ratings issued by a nationally recognized statistical rating organization as follows (using the Standard & Poor's rating scale):

		Fair Value (in thousands)				
Investment type	Rating	Short-term Fixed Income Pool	Underlying Synthetic Investment Contracts	Investment Loss Trust	Other	Total
Investments with Credit Exposure:						
Money Market Fund	Not Rated	$ -	$ 40,250	$ -	$ 1,217	$ 41,467
Short-term Investment Fund	Not Rated	-	3,798	-	-	3,798
Commercial Paper	Not Rated	162	-	469	-	631
U.S. Government Agency	AA	-	12,499	-	-	12,499
U.S. Government Agency	Not Rated	521	-	1,507	-	2,028
Mortgage-backed	AAA	4	4,682	13	-	4,699
Mortgage-backed	AA	-	-	1	-	1
Mortgage-backed	A	-	1,682	-	-	1,682
Mortgage-backed	Not Rated	2	91,933	5	-	91,940
Other Asset-backed	AAA	206	8,252	596	-	9,054
Other Asset-backed	AA	2	123	6	-	131
Other Asset-backed	A	8	-	23	-	31
Other Asset-backed	Not Rated	85	6,546	247	-	6,878
Corporate Bonds	AAA	1	590	2	-	593
Corporate Bonds	AA	27	9,276	79	-	9,382
Corporate Bonds	A	35	31,909	101	-	32,045
Corporate Bonds	BBB	-	22,306	-	-	22,306
Corporate Bonds	Not Rated	-	678	-	-	678
Yankees Corporate	AA	7	6,597	21	-	6,625
Yankees Corporate	A	5	10,350	14	-	10,369
Yankees Corporate	BBB	-	3,858	-	-	3,858
Yankees Government	AAA	-	4,323	-	-	4,323
Yankees Government	AA	-	1,991	-	-	1,991
Yankees Government	A	-	1,546	-	-	1,546
Yankees Government	BBB	-	116	-	-	116
Deposits and Investments with No Credit Exposure:						
Deposits	Not Rated	-	(3,057)	-	-	(3,057)
U.S. Treasury Bills	Not Rated	10	-	29	-	39
U.S. Treasury Notes	AA	-	83,009	-	-	83,009
U.S. Treasury Notes	Not Rated	119	12,571	346	-	13,036
Participant-directed Funds:						
Collective Investment Funds	Not Rated	-	-	-	889,545	889,545
Pooled Investment Funds	Not Rated	-	-	-	2,077,356	2,077,356
Investment Loss Trust Fund Assets not reported with SBS	Not Rated	-	-	(797)	-	(797)
Contributions in Transit and Other Unreconciled Differences	Not Rated	-	(1)	-	224	223
Total Invested Assets		1,194	355,827	2,662	2,968,342	3,328,025
Pool Related Net (Liabilities)		(251)	-	(727)	-	(978)
Total		$ 943	$ 355,827	$ 1,935	$ 2,968,342	$ 3,327,047

Custodial Credit Risk

The ARMB does not have a policy for custodial credit risk. At June 30, 2014, SBS'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%
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'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 June 30, 2014, 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, 2014, the APFC's strategic asset allocation targets were as follows:

Risk Class	Asset Class	Risk Class Target	Asset Class Target
Cash and Interest Rates		6%	
	Cash		1%
	U.S. Government Bonds and International Developed Government Bonds (currency hedged)		5%
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		20%	
	Absolute Return Mandate		6%
	Real Return Mandate		7%
	Emerging Markets Multi-Asset		2%
	Fixed Income Aggregate		2%
	Debt Opportunities		1%
	True Special 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 five to 7.5 percent, yellow zone ranges set at 7.5 to nine percent, and red zone ranges set at allocations of less than five percent or greater than nine 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, 2014, the Fund held fixed income investments with floating, variable, and step interest rates, valued at $226,699 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 1.2 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, 2014 (in thousands):

Cash	$ 101,904
Pooled Funds	2,894,564
U.S. Treasury Bills	976
Total Cash and Temporary Investments	$ 2,997,444

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, 2014, are summarized as follows (in thousands), categorized by debt instrument type and by country of registration:

	Cost	Fair Value	Unrealized Gains/(Losses)
Treasury and Government Notes/Bonds	$ 2,344,934	$ 2,370,233	$ 25,299
Mortgage-backed Securities	851,742	861,832	10,090
Corporate Bonds	5,242,368	5,349,365	106,997
Commercial Mortgage/Asset-backed Securities	336,866	340,454	3,588
Non-U.S. Treasury and Government Bonds	1,129,318	1,158,364	29,046
Non-U.S. Corporate Bonds	1,854,722	1,883,220	28,498
Total Marketable Debt Securities	$11,759,950	$11,963,468	$ 203,518

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 92 percent of bond mandates at June 30, 2014), 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 eight percent of bond mandates at June 30, 2014) 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, 2014, 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	$ 513,121	$ 233,783	$ 746,904	6.25%
AA	342,282	722,767	1,065,049	8.90%
A	2,092,349	1,172,959	3,265,308	27.30%
BBB	2,282,084	713,926	2,996,010	25.04%
BB	46,904	82,379	129,283	1.08%
B	38,513	96,348	134,861	1.13%
CCC	34,773	7,222	41,995	0.35%
CC	-	321	321	0.00%
C	443	-	443	0.00%
D	-	-	-	0.00%
Total Fair Value of Rated Debt Securities	5,350,469	3,029,705	8,380,174	70.05%
Commingled Bond Funds	354,714	-	354,714	2.96%
Not Rated	3,246	11,880	15,126	0.13%
U.S. Government Explicitly Backed by the U.S. Government (AA)	2,525,286	-	2,525,286	21.11%
U.S. Government Implicitly Backed by the U.S. Government (AA)	688,168	-	688,168	5.75%
Total Fair Value Debt Securities	$ 8,921,883	$ 3,041,585	$ 11,963,468	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, 2014, the effective duration by investment type, based on fair value, is as follows:

	Percent of bond holdings	Duration
Domestic Bonds		
Treasuries and Government Notes/Bonds	26.57%	5.61
Mortgage-backed Securities	9.66%	5.06
Corporate Bonds	59.96%	4.18
Commercial Mortgage and Asset-backed Securities	3.81%	4.29
Total Domestic Bonds	100.00%	4.23
Non-domestic Bonds		
Non-U.S. Treasury and Government Bonds	38.08%	6.85
Non-U.S. Corporate Bonds	61.92%	4.38
Total Non-domestic Bonds	100.00%	5.33

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, and equity index futures, which are held at the prime broker.

Preferred and common stocks and commingled stock funds at June 30, 2014 are summarized as follows (in thousands based on currency of trade), and include the net fair value of equity index futures of $662 thousand:

	Cost	Fair Value	Unrealized Gains/(Losses)
Direct Investments			
Domestic	$ 5,541,414	$ 7,862,625	$ 2,321,211
Non-domestic	9,739,880	11,903,231	2,163,351
Commingled Funds	480,021	677,271	197,250
Total Preferred and Common Stock	$ 15,761,315	$20,443,127	$ 4,681,812

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, 2014, 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	$ 221	$ 52,312	$ 500,585	$ 14,487	$ 567,605
Brazilian Real	995	(21,285)	268,723	85,990	334,423
British Pound Sterling	(360)	(151,951)	2,136,505	34,115	2,018,309
Canadian Dollar	(5,931)	(16,947)	774,934	21,067	773,123
Chilean Peso	4,067	(3,868)	20,144	4,321	24,664
Colombian Peso	(1,287)	1,089	7,266	31,658	38,726
Czech Koruna	50	-	2,776	-	2,826
Danish Krone	(3,100)	3,465	93,813	-	94,178
Egyptian Pound	40	-	1,235	-	1,275
Euro Currency	34,090	(176,143)	2,560,894	268,388	2,687,229
Ghanaian Cedi	(1,944)	1,944	-	1,934	1,934
Hong Kong Dollar	203	2,252	934,676	-	937,131
Hungarian Forint	83	-	3,043	8,633	11,759
Indian Rupee	491	(1,119)	327,295	3,885	330,552
Indonesian Rupiah	2,410	-	106,597	13,918	122,925
Israeli Shekel	273	2,705	51,854	-	54,832
Japanese Yen	9,415	(123,864)	1,611,701	132,909	1,630,161
Malaysian Ringgit	(924)	(1,298)	140,517	-	138,295
Mexican Peso	(23)	(39,154)	132,539	84,200	177,562
New Zealand Dollar	58	153,379	9,587	20,841	183,865
Nigerian Naira	-	-	836	4,860	5,696
Norwegian Krone	269	26,789	69,055	18,451	114,564
Peruvian Nuevo Sol	3	-	-	1,139	1,142
Philippine Peso	155	(3,612)	26,020	18,511	41,074
Polish Zloty	181	(8,319)	21,557	30,589	44,008
Qatari Riyal	507	(498)	4,734	33,056	37,799
Russian Ruble	-	(370)	623	-	253
Singapore Dollar	1,291	(1,226)	97,837	602	98,504
South African Rand	(211)	441	213,722	30,474	244,426
South Korean Won	2,136	(17,814)	475,016	7,084	466,422
Swedish Krona	(1,417)	(148,765)	215,211	6,252	71,281
Swiss Franc	(3,728)	(32,225)	560,929	1,188	526,164
Taiwan Dollar	3,989	(854)	405,741	-	408,876
Thai Baht	861	-	101,480	-	102,341
Turkish Lira	64	-	72,668	27,342	100,074
UAE Dirham	357	(252)	6,313	-	6,418
Uruguayan Peso	-	-	-	5,654	5,654
Total foreign currency exposure	$ 43,284	$ (505,188)	$11,956,426	$ 911,548	$12,406,070

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 14.

Real estate investments at June 30, 2014 are summarized as follows (in thousands):

	Cost	Fair Value	Unrealized Holding Gains
Real Estate Investment Trusts	$ 904,024	$ 1,193,331	$ 289,307
American Homes 4 Rent II	39,638	39,638	-
Directly Owned Real Estate:			
Retail	742,158	1,496,869	754,711
Office	1,264,001	1,552,445	288,444
Industrial	196,615	237,084	40,469
Multifamily	1,061,228	1,372,717	311,489
Total Real Estate	$ 4,207,664	$ 5,892,084	$ 1,684,420

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. During FY 14 it was determined that one private equity fund was

impaired and would not recover its carrying cost over the remaining estimated holding period of the asset. In order to reflect the impairment in the statutory net income and fund balance classification, $6.7 million of unrealized losses were realized through a write-down of cost to fair value. The impairment has no impact on the carrying value of investments or on the net increase in the fair value of private equity investments.

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, 2014 are summarized as follows (in thousands):

	Cost	Fair Value	Unrealized Holding Gains
Real Return	$ 1,666,246	$ 2,115,743	$ 449,497
Absolute Return	2,454,444	2,775,521	321,077
Private Equity	2,734,978	3,130,850	395,872
Infrastructure	1,232,624	1,342,448	109,824
Distressed and Mezzanine Debt	1,144,899	1,364,779	219,880
Total Alternative Investments	$ 9,233,191	$10,729,341	$ 1,496,150

As of June 30, 2014, the APFC, on behalf of the Fund, had outstanding future funding commitments of: $3.26 billion for private equity; $820 million for infrastructure; and $224 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, 2014 are summarized as follows (in thousands):

	Cost	Fair Value	Unrealized Holding (Losses)
Emerging Markets Total Opportunities	$ 925,733	$894,029	$ (31,704)

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 certain marketable securities. 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.

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, 2014, 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, 2014, the value of securities on loan is as follows (in thousands):

Fair Value of Securities on Loan, Secured by Cash Collateral	$ 1,294,366
Cash Collateral	1,393,669
Fair Value of Securities on Loan, Securied by Non-cash Collateral	2,995,522
Non-cash Collateral	3,287,519

The Fund receives 80 percent of earnings derived from securities lending transactions, and the Bank retains 20 percent. During the years ended June 30, 2014, the Fund incurred no losses from securities lending transactions. The Fund received income of $12,010 thousand from securities lending for the year ended June 30, 2014, 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, 2014, is summarized as follows (in thousands):

Interest	
Marketable Debt Securities	$ 278,171
Short-term Domestic and Other	10,920
Total Interest	$ 289,091
Dividends	$ 617,199
Real Estate and Other Income	
Directly Owned Real Estate Net Rental Income	$ 173,639
Real Estate Investment Trust Dividends	24,137
Real Return Interest and Dividends	13,997
Absolute Return Management Expenses, Net of Dividend and Interest Income	(15,061)
Distressed and Mezzanine Debt Interest Income, Net of Fees	26,201
Infrastructure Interest and Dividend Income, Net of Fees	14,261
Private Equity Dividend Income, Net of Management Expenses	11,492
Class Action Litigation Income	1,984
Loaned Securities, Commission Recapture and Other Income	12,444
Total Real Estate and Other Income	$ 263,094

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, 2014 ranged between one and 111 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, 2014 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 14 are summarized as follows (in thousands):

Face Value of FX Forward Contracts	$1,855,805
Net Unrealized Holding Losses on FX Forward Contracts	(2,199)
Fair Value of FX Forward Contracts	$1,853,606
Change in Unrealized Holding Losses	$ (17,708)
Realized Losses	(618)
Net Decrease in Fair Value of FX Forward Contracts	$ (18,326)

Certain APFC equity investment managers are permitted to trade in equity index futures for the Fund's account, and beginning in FY 12, 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 14 is summarized as follows (in thousands):

Face Value of Equity Index Futures	$ 143,192
Net Unrealized Holding Gains on Futures	662
Fair Value of Equity Index Futures	$ 143,854
Change in Unrealized Holding Losses	$ (120)
Realized Gains	17,445
Net Increase in Fair Value of Futures	$ 17,325

Activity and balances related to U.S. Treasury index futures for FY 14 is summarized as follows (in thousands):

Face Value of U.S. Treasury Index Futures	$ 39,178
Net Unrealized Holding Gains on Futures	44
Fair Value of U.S. Treasury Index Futures	$ 39,222
Change in Unrealized Holding Gains	$ 1,397
Realized Losses	(4,200)
Net Decrease in Fair Value of U.S. Treasury Futures	$ (2,803)

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 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:

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

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, 2014, 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	$ 573	$ 23	$ -	$ 596
Land	339	1	-	340
Construction in progress	1,306	581	(339)	1,548
Total capital assets not being depreciated	2,218	605	(339)	2,484
Capital assets being depreciated:				
Buildings	1,939	66	(21)	1,984
Intangible - Software	61	19	-	80
Equipment	937	47	(18)	966
Infrastructure	7,103	280	-	7,383
Total capital assets being depreciated	10,040	412	(39)	10,413
Less accumulated depreciation for:				
Buildings	(605)	(54)	6	(653)
Intangible - Software	(56)	(13)	-	(69)
Equipment	(489)	(42)	15	(516)
Infrastructure	(4,391)	(317)	-	(4,708)
Total accumulated depreciation	(5,541)	(426)	21	(5,946)
Total capital assets being depreciated, net	4,499	(14)	(18)	4,467
Capital assets, net	$ 6,717	$ 591	$ (357)	$ 6,951

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.

The accumulated depreciation beginning balances for Intangible-Software and Equipment are restated $2 million due to a prior year error in classifying the note disclosure impact of an audit adjustment. This restatement nets to zero in the above table and has no financial statement impact as both accounts are reported in Equipment, Net of Depreciation on the Statement of Net Position.

Business-type Activities	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets not being depreciated:				
Land	$ 31	$ -	$ -	$ 31
Construction in progress	82	46	(32)	96
Total capital assets not being depreciated	113	46	(32)	127
Capital assets being depreciated:				
Buildings	1,088	2	(2)	1,088
Equipment	100	5	(3)	102
Infrastructure	801	24	-	825
Total capital assets being depreciated	1,989	31	(5)	2,015
Less accumulated depreciation for:				
Buildings	(317)	(32)	-	(349)
Equipment	(64)	(7)	2	(69)
Infrastructure	(386)	(27)	1	(412)
Total accumulated depreciation	(767)	(66)	3	(830)
Total capital assets being depreciated, net	1,222	(35)	(2)	1,185
Capital assets, net	$ 1,335	$ 11	$ (34)	$ 1,312

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):

Governmental Activities	Amount
General Government	$ 11
Education	9
Health and Human Services	4
Law and Justice	3
Natural Resources	5
Development	1
Public Protection	26
Transportation	335
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.	31
Total Depreciation Expense – Governmental Activities	$ 425
Business-type Activities	
Enterprise	$ 66

DISCRETELY PRESENTED COMPONENT UNITS

The estimated useful lives of capital assets range from 4 to 50 years. 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. Software and Right of Use are grouped with equipment. Library and media are also grouped with Equipment. The following table summarizes net capital assets reported by the discretely presented component units at June 30, 2014 (in millions):

	Beginning Balance (Restated)	Additions	Deletions	Ending Balance
Capital assets not being depreciated:				
Land	$ 106	$ 4	$ -	$ 110
Museum collections	6	1	-	7
Construction in progress	615	406	(146)	875
Total capital assets not being depreciated	727	411	(146)	992
Capital assets being depreciated/depleted:				
Intangible - Software	1	-	-	1
Intangible - Right of Use	21	-	-	21
Land	4	-	-	4
Library and Media	56	1	-	57
Buildings	1,788	90	(16)	1,862
Equipment	631	26	(60)	597
Infrastructure	1,417	41	-	1,458
Total capital assets being depreciated/depleted	3,918	158	(76)	4,000
Less accumulated depreciation/depletion for:				
Intangible - Software	(1)	-	-	(1)
Intangible - Right of Use	(5)	(1)	-	(6)
Library and Media	(44)	(1)	-	(45)
Buildings	(879)	(59)	8	(930)
Equipment	(369)	(35)	27	(377)
Infrastructure	(588)	(49)	-	(637)
Total accumulated depreciation/depletion	(1,886)	(145)	35	(1,996)
Total capital assets being depreciated/depletion, net	2,032	13	(41)	2,004
Capital assets, net	$ 2,759	$ 424	$ (187)	$ 2,996

University of Alaska art 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 14, the University of Alaska identified that library collections should have been depreciated using a useful life of 20 years. In FY 13, the Alaska Railroad Corporation purchased an ERP accounting system that allowed for an improved capital asset identification and classification between asset classes.

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 14 totaling $1,287 thousand and $1,684 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 14 totaling $170.0 million that will mature in FY 15.

Short-term debt activity for the primary government for the fiscal year ended June 30, 2014 is as follows (in thousands):

	Beginning Balance (Restated)	Increases	Decreases	Ending Balance
Bond Anticipation Notes	$ 149,645	$ 170,000	$ 149,645	$ 170,000

The Series 2013C Bond Anticipation Notes (BAN) were issued for the purpose of paying $149.6 million of the costs of State transportation projects. The 2014 BAN were issued for the purpose of refunding the 2013C BAN and additional costs of State transportation projects.

LONG-TERM LIABILITIES

The following table summarizes changes in long-term liabilities for Governmental Activities for the fiscal year ended June 30, 2014 (in thousands):

Governmental Activities	Beginning Balance (Restated)	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Revenue bonds payable	$ 403,046	$ 1,159	$ 13,084	$ 391,121	$ 8,502
General obligation debt	742,501	-	50,781	691,720	38,358
Notes payable	-	3,300	-	3,300	629
Capital leases payable	341,765	13,842	26,190	329,417	25,878
Unearned revenue	397,181	8,719	73,201	332,699	32,851
Certificates of participation	4,910	-	1,565	3,345	1,625
Compensated absences	176,360	164,161	162,158	178,363	161,341
Claims and judgments	110,594	71,040	40,091	141,543	45,617
Pollution Remediation	99,285	3,815	24,900	78,200	8,664
Other noncurrent liabilities	991	123	-	1,114	615
Total	$ 2,276,633	$ 266,159	$ 391,970	$2,150,822	$ 324,080

Beginning balance for general obligation debt was restated due to the correction of an error accounting for the 2013C BAN as a long-term liability when it should have been reported as a short-term liability. Note 3 provides additional information on prior period adjustments.

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.

The following table summarizes changes in long-term liabilities for Business-type Activities for the fiscal year ended June 30, 2014 (in thousands):

Business-type Activities	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Revenue bonds payable	$ 565,029	$ -	$ 51,344	$ 513,685	$ 15,860
Unearned revenue	1,462	9	-	1,471	1,471
Compensated absences	4,638	3,738	3,905	4,471	3,949
Pollution Remediation	1,253	-	60	1,193	50
Total	$ 572,382	$ 3,747	$ 55,309	$ 520,820	$ 21,330

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, 2014, the following were the General Obligation Bond debt outstanding (in millions):

Year Ending June 30	Principal	Interest	Total
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	44.5	22.9	67.4
2020-2024	159.4	90.8	250.2
2025-2029	146.8	55.3	202.1
2030-2034	131.0	18.4	149.4
2035-2039	-	1.6	1.6
Total debt service requirements	643.1	$ 298.5	$ 941.6
Unamortized bond premium	48.6		
Total principal outstanding	$ 691.7		

The General Obligation Bond Series 2009A Bonds were issued for the purpose of paying $165 million of the costs of State transportation projects. The Series 2010 A and B Bonds were issued for the purpose of paying $164.57 million of the costs of State education projects. The Series 2012A Bonds were issued for the purpose of refunding $191.41 million on the 2003A Series Bonds. The Series 2013 A and B Bonds were issued for the purpose of paying $162.48 million of the costs of State education projects.

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

At June 30, 2014, the amount of General Obligation Bonds authorized was $1,012.1 million with $697.5 million issued. Of the amount issued, $170.0 million is short-term Bond Anticipation Notes. General Obligation Bonds authorized but not issued at June 30, 2014 was $314.6 million.

REVENUE BONDS

As of June 30, 2014, the following were the revenue bonds outstanding (in millions):

	Governmental Activities		Business-Type Activities	
Year Ending June 30	Principal	Interest	Principal	Interest
2015	$ 8.5	$ 18.5	$ 15.9	$ 24.3
2016	14.3	18.2	16.7	23.6
2017	12.0	17.5	18.7	22.8
2018	7.2	17.0	25.1	21.7
2019	7.9	16.6	26.4	20.4
2020-2024	45.0	77.2	150.4	80.8
2025-2029	41.2	66.0	185.6	36.2
2030-2034	49.3	55.4	50.6	9.2
2035-2039	63.0	41.8	13.7	0.9
2040-2044	85.9	23.9	-	-
2045-2049	54.2	128.4	-	-
Total debt service requirements	388.5	$ 480.5	503.1	$ 239.9
Unamortized bond (discounts)/premiums	(4.9)		10.5	
Plus accreted value	7.5		-	
Total principal outstanding	$ 391.1		$ 513.6	

There are two types of revenue bonds within governmental activities reported above, the Northern Tobacco Securitization Corporation Revenue Bonds and the State of Alaska Sport Fishing Revenue Bonds. This debt is reported in the Governmental Activities column of the Government-wide Statement of Net 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, 2014 includes $353.2 million in principal, $468.8 million in interest, $7.0 million in unamortized discount, and $7.5 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 $35.3 million in principal, $11.7 million in interest, and $2.1 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 14. At June 30, 2014 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. International Airports Revenue Bond total at year end includes $503.1 million in principal, $239.9 million in interest and $10.5 million in unamortized premium.

C. CAPITAL AND OPERATING LEASES

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

Governmental Activities	Operating	Capital Leases		
Year Ending June 30	Leases	Principal	Interest	Total
2015	$ 39.0	$ 25.8	$ 17.4	$ 43.2
2016	31.6	22.8	16.1	38.9
2017	25.3	21.2	15.0	36.2
2018	21.3	18.2	14.0	32.2
2019	16.1	18.3	52.9	71.2
2020-2024	27.3	86.6	37.1	123.7
2025-2029	3.3	73.1	12.1	85.2
2030-2034	1.6	63.4	-	63.4
2035-2039	0.2	-	-	-
2040-2044	0.2	-	-	-
2045-2049	0.2	-	-	-
2050-2054	0.2	-	-	-
2055-2059	0.2	-	-	-
2060-2064	2.0	-	-	-
Total	$ 168.5	$ 329.4	$ 164.6	$ 494.0

Leases at June 30, 2014 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, 2014 include the following (in thousands):

	Governmental Activities	Business-Type Activities
Buildings	$ 461,599	$ -
Equipment	8,195	-
Less: Accumulated Depreciation	(87,678)	-
	$ 382,116	$ -

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, 2014 (in millions):

Governmental Activities	Certificates of Participation		
Year Ending June 30	Principal	Interest	Total
2015	$ 1.6	$ 0.2	$ 1.8
2016	1.7	0.1	1.8
Total	$ 3.3	$ 0.3	$ 3.6

E. DISCRETELY PRESENTED COMPONENT UNITS

Debt service requirements are (in millions):

Year Ending June 30	Principal	Interest	Total
2015	$ 196.1	$ 155.3	$ 351.4
2016	201.2	148.1	349.3
2017	213.6	141.1	354.7
2018	194.3	133.5	327.8
2019	181.1	125.9	307.0
2020-2024	860.5	514.0	1,374.5
2025-2029	753.1	342.0	1,095.1
2030-2034	641.5	184.1	825.6
2035-2039	408.1	75.8	483.9
2040-2044	288.6	16.1	304.7
2045-2049	18.4	2.1	20.5
Total debt service requirements	3,956.5	$ 1,838.0	$ 5,794.5
Unamortized (discounts)/premiums	49.2		
Unamortized swap termination penalty	(14.0)		
Total principal outstanding	$ 3,991.7		

The preceding table does not include $810 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 Position, 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, 2014, 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, 2014, are shown below:

Related Bond Issue	Effective Dates	Fixed Rate Paid	Variable Rate Received	SWAP Termination Date	Counterparty Credit Rating [7]
GP01A [1]	12/1/2008	2.4530%	67% of 1M LIBOR [4]	12/1/2030	A/A2
GP01B	8/2/2001	4.1427%	67% of 1M LIBOR	12/1/2030	A+/Aa3
E021A1 [2]	10/9/2008	2.9800%	70% of 3M LIBOR [5]	6/1/2032	AAA/Aa2
E021A2	10/9/2008	3.4480%	70% of 1M LIBOR	12/1/2036	A+/Aa3
SC02C [3]	12/5/2002	4.3030%	SIFMA[6] +0.115%	7/1/2022	A+/Aa3
E071AB	5/31/2007	3.7345%	70% of 3M LIBOR	12/1/2041	AAA/Aa2
E071BD	5/31/2007	3.7200%	70% of 3M LIBOR	12/1/2041	A+/Aa3
E091A	5/28/2009	3.7610%	70% of 3M LIBOR	12/1/2040	A/A2
E091B	5/28/2009	3.7610%	70% of 3M LIBOR	12/1/2040	AAA/Aa2
E091ABD	5/28/2009	3.7400%	70% of 3M LIBOR	12/1/2040	A+/Aa3

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

The change in fair value and ending balance of AHFC's hedging derivatives as of June 30, 2014, 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, 2014	Fair Values June 30, 2013	Change in Fair Values
GP01A	$ 53,455	$ 56,808	$ (3,353)	$ (3,088)	$ (265)
GP01B	65,320	78,423	(13,103)	(13,753)	650
E021A1	41,920	46,115	(4,195)	(4,106)	(89)
E021A2	75,785	79,876	(4,091)	(5,011)	920
SC02C	50,760	56,741	(5,981)	(7,102)	1,121
E071AB	143,622	175,034	(31,412)	(30,462)	(950)
E071BD	95,748	116,325	(20,577)	(19,956)	(621)
E091A	72,789	89,309	(16,520)	(15,961)	(559)
E091B	72,789	89,250	(16,461)	(15,893)	(568)
E091ABD	97,052	118,535	(21,483)	(20,738)	(745)
Total	$ 769,240	$ 906,416	$(137,176)	$(136,070)	$ (1,106)

As of June 30, 2014, debt service requirements of AHFC's outstanding variable-rate debt and net swap payments are displayed in the following schedule (in thousands). As interest rates vary, variable-rate bond interest payments and net swap payments will also vary.

Year Ending June 30	Outstanding Variable-Rate Debt Principal	Outstanding Variable-Rate Debt Interest	Swap Net Payment	Total Payment
2015	$ 13,175	$ 760	$ 26,836	$ 40,771
2016	13,745	752	26,362	40,859
2017	16,765	745	25,867	43,377
2018	20,040	729	25,218	45,987
2019	20,950	710	24,495	46,155
2020-2024	143,580	3,209	108,336	255,125
2025-2029	157,395	2,542	82,815	242,752
2030-2034	158,320	1,766	54,818	214,904
2035-2039	159,220	944	27,174	187,338
2040-2043	66,050	130	3,112	69,292
	$ 769,240	$ 12,287	$ 405,033	$ 1,186,560

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, 2014, 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 33.6 percent of the total notional amount of the swaps is held with one counterparty rated AAA/Aa2. Another 31.7 percent of the total notional amount of the swaps is held with another counterparty rated A+/Aa3. Of the remaining swaps, another counterparty is also rated A+/Aa3, another counterparty is rated A/A2, and the remaining counterparty is also rated A/A2, approximating 18.3 percent, 9.5 percent, and 6.9 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, 2014, SIFMA was 0.06 percent and 1 month LIBOR was 0.1552 percent, resulting in a SIFMA/LIBOR ratio of 38.7 percent. The 3 month LIBOR was 0.2307 percent resulting in a SIFMA/LIBOR ratio of 26.0 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 $22.2 million 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, 2014, 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+/Aa3

The change in fair value of the investment derivatives as of June 30, 2014, 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, 2014	Fair Values June 30, 2013	Change in Fair Values
SC02B	$ 14,555	$ 17,083	$ (2,528)	$ (2,565)	$ 37

Credit Risk

As of June 30, 2014, 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+/Aa3.

NOTE 7 – DEFINED BENEFIT PENSION PLANS

STATE ADMINISTERED PLANS

DESCRIPTION OF PLANS

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

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

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

Prior to July 1, 1997, postemployment healthcare benefits were provided by the payment of premiums to an insurance company. Beginning July 1, 1997, the Retiree Health Fund (RHF), a pension trust fund of the State, was established. The RHF is self-funded and originally provided major medical, dental, vision, audio, and long-term care coverage to retirees of the PERS-DB, the Teacher's Retirement System – Defined Benefit (TRS-DB), and the Judicial Retirement System (JRS) 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, 2014 the number of PERS participating employers was:

State of Alaska	3
Municipalities	75
School Districts	53
Other	25
Total Employers	156

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, 2014 was capped at 22 percent of compensation.

The state's contributions to PERS-DB for the fiscal years ended June 30, 2014, 2013 and 2012 were $248.2, $244.9, and $201.2 million respectively for the year. For the FY 14 contributions, $124.0 million was for pensions and $124.2 million was for postemployment benefits. The contributions were equal to the required contributions in FY 14.

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 14 SLA 2013 appropriated $312.5 million from the General Fund to the PERS-DB as an additional state contribution for FY 14. The portion of this payment attributable to State of Alaska employers is $186.3 million, of which $105.4 million is for pensions and $80.9 million 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):

		Annual required contributions			
Year ended June 30	Actuarial valuation year ended June 30	Pension	Postemployment healthcare	Total	Total percentage contributed
2011	2008	$ 220,419	$ 525,075	$ 745,494	71.4%
2012	2009	351,674	498,433	850,107	73.6
2013	2010	382,889	612,792	995,681	62.6

The components of the net pension liability of the participating employers at June 30, 2014, were as follows:

Total Pension Liability	$ 12,395,578
Plan Fiduciary Net Position	7,731,438
Employers' Net Pension Liability (Asset)	$ 4,664,140
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	62.37%

The following presents the net pension liability of the System calculated using the discount rate of 8 percent, as well as what the Systems' net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) that the current rate:

	1% Decrease (7%)	Current discount rate (8%)	1% Increase (9%)
Net pension liability (Asset)	$ 6,115,582	$ 4,664,140	$ 3,441,889

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

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

Prior to July 1, 1997, postemployment healthcare benefits were provided by the payment of premiums to an insurance company. Beginning July 1, 1997, the 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, and JRS 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, 2014 the number of participating employers was:

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

TRS-DB Plan members contribute 8.65 percent of their base salary, as required by statute. The employee contributions are deducted before federal income tax is withheld.

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, 2014 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, 2014, 2013, and 2012 were $5.1, $5.3, and $5.7 million respectively, equal to the required contributions for each year. For the FY 14 contributions, $2.7 million was for pensions and $2.4 million was for postemployment benefits. The contributions were equal to the required contributions in FY 14.

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 14 SLA 2013 appropriated $316.8 million from the General Fund to the TRS-DB as an additional state contribution for FY 14. The portion of this payment attributable to State of Alaska employers is $18,885 thousand, of which $12,450 thousand is for pensions and $6,435 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):

		Annual required contributions			
Year ended June 30	Actuarial valuation year ended June 30	Pension	Postemployment healthcare	Total	Total percentage contributed
2011	2008	$ 167,978	$ 167,686	$ 335,664	77.3%
2012	2009	229,509	192,700	422,209	65.4
2013	2010	259,786	330,411	590,197	44.0

The components of the net pension liability of the participating employers at June 30, 2014, were as follows:

Total Pension Liability	$ 6,770,201
Plan Fiduciary Net Position	3,771,139
Employers' Net Pension Liability (Asset)	$ 2,999,062
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	55.70%

The following presents the net pension liability of the System calculated using the discount rate of 8 percent, as well as what the Systems' net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) that the current rate:

	1% Decrease (7%)	Current discount rate (8%)	1% Increase (9%)
Net pension liability (Asset)	$ 3,776,983	$ 2,999,062	$ 2,346,163

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, and JRS 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, 2014, was 73.28 percent of compensation. Total contributions for FY 14 were $8.7 million for pensions, and $1.1 million for postemployment benefits.

The Schedule of Required Contributions follows (in thousands):

		Annual required contributions				
Year ended June 30	Actuarial valuation year ended June 30	Pension	Postemployment healthcare	Total	Pension percentage contributed	Postemployment healthcare percentage contributed
2011	2012	$ 3,896	$ 723	$ 4,619	98.5%	80.1%
2012	2012	5,052	713	5,765	107.3	97.8
2013	2013	5,186	466	5,652	79.9	2.6

Included in the total contributions amounts above is $4.5 million appropriated in Chapter 14 SLA 2013 from the General Fund to JRS as an additional state contribution for FY 14 for the purpose of funding the retirement system.

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 roll forward of the valuation dated June 30, 2010 set the contribution rates for the year ended June 30, 2014. The State of Alaska's net pension and other postemployment benefit (OPEB) obligations for FY 14 follows (in thousands):

	Pension	OPEB
Annual Required Contribution	$ 5,186	$ 467
Interest on net pension asset	(189)	(63)
Adjustment to annual required contribution	166	55
Annual Pension Cost (APC)/OPEB Cost (AOC)	5,163	459
Contributions Made	(8,682)	(1,061)
Increase in Obligation	(3,519)	(602)
Net Pension Obligation/(Asset) Beginning of Year	(2,360)	(785)
Net Pension Obligation/(Asset) End of the Year	$ (5,879)	$ (1,387)

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

Pension	Year Ended June 30	APC	Percentage of APC Contributed	Net Pension Obligation /(Asset)
	2012	$ 5,255	96.0%	$ 1,751
	2013	5,054	153.5%	(2,494)
	2014	5,163	168.2%	(5,879)

OPEB	Year Ended June 30	AOC	Percentage of AOC Contributed	Net OPEB Obligation /(Asset)
	2012	$ 1,441	67.5%	$ 1,110
	2013	710	164.7%	(785)
	2014	459	231.2%	(1,387)

The components of the net pension liability of the participating employers for the Plan at June 30, 2014, were as follows:

Total Pension Liability	$ 201,397,651
Plan Fiduciary Net Position	139,547,440
Employers' Net Pension Liability (Asset)	$ 61,850,211
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.29%

The following presents the net pension liability of the System calculated using the discount rate of 8 percent, as well as what the Systems' net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

	1% Decrease (7%)	Current discount rate (8%)	1% Increase (9%)
Net pension liability (Asset)	$ 84,067,949	$ 61,850,211	$ 43,000,097

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 actuarial roll forward of the valuation dated June 30, 2010 set the contribution rates for the year ended June 30, 2014. The State of Alaska's net pension obligation for FY 14 follows:

Annual Required Contribution	$	474,791
Interest on net pension asset		(31,705)
Adjustment to annual required contribution		70,889
Annual Pension Cost (APC)		513,975
Contributions Made		(740,100)
Increase/(Decrease) in Net Pension Asset		(226,125)
Net Pension Obligation/(Asset) Beginning of Year		(452,930)
Net Pension Obligation/(Asset) End of the Year	$	(679,055)

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

Year Ended June 30	APC	Percentage of APC Contributed	Net Pension Obligation/ (Asset)
2012	$ 896	100.0%	$ (159)
2013	431	171.3%	(453)
2014	475	144.0%	(679)

The components of the net pension liability of the participating employers for the plan at June 30, 2014, were as follows:

Total Pension Liability	$	35,311,535
Plan Fiduciary Net Position		37,467,105
Employers' Net Pension Liability (Asset)	$	(2,155,570)
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability		106.10%

The following presents the net pension liability of the System calculated using the discount rate of 7 percent, as well as what the Systems' net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6 percent) or 1-percentage-point higher (8 percent) than the current rate:

	1% Decrease (6%)	Current discount rate (7%)	1% Increase (8%)
Net pension liability (Asset)	$ (450,532)	$ (2,155,570)	$ (3,686,221)

ASSET VALUATION

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

Systems	Fair Value
Public Employees' Retirement System	$14,668,741
Teachers' Retirement System	6,035,450
Judicial Retirement System	165,840
Alaska National Guard and Alaska Naval Militia Retirement System	37,556

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 is as of the most recent valuation report date.

	PERS	TRS	JRS	NGNMRS
	6/30/14	6/30/14	6/30/14	6/30/12
Inactive plan members or beneficiaries currently receiving benefits	30,376	11,726	108	608
Inactive plan members entitled to but not yet receiving benefits	18,500	3,162	3	1,308
Current active employees	19,474	5,995	75	4,397
Total	68,350	20,883	186	6,313

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	17 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.	6/30/2013
TRS	8% Includes Inflation at 3.12%	Entry age normal; level percentage of pay Normal Cost Basis for pension; level dollar Normal Cost for healthcare	Level dollar, closed	17 years	6.11% for first 5 years of service grading down to 3.62% after 20 years	6/30/2013
JRS	8% Includes Inflation at 3.12%	Entry age normal; level percentage of pay Normal Cost Basis for pension; level dollar Normal Cost Basis for healthcare	Level dollar, closed	20 years	4.12%	6/30/2012
NGNMRS	7% Includes Inflation at 3.12%	Entry age normal	Level dollar, open	20 years less average military service of active members	None	7/1/2013

		Health Care Inflation		
		Medical Pre-65	Medical Post-65	Rx
For all systems above	FY14	8.70%	6.40%	6.30%
(excluding NGNMR):	FY15	8.50%	6.30%	6.20%

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 are valued at a five year smoothing asset valuation method.

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. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

NOTE 8 – DEFINED CONTRIBUTION PENSION PLANS

STATE ADMINISTERED PLANS

DESCRIPTION OF PLANS

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

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

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

As of June 30, 2014, there were 158 employers participating in PERS-DCR. There were 16,210 active members, of which 14,882 are general employees and 1,328 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 14 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, 2014 by the employees were $35,161 thousand and the State of Alaska employers were $21,976 thousand. The PERS other postemployment contributions for the year ended June 30, 2014 were $16,788 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, 2014 is $704,965 thousand. PERS-DCR investments in collective investment funds, held in trust, are stated at fair value based on the unit value as reported by the Trustees multiplied by the number of units held by PERS-DCR. The unit value is determined by the Trustees based on the fair value of the underlying assets. Purchases and sales of securities are recorded on a trade-date basis.

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

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

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

As of June 30, 2014, there were 58 employers participating in TRS-DCR. There were 3,650 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 14 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, 2014 by the employees were $576 thousand and the State of Alaska employers were $504 thousand. The TRS other postemployment contributions for the year ended June 30, 2014 were $236 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, 2014 is $282,865 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 June 30, 2014, there were 22 other employers participating in SBS. There were 42,828 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 ended June 30, 2014, were $74,867 thousand. The State's covered payroll was approximately $1,221,314 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 ended June 30, 2014, were $2,801 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 June 30, 2014. 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.

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 June 30, 2014 the Deferred Compensation Plan had approximately 10,500 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 June 30, 2014 were $796,592 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, 2014, and interfund transfers for the year then ended (in thousands):

INTERFUND RECEIVABLE / PAYABLE BALANCES

	Due from Other Funds							
Due to Other Funds	General Fund	Nonmajor Governmental Funds	International Airports	Nonmajor Enterprise Funds	Internal Service Funds	Fiduciary Funds	Other	Total
General Fund	$ -	$ 2,036	$ 53	$ 921	$ 6,373	$ 30,492	$ 41,511	$ 81,386
Alaska Permanent Fund	1,266,763	-	-	-	-	-	-	1,266,763
Nonmajor Governmental Funds	42,006	8	-	-	-	-	-	42,014
International Airports	28,650	-	-	-	-	-	-	28,650
Nonmajor Enterprise Funds	2,047	-	-	-	-	-	-	2,047
Internal Service Funds	1,263	-	-	-	-	-	-	1,263
Fiduciary Funds	13,392	-	-	-	-	-	-	13,392
Other	-	-	-	-	-	-	-	-
Total	$1,354,121	$ 2,044	$ 53	$ 921	$ 6,373	$ 30,492	$ 41,511	$1,435,515

The $1,266.8 million balance due from the Alaska Permanent Fund to the General Fund includes $1,200.4 million for payment of 2014 Permanent Fund dividends to qualified residents of the State and $31.9 million to be transferred to the Alaska Capital Income Fund. The balance is for administrative and associated costs of the 2014 Permanent Fund Dividend Program.

The amounts reported as "Other" represents cash received in FY 15 for a receivable in FY 14 not reported by the Alaska Permanent Fund's audited financial statements.

INTERFUND TRANSFERS

	Transfers to					
Transfers From	General Fund	Nonmajor Governmental Funds	International Airports	Nonmajor Enterprise Funds	Internal Service Funds	Total
General Fund	$ -	$ 72,163	$ 4,335	$ 39	$ 16,027	$ 92,564
Alaska Permanent Fund	1,266,763	-	-	-	-	1,266,763
Nonmajor Governmental Funds	37,468	7,245	-	-	-	44,713
Nonmajor Enterprise Funds	3,747	-	-	-	-	3,747
Total	$ 1,307,978	$ 79,408	$ 4,335	$ 39	$ 16,027	$ 1,407,787

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 $1,200.4 million transfer for payment of the Permanent Fund dividends and for administrative and associated costs of the dividend program and a $31.9 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 $8.6 million for providing these services during the year ending June 30, 2014. At June 30, 2014 AIDEA had $5.9 million 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, 2014 is $18,501 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, 2014 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, 2014 was $4,696 thousand.

For the year ended December 31, 2013, Alaska Railroad Corporation issued a $1,940 thousand note payable to the State of Alaska, Department of Transportation and Public Facilities in exchange for real property.

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, 2014, is $19,159 thousand. This amount was calculated using the base pay on file for each employee as of June 30, 2014. 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 14 expended for school debt was $109,801 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 $1,157,644 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 14, 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: $1 billion 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, 2013 and June 30, 2014. 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 13 and a 3.0 percent discount interest rate for FY 14. 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
2013	$ 92,447,351	$ 47,239,404	$ (36,801,179)	$ 102,885,576
2014	102,885,576	60,080,814	(40,091,359)	122,875,031

D. LITIGATION AND ADMINISTRATIVE APPEALS

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 $18,141 thousand, with an additional possible liability of $25,436 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.

The Department of Revenue Oil and Gas Audit Group performs periodic audits of oil and gas companies. Audits may result in additional assessments. Oil and gas companies often choose to pay the additional assessments "under protest" to avoid accruing interest. Because these payments are deposited in the Constitutional Budget Reserve Fund but are still under dispute, the oil and gas audit assessment revenues recognized in the Constitutional Budget Reserve Fund could be adversely affected by a potential refund resulting from an appeals decision issued by the Department of Revenue's Appeals Group. The amount of potential refund could not be estimated.

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, 2014, 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, 2014, 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 $90,993 thousand and $43,329 thousand respectively.

As of June 30, 2014, 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 $1,276 thousand, the Alaska Fisheries Enhancement Revolving Loan Fund for $5,008 thousand, and the Alaska Bulk Fuel Loan Program for $7,387 thousand.

At June 30, 2014, the Alaska Energy Authority had open loan commitments of $8,968 thousand.

At June 30, 2014, the Alaska Industrial Development and Export Authority (AIDEA) had extended loan participation purchase commitments of $30.8 million, loan guarantees of $1.2 million, and extended commitments to fund borrowings not to exceed $23.1 million from the Sustainable Energy Transmission and Supply Development Fund.

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. AIDEA can guarantee only loans AIGA needs to meet cash flow needs up to a maximum of $30 million in outstanding principal balance at any time. No guarantees have been made pursuant to this authorization.

H. POTENTIAL DEVELOPMENT PROJECTS

The Alaska Gasline Development Corporation (AGDC) 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.

The AGDC entered into a Joint Venture Agreement effective July 1, 2014, with affiliates of ExxonMobil, BP, ConocoPhillips, and TransCanada Corporation, for a proposed Alaska Liquified Natural Gas (AK LNG) project. The project

is to jointly fund and conduct Pre Front End Engineering (Pre-FEED) work consisting of engineering, design, permitting and related studies for a North Slope treatment plant, large-diameter pipeline from the North Slope to Nikiski and liquefied natural gas plant and marine terminal at Nikiski. Costs of the overall project are estimated to be $45 billion to $65 billion and the estimated export of LNG is 15 million to 18 million tons per year. Under the agreement, the AGDC would contribute $31 million and $22.4 million in FY 15 and FY 16, respectively, to carry out the Pre-FEED work for the AK LNG project.

I. INVESTMENT COMMITMENTS

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

	Amounts in thousands			
Investment Type/Term	PERS	TRS	JRS	NMRS
Domestic Equity Limited Partnerships				
Withdrawn annually in December with 90-days notice.	$ 10,048	$ 4,123	$ 112	$ 22
Private Equity				
To be paid through 2024.	-	-	7,735	-
To be paid through 2022.	694,103	284,783	-	-
Energy				
To be paid through 2023.	72,039	29,557	803	-
Real Estate				
To be paid through 2024.	310,920	123,748	3,151	-
	$ 1,087,110	$ 442,211	$ 11,801	$ 22

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 one fund.

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, 2013, the General Fund had pollution remediation obligations of $99,285 thousand. As of June 30, 2014, the State had an increase to the obligation of $3,815 thousand and recognized a decrease of $24,900 thousand, for an ending balance of $78,200 thousand in pollution remediation obligation related activities. The State has an estimated potential recovery of $21,635 thousand from other responsible parties.

At July 1, 2013, the International Airports Fund (IAF) reported pollution remediation liabilities of $1,253 thousand for which IAF is in whole or in part a responsible party. As of June 30, 2014 IAF had recognized a decrease of $60 thousand, and no increase for an ending balance of $1,193 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, 2012, the Alaska Railroad Corporation had pollution remediation obligations of $1,385 thousand. As of December 31, 2013, the Alaska Railroad Corporation had additional obligations of $1,455 thousand and reductions in obligations of $367 thousand, for an ending liability of $2,473 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, 2014 (in thousands):

	Amount (in thousands)
General Fund	$ 1,570,690
Special Revenue Funds	39,805
Capital Project Funds	148,450
Total Encumbrances	$ 1,758,945

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 $459.2 million of which $352.2 million is in the General Fund, $91.0 million is within Capital Project Funds, and $16.0 million is within Special Revenue Funds. These projects are funded by the general funds, investment income from a settlement, gambling tax revenues, bond proceeds, funding from a component unit, and oil and gas lease revenues.

The Department of Administration, Department of Education and Early Development, Department of Health and Social Services, Department of Labor and Workforce Development, Department of Military and Veterans Affairs, and the Department of Transportation and Public Facilities have several construction/maintenance projects underway totals $280.1 million of which $245.5 million is in the General Fund and $34.6 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 $44.0 million funded by general fund resources and the State's master lease letter of credit.

L. EFFECTS OF MEDICAID INFORMATION SYSTEM DEFECTS

October 1, 2013 the Department of Health and Social Services (DHSS) legacy Medicaid system was replaced by the Alaska Health Enterprise (AHE) system. After the system went live, it was discovered that AHE had numerous system defects affecting every area of AHE operations. Due to the complexity of claim pricing, the total amount affected by AHE system defects cannot be reasonably estimated before the defects are corrected.

NOTE 13 – SUBSEQUENT EVENTS

A. ALASKA MUNICIPAL BOND BANK AUTHORITY

Subsequent to year end, the Alaska Municipal Bond Bank Authority issued a preliminary statement for the 2014 Series Three general obligation and refunding bonds issue in the approximate par amount of $58 million. Final issuance is expected to take place in October 2014.

B. ALASKA CLEAN WATER FUND

Pursuant to legislative authorization obtained during the 2014 session of the Alaska Legislature, plans are in place to issue Series A Revenue Bond Anticipation Notes for FY 15 in an amount not to exceed $1,602 thousand. Although this transaction has not yet been finalized, the issuance of the bonds will occur in mid-FY 15. The borrowing is to be secured by interest earnings of the Alaska Clean Water Fund.

C. ALASKA DRINKING WATER FUND

Pursuant to legislative authorization obtained during the 2014 session of the Alaska Legislature, plans are in place to issue Series A Revenue Bond Anticipation Notes for FY 15 in an amount not to exceed $1,692 thousand. Although this transaction has not yet been finalized, the issuance of the bonds will occur in mid-FY 15. The borrowing is to be secured by interest earnings of the Alaska Drinking Water Fund.

D. ALASKA HOUSING FINANCE CORPORATION (AHFC)

On August 27, 2014, AHFC issued $140 million State Capital Project Bonds II, 2014 Series C. The bonds are general obligation bonds of AHFC. The 2014 Series C bonds are federally taxable and bear interest at a floating rate equal to a money market reference rate, like LIBOR, plus a quoted spread, payable each June 1 and December 1, commencing on December 1, 2014. The bonds have a final maturity date of December 1, 2029.

In November 2014, AHFC issued $78.1 million State Capital Project Bonds II, 2014 Series D. The bonds are general obligations bonds of AHFC. The 2014 Series D bonds are tax exempt and bear interest at fixed rates between two and five percent payable each June 1 and December 1 with final maturity of June 1, 2029.

In October 2014, AHFC made the commitment to issue up to $14.7 million of Tax Exempt Direct Purchase Bonds, Series 2014 (ANC MV Phase I Limited Partnership project) with $100 thousand being issued at that time. AHFC issued this debt to assist ANC MV Phase I Limited Partnership with the construction of facilities that will help AHFC fulfill its mission of making housing affordable for all Alaskans. AHFC's component unit Alaska Corporation for Affordable Housing is a partner of ANC MV Phase I Limited Partnership. Neither AHFC nor the State is obligated in any manner for repayment of the bonds. Accordingly, the bonds and any related assets are not reported as assets or liabilities in AHFC's financial statements.

E. ALASKA AEROSPACE CORPORATION (AAC)

On August 25, 2014, a failure occurred on the launch vehicle within seconds of launch at AAC's rocket launch facility on Kodiak Island. The vehicle was destroyed per well-defined safety requirements, resulting in destruction of the launch vehicle shortly after leaving the launch pad causing extensive damage to AAC's rocket launch facility. There were no injuries, and the vehicle debris was contained on Kodiak Launch Complex property.

The emergency plan was implemented, and access was restricted to the affected areas of the Narrow Cape area. The Explosive Ordinance Detachment team from Joint Base Elmendorf/Richardson was notified and mobilized immediately. Failure notifications were made directly to the Governor's office, State Risk Management, and other State agencies such as the Department of Natural Resources and Department of Environmental Conservation. Detailed damage evaluations are in process, and the results will be shared with the Alaska Risk Management office and the customer. Detailed site clean-ups and the environmental assessments are in process by both the customer and the AAC teams. Planning for site recovery and repairs from the mission-related damage are in-process. The overall site is able to be repaired or replaced in time for future missions.

Access to the public areas of Narrow Cape was re-opened on October 10, 2014.

F. STATE OF ALASKA – CERTIFICATES OF PARTICIPATION

On August 26, 2014 the State of Alaska sold a par amount of $30.9 million of Certificates of Participation (COPs) to fund $35 million of the Alaska Native Tribal Health Consortium's Alaska Native Medical Center Residential Housing Facility. The COPs are subject to annual appropriation commitment of the State of Alaska for the term of the underlying leases. The COPs have a 15 year level debt service amortization of approximately $2.9 million per year based on a True Interest Cost of 2.88%. The COP issuance was closed on September 17, 2014 and the first debt service payment will be due on June 1, 2015.

G. STATE OF ALASKA – PENSION CONTRIBUTIONS

The Alaska State Legislature and Governor approved SLA 2014, Chapter 18, Section 48 which appropriated $3 billion from the Constitutional Budget Reserve Fund, a subfund of the General Fund, to the Public Employees Retirement System and Teachers Retirement System for $1 billion and $2 billion respectfully. This is an additional state contribution to these plans for the fiscal year ended June 30, 2015. In July 2014 and November 2014 transfers processed which total $2 billion. The final $1 billion transfer is scheduled for March 2015.