

TREASURY DIVISION  
DEPARTMENT OF REVENUE  
STATE OF ALASKA

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**B. Constitutional Budget Reserve Fund - Investment Policy Statement**

1. Overview

The state must deposit in a Constitutional Budget Reserve Fund (CBRF) all money received by the state after July 1, 1990 as a consequence of the resolution of disputes about the amount of mineral lease bonuses, royalties or taxes.

The Legislature may appropriate funds from the CBRF to fund the operations of state government only under certain conditions. If, at any time, the amount of funds from other sources available to the Alaska Legislature for appropriation is less than the amount appropriated to fund state government for the previous fiscal year, then the Legislature may appropriate from the CBRF on a simple majority vote. When the amount of funds from other sources exceeds the amount appropriated for the previous fiscal year, the Legislature may appropriate from the Fund for any public purpose with a three-fourths vote of the members of each house.

The Alaska state constitutional provision governing the operation of the CBRF requires the state's general fund to repay the money that has been appropriated from the CBRF if and when there is a surplus in the general fund at the end of any fiscal year. The general fund does not pay interest on the money it has "borrowed" from the CBRF.

Treasury's investment policies for the CBRF have changed over the years as the balance and the expected uses of the CBRF have changed. A significant change occurred in 2000 when the 21<sup>st</sup> Legislature created a special subaccount in the CBRF in order to "yield higher returns than might be feasible to obtain with other money in the budget reserve fund." The legislature directed that "In establishing or modifying the investment policy for the subaccount in the constitutional budget

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reserve fund, the commissioner of revenue shall assume that those funds will not be needed for at least five years. Income earned on money in the subaccount shall be retained in the subaccount by the department.” AS 37.10.430(c).

Treasury, according to the constitution, credits to the CBRF the amount earned by the investment of the money in the CBRF. That is, the main account of the CBRF retains its investment earnings and the subaccount of the CBRF retains its investment earnings.

[Appendix V](#) contains the constitutional and statutory provisions applicable to the CBRF.

## 2. History

- November 1990. Voters of Alaska adopt an amendment to the Alaska State Constitution creating the CBRF. Article IX, 17 - See [Appendix V](#).
- 1992-1994. Litigation over meaning of key terms in the constitutional provision.
- 1994. Legislature attempts to define “administrative proceedings involving taxes” and “money available for appropriation.” 1 Ch. 5 SLA 1994. AS 37.10.410-420.
- April 1994. Alaska Supreme Court decision in *Hickel v. Halford* 872 P.2d 171 defining scope of "dispute" and "administrative proceedings."
- May 1994. Alaska Supreme Court decision in *Hickel v. Cowper* 874 P.2d 922 defining meaning of "amount available for appropriation."
- 1996. Legislature modifies definition of "administrative proceedings involving taxes." 5 Ch. 108 SLA 1996. See [Appendix V](#).
- 1996. Legislature grants commissioner discretion to transfer management of all or a portion of CBRF to Alaska Permanent Fund Corporation. 1 Ch. 41 SLA 1996. AS 37.10.430. See [Appendix V](#).

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- 1997. Commissioner of Revenue decides to manage and invest all of CBRF through the Treasury Division, and Commissioner adopts Reserves Policy for the state.
- 1997. Commissioner adopts investment policy for CBRF based on three separate purposes of CBRF:
  - Fund to implement the state's Reserves Policy to cover anticipated and unanticipated shortfalls in the next two fiscal years' budgets;
  - Fund to provide a transition to a long-term fiscal plan; and
  - Fund to act as long-term reserve account to cover unanticipated budget shortfalls well into the future.
- June 1997. Legislature appropriates money from the CBRF for the first time from the CBRF to pay for CBRF equity investment management fees.
- July 1998. Because of anticipated heavy use of CBRF in short to medium term to balance state budgets, Commissioner modifies investment policy and eliminates consideration of using a portion of the CBRF to act as long-term reserve account.
- December 1998. Treasury reviews the Department of Revenue's Fall oil revenue forecast and the Office of Management and Budget's updated expenditure forecast. Treasury determines that the CBRF will be exhausted within five years to meet revenue shortfalls. Commissioner modifies investment policies and eliminates all equity investments.
- July 1999-September 1999. Treasury recommends and Commissioner accepts an investment policy recognizing a two-year investment horizon for the entire balance of the CBRF. Very large draws on CBRF to balance FY 98 and FY 99 budgets, together with a projected \$600 million to \$1.0 billion draw to balance FY 00 budget, reduces the anticipated time horizon for the balance of fund. Commissioner concludes this change is appropriate no matter how the public votes in the September 14, 1999 special election relating to the state's long-range finances. Similarly, the Commissioner concludes that the higher oil prices experienced in the late spring and summer of 1999 should not alter this proposed policy.
- April 2000. Treasury recommends and Commissioner accepts an investment policy that recognizes a balance in the CBRF in excess of the state's two year reserve requirement and the state's cash flow needs. Higher than

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anticipated oil prices and a significant settlement increased the balance of the CBRF enough to cause the change in the investment policy.

- July 2000. A significant change in the legislation relating to the fund caused Treasury to recommend significant changes to the investment policy of the fund. Treasury recommended and the commissioner accepted an investment policy that recognized a distinction for the newly created subaccount of the fund, the likely life of the fund, and the role of the balance of the fund in filling the reserve requirements of the State. *Revised documents relating to those policy decisions may be found in Appendices [W](#) and [X](#).*)

In the ten years that the Fund had been in existence, the Department had not been able to maintain a consistent investment policy in part because the balance, purpose, and intended use of the fund, and consequent investment time frame, had changed over time. The Department would consider the asset allocation of that portion of the CBRF needed to fill the State reserve policy separately from the remainder, if any. The Department would develop two separate investment policies, which it would then blend to create one policy for the Fund. This process led to frequent changes in the CBRF investment policy based on changes in assumptions or circumstances that had a material effect on the amounts of the CBRF not needed to meet the State's reserve policy.

This was the fifth major change in the investment policy for the CBRF over the preceding 24 months. The Department believed that as a result of this change to its process, changes to the investment policy in the future will be more evolutionary in nature and more likely than not caused by changes in the capital market assumption that Department receives each year. The table below shows the investment policies that had been in place for the entire CBRF over the previous several years.

	7/97- 7/98	7/98- 12/98	12/98- 8/99	8/99- 4/00	4/00- 7/00
Equity Pool	19%	9%			
Broad Market Pool	49%	33%	44%		10%
Intermediate- term Pool	31%	47%	30%	85%	75%
Short-term Pool	1%	11%	26%	15%	15%

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Many of these changes were caused by the unexpected decline in oil prices from late 1997 through early 1999. This price decline and the consequent revenue shortfall required substantially larger than expected draws from the CBRF. This in turn reduced the CBRF balance substantially and shortened its average investment time horizon from almost five years to less than two years. The average time horizon of the fund increased slightly in the spring of 2000.

Three developments gave rise to the need to change investment policy for the CBRF on July 1, 2000. First was the creation of the “subaccount” by the Legislature. Second was a decision by the Department to create only one investment policy for the main account rather than continue with its past practice of developing several individual policies for various segments and then combining them. Finally, continued high oil prices extended the expected life of the fund. Based on these developments the Department created the separate investment policies for the main account and the subaccount.

Effective July 1, 2000 the main account’s investment policy was changed to 10% Short-term Pool, 65% Intermediate-term Pool and 25% Broad Market Pool.

The subaccount of the CBRF was created by the legislature with the express intent of investing it more aggressively in an attempt to “yield higher returns than might be feasible to obtain with other money in the budget reserve fund” AS 37.10.430(c). In giving this instruction the legislature provided statutory authority for the commissioner to have a clearly different risk tolerance when investing this money. Specifically the legislature provided that, “In establishing or modifying the investment policy for the subaccount in the constitutional budget reserve fund, the commissioner of revenue shall assume that those funds will not be needed for at least five years.” AS 37.10.430(c). The Department has publicly maintained and believes that time horizon is a major determinant to risk tolerance. In developing the investment policy for the CBRF over the years the possibility that the State could exhaust the Fund in just a few years has led to a more conservative investment policy than would otherwise have been the case. The legislature explicitly removed this constraint from the Commissioner when developing investment policy for the subaccount.

The legislature did not establish how much higher the expected rate of return might be or exactly how much risk could or should be accepted in the investment policy for the subaccount. The Department was left to consider these questions in light of how it and other fiduciaries would address the questions for a long-term endowment like fund. The most common approach to development of investment policies for endowments and other long-term funds is to look at historically achievable real or inflation adjusted returns for various asset classes and overall portfolios. Using this information, adjusted for current conditions and future

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expectations, fiduciaries can judge the likelihood of achieving various levels of returns and what the risk of the investment policies might be.

Treasury has concluded that a 5 percent real expected rate of return should be the target of the investment policy for the subaccount.

Effective July 1, 2000 the subaccount's investment policy was set at 41% Domestic Equity Pool, 17% International Equities and 42% Broad-Market Pool.

- March 2003. The asset allocation policy for the main account was changed to 20% Short-term Pool, 60% Intermediate-term Pool and 20% Broad Market Pool effective July 1, 2003.

The subaccount asset allocation policy was changed to 17% International Equities, 39% Domestic Equity Pool and 44% Broad Market Pool effective July 1, 2003.

- July 2004. The asset allocation policy for the main account was changed to 22% Short-term Pool, 58% Intermediate-term Pool and 20% Broad Market Pool effective July 1, 2004.

The subaccount asset allocation policy was changed to 16% International Equities, 43% Domestic Equity Pool and 41% Broad Market effective July 1, 2004.

- July 2005. The asset allocation policy for the main account was changed to 18% Short-term Pool, 62% Intermediate-term Pool and 20% Broad Market Pool effective July 1, 2005.

The subaccount asset allocation policy was not changed.

- July 2006. The asset allocation policy for the main account was changed to 20% Broad Market Pool, 72% Intermediate-term Pool, and 8% Short-term Pool effective July 1, 2006.

The subaccount asset allocation policy was changed to 39% Broad Market Pool, 44% Domestic Equity Pool and 17% International Equities effective July 1, 2006.

- July 2007. The asset allocation policy for the main account was changed to 20% Broad Market Pool, 76% Intermediate-term Pool, and 4% Short-term Pool effective July 1, 2007.

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The subaccount asset allocation policy was changed to 36% Broad Market Pool, 45% Domestic Equity Pool, 19% International Equities, and 0% Short Term Pool effective July 1, 2007.

- April 2008. \$4.1 billion deposited into the subaccount. Of this, \$1.5 billion was from the main account and the remaining \$2.6 billion came from the General Fund as a part of the repayment of the CBRF borrowing. The \$2.6 billion from the General Fund was due to an increase in petroleum revenues collected in FY 08, which also allowed for a transfer of \$1 billion to the Statutory Budget Reserve Fund (SBR). The remaining petroleum revenue surplus was transferred to the CBRF to repay previous borrowing as required by Article IX, section 17(d) of the Alaska Constitution.
- July 2008. The asset allocation policy for the main account was changed to 20% Broad Market Pool, 75% Intermediate-term Pool, and 5% Short-term Pool.
- September 2008. The subaccount asset allocation policy was changed to 36% Conservative Aggregate Pool, 44% Domestic Equity Pool, 19% International Equities, 1% LEI+ Mandate effective September 30, 2008.

During FY09 an additional payment was made from the General Fund in the amount of \$1 billion, which repaid all remaining borrowings from the CBRF.

- July 2009. The asset allocation policy for the main account was changed to 20% Broad Market Pool, 71% Intermediate-term Pool, and 9% Short-term Pool.
- July 2009. The subaccount asset allocation policy was changed to 35% Conservative Aggregate Pool, 44% Domestic Equity Pool, 20% International Equities, and 1% LEI+ Mandate.
- December 2009. The subaccount asset allocation policy was changed due to a replacement of the Conservative Aggregate Pool with a respective allocation to the Broad Market Pool and the U.S. Treasury Pool (90% Broad Mkt. and 10% U.S. Treasury). The resulting allocation was 32% Broad Market Pool, 3% US Treasury Pool, 44% Domestic Equity Pool, 20% International Equities, and 1% LEI+ Mandate.
- July 2010. The asset allocation policy for the CBRF Main account was unchanged.
- July 2010. The subaccount asset allocation policy was changed to 35% Broad Market Pool, 3% Intermediate Treasury Pool, 52% Domestic Equity Pool,

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9% International Equities, and 1% LEI+ Mandate. There is an option to allocate up to a maximum of 2% of the fund to the Short-term Pool.

- July 2011. The asset allocation policy for the CBRF Main account was changed to 20% Broad Market Pool, 61% Intermediate-term Pool, and 19% Short-term Pool.

- July 2011. The CBRF Subaccount asset allocation policy was changed to 41% Broad Market Pool, 27% Domestic Equity Pool, and 32% International Equities.

- July 2012. The asset allocation policy for the CBRF Main account was unchanged with the exception of a policy that permits up to a 2% allocation to Bank Bonds.

- July 2012. The CBRF Subaccount asset allocation policy was changed to 42% Broad Market Pool, 38% Domestic Equity Pool, and 20% International Equities.

- July 2013. The asset allocation policy for the CBRF Main account was unchanged.

- July 2013. The asset allocation policy for the CBRF Subaccount was unchanged.

- July 2014. The asset allocation policy for the CBRF Main account was changed to 20% Broad Market Pool, 33% Intermediate-term Pool, and 47% Short-term Pool.

- July 2014. The CBRF Subaccount asset allocation policy was changed to 39% Broad Market Pool, 40% Domestic Equity Pool, and 21% International Equities.

- Fiscal Year 2015. Additional state contributions were made for the fiscal year ending June 30, 2015 from the CBRF into the retirement system. The sum of \$1 billion was appropriated from the CBRF to the Department of Administration for deposit in the defined benefit plan account in the public employees' retirement system as an additional state contribution for the fiscal year ending June 30, 2015. The sum of \$2 billion was appropriated from the CBRF to the Department of Administration for deposit in the defined benefit plan account in the teachers' retirement system as an additional state contribution for fiscal year ending June 30, 2015. Please see Section 48 of FY 2015 Capital Budget Bill SB 119.

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- April 2015. The CBRF Subaccount balance was transferred to the Main account. When originally creating the Subaccount the legislature provided that “In establishing or modifying the investment policy for the subaccount in the constitutional budget reserve fund, the commissioner of revenue shall assume that those funds will not be needed for at least five years.” AS 37.10.430(c).
- July 2015. The asset allocation policy for the CBRF Main account was changed to 70% Short-term Pool, 23% Broad Market Pool, 5% Domestic Equity Pool, and 2% International Equities.
- July 2016. The asset allocation policy for the CBRF Main account was changed to 69% Short-term Pool, 24% Broad Market Pool, 4% Domestic Equity Pool, 2% International Equities, and 1% REITs.
- July 2017. The asset allocation policy for the CBRF Main account was changed to 67% Short-term Pool, 24% Broad Market Pool, 3% Domestic Equity Pool, 1% International Equity Pool, 1% REITs, and 4% High Yield.
- July 2018. The asset allocation policy for the CBRF Main account was changed to 67% Short-term Pool, 26% Broad Market Pool, 4% Domestic Equity Pool, 2% International Equity Pool, and 1% REITs.

3. Facts and Figures

**Fund Cash Flow History by Fiscal Year**  
**Alaska’s Public Finances**  
**Constitutional Budget Reserve Fund, Main Account**  
**(\$ millions)**

	Investment Income <sup>(a)</sup>	Net Contributions/ (Withdrawals)	Balance at Fiscal Year End
FY 91	6	291	297
FY 92	19	247	563
FY 93	57	65	685
FY 94	61	(132)	614
FY 95	122	1,258	1,994
FY 96	111	413	2,518
FY 97	167	487	3,172
FY 98	369	18	3,559
FY 99	114	(1,045)	2,628
FY 00	115	(9)	2,734

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FY 01	227	(342)	<sup>(b)</sup> 2,619
FY 02	143	(648)	2,114
FY 03	127	(521)	1,720
FY 04	8	(81)	1,647
FY 05	62	23	1,732
FY 06	34	9	1,775
FY 07	106	101	1,982
FY 08	140	(988)	1,134
FY 09	144	2,040	3,318
FY 10	223	858	4,399
FY 11	126	639	5,164
FY 12	167	121	5,452
FY 13	8	304	5,764
FY 14	85	209	6,058
FY 15	18	4,025 <sup>(c)</sup>	10,101
FY 16	138	(2,908)	7,331
FY 17	94	(3,529)	3,896
FY 18	47	(1,583)	2,360
<b>Total</b>	<b>3,038</b>	<b>(678)</b>	

Data Source:

(a) Records maintained by Treasury.

(b) Reflects \$400 million transfer to CBRF subaccount on July 1, 2000.

(c) Net Contributions / (Withdrawals) for FY 2015 includes transfer to PERS / TRS.

**Alaska's Public Finances**  
**Constitutional Budget Reserve Fund, Subaccount**  
**(\$ millions)**

	Investment Income <sup>(a)</sup>	Contributions/ (Withdrawals)	Balance at Fiscal Year End
FY 00	-	-	-
FY 01	(24)	400	376
FY 02	(21)	-	355
FY 03	18	-	373
FY 04	45	-	418
FY 05	36	-	454
FY06	39	-	493
FY07	75	-	568
FY08	(200)	4,100	4,467
FY 09	(670)	-	3,797
FY 10	468	-	4,265
FY 11	901	-	5,166

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FY 12	24	-	5,190
FY 13	610	-	5,800
FY 14	922	-	6,722
FY 15 <sup>(b)</sup>	179	(6,901) <sup>(b)</sup>	-
<b>Total</b>	<b>2,401</b>	<b>(2,401)</b>	

Data sources:

(a) Records maintained by Treasury.

(b) Net Contributions / (Withdrawals) for FY 2015 includes closeout transfer to the Main account.

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Alaska's Public Finances  
Constitutional Budget Reserve Fund  
Combined Main and Subaccount  
(\$ millions)

	Investment Income	Net Contributions/ (Withdrawals)	Balance at Fiscal Year End
FY 91	6	291	297
FY 92	19	247	563
FY 93	57	65	685
FY 94	61	(132)	614
FY 95	122	1,258	1,994
FY 96	111	413	2,518
FY 97	167	487	3,172
FY 98	369	18	3,559
FY 99	114	(1,045)	2,628
FY 00	115	(9)	2,734
FY 01	203	58	2,995
FY 02	122	(648)	2,469
FY 03	145	(521)	2,093
FY 04	53	(81)	2,065
FY 05	98	23	2,186
FY06	73	9	2,268
FY07	181	101	2,548
FY 08	(60)	3,112	5,600
FY 09	(526)	2,040	7,114
FY 10	691	858	8,664
FY 11	1,027	639	10,330
FY 12	192	121	10,643
FY 13	617	304	11,564
FY 14	1,006	209	12,779
FY 15	197	(2,875)	10,101
FY 16 <sup>(4)</sup>	138	(2,908)	7,331
FY 17	94	(3,529)	3,896
FY 18	47	(1,583)	2,360
<b>Total</b>	<b>5,439</b>	<b>(3,079)</b>	

Notes:

A. Additional information about the Constitutional Budget Reserve Fund (CBR) can be found at the following websites:

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1. Department of Administration, Division of Finance – Available Balance in Constitutional Budget Reserve Fund which includes cash flow from (borrowings) and repayment.  
[http://doa.alaska.gov/dof/reports/resource/cbr\\_status.pdf](http://doa.alaska.gov/dof/reports/resource/cbr_status.pdf)
2. State of Alaska, Annual CAFR – Notes to the Financial Statements – Constitutional Budget Reserve Fund, CAFR also includes a schedule of amounts appropriated from the CBRF, and the amounts transferred back to the CBRF from the General Fund.  
<http://doa.alaska.gov/dof/reports/cafr.html>
3. Department of Revenue, Tax Division – Revenue Sources Book, Schedule of Deposits into the CBR:  
<http://www.tax.alaska.gov/programs/sourcebook/index.aspx>
4. FY 2016 activity only includes the Main Account, the Sub Account was closed in FY 2015.

4. Investment Policy

For the main account of the CBRF, Treasury recognizes the State's current two-year reserve requirement, General Fund cash flow borrowing needs, money in excess of that which might be needed within two years and the Investment policy of the GeFONSI.

Treasury would invest the main account of the CBRF with the following in mind:

Risk Tolerance	Moderate – Fixed Income
Investment Objectives	Moderate exposure of principal loss in return for higher expected longer-term returns. Limited current income requirement. Moderate inflation protection needed. Increasing liquidity requirement.
Time Horizon	Intermediate

Effective July 1, 2018, Treasury's investment policy for the main account of the CBRF is:

26% ± 10%	Broad Market Pool
67% ± 10%	Short-term Pool
4% -4%/+5%	Domestic Equity Pool
2% -2%/+5%	International Equity Pool
1% -1%/+4%	REITs

Treasury's performance benchmark for the main account of the CBRF is:

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26%	Barclays US Aggregate
67%	Three-month U.S. Treasury Bill
4%	Russell 3000
2%	MSCI ACWI ex-US
1%	FTSE NAREIT All Equity Index

*CBRF-Subaccount - For Institutional Memory* - Treasury previously invested the subaccount of the CBRF with the following in mind (moved to Main account April 2015 / FY 2015):

Risk Tolerance	High. (Required by statute)
Investment Objectives	High exposure of principal to loss in return for higher expected longer-term returns. Limited current income requirement. Limited inflation protection needed. Moderate liquidity requirement.
Time Horizon	Moderately Long.

*For Institutional Memory* - July 1, 2014, Treasury's investment policy for the subaccount of the CBRF was:

39% ± 7%	Broad Market Pool
40% ± 7%	Domestic Equity Pool
21% ± 7%	International Equity Pool
0% + 2%	Short-term Pool

*For Institutional Memory* - Treasury's performance benchmark for the subaccount of the CBRF was:

39%	Barclays US Aggregate
40%	Russell 3000
21%	MSCI EAFE

## 5. Control and Reporting Requirements

On or before March 15 each year, AS 37.10.430 requires Treasury to prepare a report to the Legislature comparing beginning and ending balances in the CBRF

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for the immediately preceding calendar year together with comparative nominal, real and realized returns for the CBRF, the Permanent Fund and the General Fund. The State Comptroller in the Treasury Division is responsible for compiling this information and preparing and distributing the required report.

The Alaska Legislature made AS 37.10.071 directly applicable to the CBRF. Accordingly, the Commissioner, through the State Comptroller, maintains accounting records for the Fund in accordance with generally accepted accounting principles (as would be required by AS 37.10.071(a)(8) and engages an independent certified public accountant to perform an annual audit of the financial condition of the Fund and the pertinent investment transactions (as would be required by AS 37.10.071(a)(9).

**Version Control**

Revision Date	Effective Date	Summary of Changes	Find it in Version
8/19/99	9/1/99	CBRF - elimination of Transition Fund and Long-term Reserve Fund, modification to investment policy of Two-year Shortfall Fund including asset allocation.	1.2
3/7/00	4/1/00	Treasury updates 2000 capital market assumptions and changes asset allocation policy. Target policy was 15% Short-term Fixed Income Investment Pool, 85% Intermediate-term Fixed Income Investment Pool.	1.3
4/7/00	4/10/00	Treasury revises asset allocation after receiving a \$416.3 million settlement from an oil tax dispute in early April 2000. Asset allocation was 25% Short-term Investment Pool, 75% Intermediate-term Investment Pool.	1.4
1/29/01	7/1/00	Treasury revises asset allocation when the 21st Legislature creates a special \$400 million "subaccount" in the CBRF effective July 1, 2000 and establishes a new \$100 million Power Cost Equalization Endowment Fund.	1.7
3/15/04	7/1/03	Updated History section with new asset allocation policy for both the main and subaccounts, updated Fact and Figures section with current financial information and updated the Investment Policy section. Moved historical information contained in Appendix Y to the history section and Deleted Appendix Y.	2.0
	7/1/04	Updated History and Investment Policy sections with new asset allocation policy for both the main and subaccounts	2.1
1/21/05		Updated the Facts and Figures section.	2.2
4/30/06		Updated history, facts and figures, and investment policy.	2.3
12/31/06		Updated history, facts and figures, and investment policy.	3.0