STATE OF ALASKA
GROUP HEALTH AND LIFE FUND
(An Internal Service Fund of the State of Alaska)

Financial Statements

June 30, 2008 and 2007

(With Independent Auditors' Report Thereon)

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(An Internal Service Fund of the State of Alaska)

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Table of Contents

KPMG LLP
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Independent Auditors' Report

Division of Retirement and Benefits
Group Health and Life Fund:

We have audited the accompanying statements of net assets of the State of Alaska Group Health and Life Fund (Plan), an Internal Service Fund of the State of Alaska, as of June 30, 2008 and 2007, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in note 1, the financial statements present only the State of Alaska Group Health and Life Fund and do not purport to and do not present fairly the financial position of the State of Alaska as of June 30, 2008 and 2007, changes in its financial position and cash flows, where applicable, for the years then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the State of Alaska Group Health and Life Fund, an Internal Service Fund of the State of Alaska, as of June 30, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

The accompanying required supplementary information of management's discussion and analysis on pages 3 to 6 is not a required part of the financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

December 15, 2008

This Section presents management's discussion and analysis (MD&A) of the Group Health and Life Fund's (Plan) financial condition and performance for the years ended June 30, 2008 and 2007. This section is presented as a narrative overview and analysis. Please read the MD&A in conjunction with the financial statements and notes to financial statements to better understand the financial condition and performance of the Plan during the fiscal years ended June 30, 2008 and 2007. Information for fiscal year 2006 is presented for comparative purposes.

Financial Highlights

The Plan's unrestricted net assets as of June 30, 2008 and 2007 are $38,909,709 and $34,531,621, respectively.

The Plan's unrestricted net assets as of June 30, 2008 and 2007 increased by $4,378,088 and $8,444,550 or 12.7% and 32.4% from fiscal years 2007 and 2006, respectively.

Total health premiums totaled $71,743,010 and $70,023,372 during fiscal years 2008 and 2007; reflecting an increase of $1,719,638 and $3,251,940 or 2.5% and 4.9% from fiscal years 2007 and 2006, respectively.

Investment earnings increased from $2,383,959 in 2007 to $2,944,845 in 2008 and increased from $1,025,641 in 2006 to $2,383,959 in 2007; reflecting an increase of 23.5% and 132.4% in 2007 and 2006, respectively.

Benefit expense totaled $66,882,688 and $61,859,256 during fiscal years 2008 and 2007; reflecting an increase of $5,023,432 or 8.1% and an increase of $3,657,617 or 6.3% from fiscal years 2007 and 2006, respectively.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Plan's basic financial statements. The Plan's basic financial statements are comprised of four components: (1) statement of net assets, (2) statement of additions, deductions and changes in net assets, (3) statement of cash flows, and (4) notes to financial statements.

Statement of Net Assets – This statement presents information regarding the Plan's assets, liabilities, and resulting unrestricted net assets. Net assets represent the total amount of assets less the total amount of liabilities.

Statement of Revenues, Expenses, and Changes in Net Assets – This statement presents how the Plan's net assets changed during the fiscal years ended June 30, 2008 and 2007 as a result of health premiums, investment income, and operating deductions.

Statement of Cash Flows – This statement presents cash flows from operations and investing activities. The Plan presents its cash flows statement using the direct method for reporting cash received and disbursed during the fiscal year.

The above statements represent resources available for investment and payment of benefits as of June 30, 2008 and 2007, and the sources and uses of those funds during fiscal years 2008 and 2007.

Notes to Financial Statements –The notes to the financial statements are an integral part of the financial statements and provide additional detailed information and schedules that is essential to a full understanding of the Plan's financial statements.

(Continued)

Condensed Financial Information

Net assets

Description		2008	2007	Increase/(decrease) Amount	Increase/(decrease) Percentage	2006
Assets:						
Cash and cash equivalents	$	50,671,346	47,396,359	3,274,987	6.9%	36,244,917
Securities lending collateral		—	9,438,417	(9,438,417)	n/a	7,020,235
Receivables		75,888	480,925	(405,037)	(84.2)	323,909
Total assets		50,747,234	57,315,701	(6,568,467)	(11.5)	43,589,061
Liabilities:						
Claims payable		10,627,127	12,407,841	(1,780,714)	(14.4)	10,364,766
Due to State of Alaska General Fund		609,813	276,043	(276,043)	100.0	—
Accrued expenses		600,585	661,779	(61,194)	(9.2)	116,989
Securities lending collateral payable		—	9,438,417	(9,438,417)	n/a	7,020,235
Total liabilities		11,837,525	22,784,080	(10,946,555)	(48.0)	17,501,990
Net assets	$	38,909,709	34,531,621	4,378,088	12.7%	26,087,071

Changes in net assets

Description		2008	2007	Increase/(decrease) Amount	Increase/(decrease) Percentage	2006
Net assets, beginning of year	$	34,531,621	26,087,071	8,444,550	32.4%	18,554,987
Operating revenues:						
Health premiums		71,743,010	70,023,372	1,719,638	2.5	66,771,432
Other revenues		716,385	1,169,559	(453,174)	(38.7)	1,311,765
Total operating revenues		72,459,395	71,192,931	1,266,464	1.8	68,083,197
Operating deductions:						
Benefits		66,882,688	61,859,256	5,023,432	8.1	58,201,639
Administrative		4,143,464	3,273,084	870,380	26.6	3,375,115
Total operating deductions		71,026,152	65,132,340	5,893,812	9.0	61,576,754
Operating income		1,433,243	6,060,591	(4,627,348)	(76.4)	6,506,443
Nonoperating revenues:						
Net investment income		2,944,845	2,383,959	560,886	23.5	1,025,641
Changes in net assets		4,378,088	8,444,550	(4,066,462)	(48.2)	7,532,084
Net assets, end of year	$	38,909,709	34,531,621	4,378,088	12.7%	26,087,071

(Continued)

Financial Analysis of the Plan

The Statement of Net Assets as of June 30, 2008 and 2007 showed total assets exceeding total liabilities by $38,909,709 and $34,531,621, respectively. These amounts represent the total plan assets held in trust for healthcare benefits on each of those dates. The entire amount is available to cover the Plan's obligations to pay healthcare benefits for its members and their beneficiaries.

These amounts also represent increases in net assets of $4,378,088 and $8,444,550, or 12.7% and 32.4% over fiscal years 2007 and 2006, respectively. Over the long term, healthcare premiums collected and investment income earned are expected to cover all claims costs. With continued increases in healthcare costs, the Plan must continue to accumulate assets to meet current and future claims costs.

Premium Calculations

The overall objective of the Plan is to have sufficient funds to meet claim costs. The premiums are recommended each year by the Division of Retirement and Benefits' (Division) benefit consultant with the governing body's concurrence and the Administrator's approval. Premiums are based on the Plan's fiscal year. The benefit consultant reviews the historical claims experience and administrative costs and uses that data to estimate trends to recommend premiums for the next fiscal year.

Healthcare Premiums and Investment Income

The revenues required to fund healthcare benefits are accumulated through a combination of employer health premiums, member health premiums and net investment income.

				Revenues Increase/(decrease)		
		2008	**2007**	**Amount**	**Percentage**	**2006**
Health insurance premiums	$	71,743,010	70,023,372	1,719,638	2.5%	66,771,432
Other income		716,385	1,169,559	(453,174)	(38.7)	1,311,765
Net investment income		2,944,845	2,383,959	560,886	23.5	1,025,641
Total	$	75,404,240	73,576,890	1,827,350	2.5%	69,108,838

Over the long term, health premiums earned and net investment income is expected to cover all costs of the Plan.

Healthcare premiums increased from $835 per month per person in fiscal year 2007 to $867 per month per person in fiscal year 2008. Premiums were $820 in fiscal year 2006. Increases are the result of rising healthcare costs related to covered benefits. Premiums are based on historical and anticipated experience.

Other income represents prescription drug rebates, which decreased in 2008 due to a change in the coordination of benefits (COB) recommended by the Plan's prior consultant. The COB change resulted in a rebate reduction to the Plan, but had no financial impact on members of the Plan.

(Continued)

Net investment income increased by $560,886 or 23.5% from amounts recorded in fiscal year 2007 and increased by $1,358,318 or 132.4% from amounts recorded in fiscal year 2006. These increases are due to higher returns on investments as well as a higher invested balance. Investments earned 5.85% in fiscal year 2008, 5.6% in fiscal year 2007 and 2.9% in fiscal year 2006. The invested balance increased $3,274,987, $11,151,442 and $9,199,519 in fiscal years 2008, 2007 and 2006, respectively.

Benefits and Expenses

The primary expense of the Plan is the payment of healthcare benefits. These benefit costs and the cost of administering the Plan comprises the costs of operation.

	Expenses				
			Increase/(decrease)		
	2008	2007	Amount	Percentage	2006
Healthcare benefits	$ 66,882,688	61,859,256	5,023,432	8.1%	58,201,639
Administrative	4,143,464	3,273,084	870,380	26.6	3,375,115
Total	$ 71,026,152	65,132,340	5,893,812	9.0%	61,576,754

Benefit expense increased $5,023,432 and increased $3,657,617 or 8.1% and 6.3% from fiscal years 2007 and 2006. The increase in fiscal year 2008 was due to increasing healthcare costs and covered members.

Increases to healthcare benefit expenses are expected in the future. The Plan's benefit consultants have identified and developed premiums necessary to cover the anticipated increased claims costs.

Economic Conditions, Market Environment, and Results

The overall objective of the Plan is to have sufficient funds to meet current and future claim costs. The premiums are calculated each fiscal year based on the anticipated claims and administrative costs for the following year. The benefit consultant reviews the historical claims experience and administrative costs and uses that data to estimate trends to develop premiums for the next fiscal year.

Requests for Information

This financial report is designed to provide a general overview of the Plan's financial condition for those with interest in the Plan's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

State of Alaska
Division of Retirement and Benefits, Accounting Section
P.O. Box 110203
Juneau, Alaska 99811–0203

STATE OF ALASKA
GROUP HEALTH AND LIFE FUND
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Statements of Net Assets

June 30, 2008 and 2007

		2008	2007
Assets:			
Cash and cash equivalents (notes 3 and 4):			
Investment in State of Alaska General Fund and other			
Nonsegregated Investments Pool	$	50,671,346	47,396,359
Securities lending collateral (note 4)		—	9,438,417
Premiums receivable		75,888	480,925
Total assets		50,747,234	57,315,701
Liabilities:			
Claims payable (note 5)		10,627,127	12,407,841
Due to State of Alaska General Fund		609,813	276,043
Accrued expenses (note 5)		600,585	661,779
Securities lending collateral payable (note 4)		—	9,438,417
Total liabilities		11,837,525	22,784,080
Unrestricted net assets	$	38,909,709	34,531,621

See accompanying notes to financial statements.

STATE OF ALASKA
GROUP HEALTH AND LIFE FUND
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Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2008 and 2007

	2008	2007
Operating revenues:		
Employer health premiums	$ 58,319,516	57,455,431
Member health premiums	13,423,494	12,567,941
Other	716,385	1,169,559
Total operating revenues	72,459,395	71,192,931
Operating expenses:		
Benefits	66,882,688	61,859,256
Administrative	4,143,464	3,273,084
Total operating expenses	71,026,152	65,132,340
Operating income	1,433,243	6,060,591
Nonoperating revenues:		
Investment income	2,921,260	2,380,330
Net investment income before securities lending activities	2,921,260	2,380,330
Securities lending income (note 4)	210,499	332,801
Less securities lending expense (note 4)	186,914	329,172
Net income from securities lending activities	23,585	3,629
Net investment income	2,944,845	2,383,959
Change in net assets	4,378,088	8,444,550
Total net assets, beginning of year	34,531,621	26,087,071
Total net assets, end of year	$ 38,909,709	34,531,621

See accompanying notes to financial statements.

STATE OF ALASKA
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Statements of Cash Flows

Years ended June 30, 2008 and 2007

		2008	2007
Operating activities:			
Cash received for premiums within the states' entity	$	71,252,448	69,633,819
Cash received from others for premiums		464,889	358,574
Cash received from third-party administrator		1,147,094	1,009,650
Cash payments to third-party administrator for benefits		(68,329,632)	(59,540,137)
Cash payments to employees		(199,328)	(185,829)
Cash payments to suppliers		(4,005,328)	(2,508,594)
Net cash provided by operating activities		330,143	8,767,483
Investing activities:			
Net investment income received		2,944,844	2,383,959
Net cash provided by investing activities		2,944,844	2,383,959
Net increase in cash and cash equivalents		3,274,987	11,151,442
Cash and cash equivalents, beginning of year		47,396,359	36,244,917
Cash and cash equivalents, end of year	$	50,671,346	47,396,359
Operating activities:			
Operating income	$	1,433,243	6,060,591
Adjustments to reconcile operating income to net cash provided by operating activities:			
(Increase) decrease in assets:			
Premiums receivable		405,037	(190,889)
Due from State of Alaska		—	33,873
Increase (decrease) in liabilities:			
Claims payable		(1,987,000)	2,043,075
Due to State of Alaska general fund		333,770	276,043
Accrued expenses		145,093	544,790
Net cash provided by operating activities	$	330,143	8,767,483

See accompanying notes to financial statements.

(1) Description

The following brief description of the State of Alaska Group Health and Life Fund (Plan), an internal service fund of the State of Alaska (State), is provided for general information purposes only. Members should refer to the Select Benefits Information Booklet for more complete information.

General

The Plan was established on July 1, 1997 to provide self–insured healthcare benefits to eligible employees of the State of Alaska. The Plan is an internal service fund of the State financial reporting entity and is included as such in the State's comprehensive annual financial report. As of June 30, 2008 and 2007, there were approximately 5,833 and 5,759 employees, excluding dependents, covered by the Plan, respectively.

Prior to July 1, 1997, healthcare benefits for State employees were fully insured through the payment of premiums to an insurance company.

Benefits

The Plan offers medical, dental, vision and audio benefits to eligible State employees and their dependents.

Eligibility

This Plan does not provide benefits to members of the following collective bargaining units, who chose to receive health coverage through a union trust:

- Labor, Trades and Crafts Unit
- Public Safety–Airport Security Unit
- Public Safety–Troopers Unit
- Correspondence Teachers Unit
- Masters Mates and Pilots
- Mt. Edgecumbe Teachers Unit
- General Government Unit

All other permanent employees of the State are covered by the Plan, including permanent seasonal and permanent part–time employees who elect coverage.

The Plan also provides coverage for State legislators and elected officials.

Flexible Benefits

Employees who are not covered through a union trust are eligible for flexible healthcare benefits. Under this program, employees are provided benefit credits by the State. Employees can use the benefit credits to purchase the benefits they want. Benefit credits equal the amount that the State contributes towards health benefits for all employees. The amount of benefit credits each employee receives is decided by the legislature and/or the appropriate collective bargaining agreement and can be adjusted each year. Each of the available options offers different benefits or pays benefits at different rates. If the cost of the benefit option selected by an employee exceeds the amount of their benefit credits, the difference is funded by the employee through pre–tax payroll deductions. If the cost of the benefit options selected by an employee is less than the amount of their benefit credits, the remaining benefit credits are contributed to a health care reimbursement account for that employee.

Administration

The Plan is administered by the State's Division of Retirement and Benefits (Division). The Division utilizes the services of a claims administrator, Premera, to process all medical, dental, and prescription drug claims. Some of the managed–care vision benefits provided by the Plan are administered by Vision Service Plan (VSP).

Funding

The Plan is self–insured for all benefits. The Plan's funding policy provides for the collection of premiums from employees, if applicable, and the State. Premium amounts are actuarially determined on an annual basis and adjusted as necessary. The State retains the risk of loss of allowable claims.

Due From (To) State of Alaska General Fund

Amounts due from (to) the State of Alaska General Fund represent the net difference between amounts paid by the Plan on behalf of others and amounts paid by others on behalf of the Plan.

(2) Summary of Significant Accounting Policies

Basis of Accounting

The Plan's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Premiums are recognized in the period in which they are due. Benefits are recognized when due and payable.

Financial Statement Presentation

The Plan distinguishes operating revenues and expenses from nonoperating revenues and expenses. Operating revenues and expenses generally result from providing services in connection with the Plan's principal ongoing operations. The principal operating revenues of the Plan are employer and member contributions. Operating expenses for the Plan include benefits and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates.

Investments

Investments are recorded at fair value. Fair value is "the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller – that is, other than in a forced or liquidation sale." Security transactions are accounted for on a trade date (ownership) basis at the current fair value.

In fiscal year 2005, GASB Statement 40 (GASB 40), *Deposits and Investment Risk Disclosures* was implemented. GASB 40 addresses disclosures on deposits and investments, focusing on common investment risks related to interest rate risk, credit risk, foreign currency risk and concentration of credit risk.

The Plan participates in the State General Fund and Other Nonsegregated Investments (GeFONSI) pool. GeFONSI invests in fixed income securities that are valued each business day using an independent pricing service. Money market funds are valued at amortized cost, which approximates fair value.

GeFONSI investment income is distributed to pool members monthly if prescribed by statute or if appropriated by state legislature.

Statement of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include the Plan's investment in the GeFONSI, which includes appreciation (depreciation) at June 30, 2008 and 2007. This investment pool has the general characteristics of a demand deposit account.

Federal Income Tax Status

The Plan is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code.

(3) Cash and Cash Equivalents

The Plan invests in the State's internally managed General Fund and other nonsegregated investments pool (GeFONSI). GeFONSI consists of investments in the State's internally managed short–term and intermediate–term fixed income pools. Actual investing is performed by investment officers in the State's Department of Revenue, Treasury Division. A complete description of the investment policy for each pool is included in the *Department of Revenue, Treasury Division, Policies and Procedures Manual*.

Assets in the pools are reported at fair value. Investment purchases and sales are recorded on a trade-date basis.

Fixed income securities are valued each business day using prices obtained from a pricing service when such prices are available; otherwise, such securities are valued at the most current sale price or based on a valuation provided by investment managers.

The accrual basis of accounting is used for investment income and GeFONSI investment income is distributed to pool participants monthly if prescribed by statute or if appropriated by state legislature.

At June 30, 2008, the Plan's share of pool investments was as follows:

	Fair value			
	Short-term fixed income pool	**Intermediate-term fixed income pool**	**Other**	**Total**
Overnight sweep account	$ 45,805	—	—	45,805
Commercial paper	1,465,609	—	—	1,465,609
U.S. treasury notes	—	15,842,670	—	15,842,670
U.S. government agency	9,781,943	3,831,936	—	13,613,879
Mortgage-backed	785,906	3,947,107	—	4,733,013
Other asset-backed	4,556,821	1,042,992	—	5,599,813
Corporate bonds	4,313,216	2,348,372	—	6,661,588
Yankees:				
Government	—	283,923	—	283,923
Corporate	1,293,217	819,983	—	2,113,200
Total Invested assets	22,242,517	28,116,983	—	50,359,500
Pool related net assets (liabilities)	143,559	170,872	—	314,431
Net invested assets	22,386,076	28,287,855	—	50,673,931
Participant unallocated cash	—	—	(2,585)	(2,585)
Net cash and cash equivalents	$ 22,386,076	28,287,855	(2,585)	50,671,346

At June 30, 2007, the Plan share of pool investments was as follows:

	Fair value			
	Short-term fixed income pool	**Intermediate-term fixed income pool**	**Securities lending collateral**	**Total**
Overnight sweep account	$ 137,984	—	—	137,984
Money market	—	—	9,438,417	9,438,417
Short-term Investment Fund	897,937	2,947,120	—	3,845,057
Commercial paper	1,988,980	—	—	1,988,980
U.S. treasury notes	—	8,869,811	—	8,869,811
U.S. government agency	—	7,749,434	—	7,749,434
Mortgage-backed	1,536,670	4,043,732	—	5,580,402
Other asset-backed	11,041,508	1,086,860	—	12,128,368
Corporate bonds	5,725,031	—	—	5,725,031
Yankees:		2,622,058	—	2,622,058
Government	—	337,033	—	337,033
Corporate	1,207,598	888,641	—	2,096,239
Total Invested assets	22,535,708	28,544,689	9,438,417	60,518,814
Pool related net assets (liabilities)	73,297	(3,755,718)	—	(3,682,421)
Net invested assets	22,609,005	24,788,971	9,438,417	56,836,393
Participant unalloted cash	1,617	—	—	1,617
Net cash and cash equivalents	$ 22,607,388	24,788,971	9,438,417	56,834,776

Interest Rate Risk

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

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 in maturity or fourteen months expected average life. Floating rate securities are limited to three years in maturity or three years expected average life. Treasury utilizes the actual maturity date for commercial paper and twelve month prepay speeds for other securities. At June 30, 2008, the expected average life of fixed income securities range from eight days to less than three months.

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.

Intermediate–Term Fixed Income Pools

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 to ± 20% of the Merrill Lynch 1–5 year Government Bond Index. The effective duration for the Merrill Lynch 1–5 year Government Bond Index at June 30, 2008, was 2.29 years.

At June 30, 2008, the effective duration by investment type was as follows:

	Effective duration (In years)
U.S. treasury notes	2.71
U.S. government and agency securities	2.46
Mortgage-backed	2.18
Other asset-backed	0.65
Corporate bonds	2.38
Yankees:	
Government	3.56
Corporate	2.52
Portfolio effective duration	**2.32**

Credit Risk

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

The Plan is subject to limited credit risk associated with securities lending transactions since the Commission is indemnified by State Street Corporation (the Bank) against any loss resulting from counterparty failure or default on a loaned security or its related income distributions. The Bank further indemnifies the ARMB against loss due to borrower rebates in excess of earning on cash collateral. Indemnifications are subject to limitation relating to war, civil unrest or revolution, or beyond the reasonable control of Bank.

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

With the exception of the sweep account, short–term fixed income pool investments are limited to instruments with a long–term credit rating of at least A3 or equivalent and instruments with a short–term credit rating of at least P-1 or equivalent. Asset-backed and non-agency mortgage securities that are not rated by either Standard & Poor's or Moody's may be purchased if they have an AAA rating by two of the following: Standard & Poor's, Moody's or Fitch. Unexpected daily cash surpluses that arise in this pool are invested overnight in the custodian's repurchase agreement sweep account. Treasury does not have a policy to limit credit risk associated with the sweep account.

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 that are not rated by either Standard & Poor's or Moody's may be purchased if they have an AAA rating by two of the following: Standard & Poor's, Moody's, or Fitch.

At June 30, 2008, the State's internally managed pools consisted of investments with credit quality ratings issued by nationally recognized statistical rating organizations as follows (using Standard and Poor's Corporation rating scale):

Investment type	Rating	Short-term fixed income pool	Intermediate-term fixed income pool
U.S. Treasury Notes	AAA	—%	52.06%
Commercial Paper	Not Rated	6.80	—
U.S. Government Agency	AAA	44.00	12.55
U.S. Government Agency	Not Rated	—	0.03
Mortgage-backed	AAA	2.99	9.41
Mortgage-backed	AA	0.20	—
Mortgage-backed	A	0.12	—
Mortgage-backed	BBB	—	0.02
Mortgage-backed	Not Rated	0.24	3.53
Other asset-backed	AAA	16.17	2.03
Other asset-backed	AA	0.63	0.08
Other asset-backed	A	2.53	1.12
Other asset-backed	BBB	0.24	0.09
Other asset-backed	BB	0.92	0.11
Corporate Bonds	AAA	2.01	1.09
Corporate Bonds	AA	12.20	2.58
Corporate Bonds	A	4.10	1.86
Corporate Bonds	BBB	—	1.39
Corporate Bonds	Not Rated	1.09	0.79
Yankees – Government	AA	—	0.93
Yankees – Corporate	AAA	—	0.94
Yankees – Corporate	AA	3.81	1.06
Yankees – Corporate	A	1.26	0.09
Yankees – Corporate	BBB	—	0.39
Yankees – Corporate	Not Rated	0.74	0.20
No Credit Exposure		(0.05)	7.65
		100.00%	100.00%

Concentration of Credit Risk

At June 30, 2008, the Plan invested in the intermediate-term fixed income pool and the broad market fixed income pool had more than five percent of their investments in Federal Home Loan Mortgage Corporation as follows:

		Fair value	Percent of total investments
Federal Home Loan Mortgage Corporation	$	10,102,226	20%

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 of any one company or affiliated group. Federal Home Loan Mortgage Corporation securities are not classified as corporate bonds.

(4) Securities Lending

Alaska Statute 37.10.071 authorized the Commissioner of Revenue to lend assets, under an agreement and for a fee, against deposited collateral. During Fiscal Year 2008, the Commissioner suspended the securities lending agreement with State Street Corporation (the Bank) which lent equity and domestic fixed income securities. Prior to suspension, the Bank, acting as the Commissioner's agent under the agreement, transferred securities to broker agents or other entities for collateral in the form of cash or securities and simultaneously agreed to return the collateral for the same securities in the future. There were no outstanding securities on loan at June 30, 2008.

At June 30, 2007 the fair value of securities on loan allocable to the Plan totaled $9,290,343. While the securities lending agreement was active there was no limit to the amount that can be loaned and the Commissioner was able to sell securities on loan. International equity security loans were collateralized at not less than 105% of their fair value. All other security loans were collateralized at not less than 102% of their fair value. Loaned securities and collateral were marked to market daily and collateral is received or delivered the following day to maintain collateral levels.

At June 30, 2007, cash collateral of $9,438,417 was invested in a registered 2(a)–7 money market fund. Maturities of investments in the money market fund generally did not match the maturities of the loaned securities because the lending agreements are terminable at will. Collateral securities could have been pledged or sold upon borrower default. Since the Commissioner did not have the ability to pledge or sell the collateral securities unless the borrower defaults, they were not recorded on the financial statements. Securities under loan, cash collateral and cash collateral payable were recorded in the financial statements at fair value. The Bank, the Plan and the borrower received a fee from earnings on invested collateral. The Bank and the Plan shared a fee paid by the borrower for loans not collateralized with cash.

There was limited credit risk associated with the lending transactions since the Commissioner was indemnified by the Bank against any loss resulting from counterparty failure or default on a loaned security or its related income distributions. The Bank further indemnified the Board against loss due to borrower rebates in excess of earnings on cash collateral. Indemnifications were subject to limitation relating to war, civil unrest or revolution, or beyond the reasonable control of the Bank.

For the year ended June 30, 2008, there were no losses incurred as a result of securities lending transactions and there were no significant violations of legal or contractual provisions nor failures by any borrowers to return loaned securities.

(5) Claims Payable

The liability for claims incurred but not reported represents the estimated amounts necessary to settle all outstanding claims, incurred but not reported (IBNR), as of the balance sheet date. The Plan's reserve estimates are based primarily on historical development patterns adjusted for current trends that would modify past experience. Claims are reevaluated periodically to consider the effects of inflation, claims settlement trends and other economic factors. The process of establishing loss reserves is subject to uncertainties that are normal, recurring and inherent in the healthcare business.

Changes in the balances of claims liabilities during the years ended June 30 were as follows:

	2008	2007
Beginning of year:		
Due to State of Alaska General Fund for outstanding warrants	$ 276,043	—
Outstanding claims included in accrued expenses	207,841	2,339,766
Incurred but not reported	12,200,000	8,025,000
Total, beginning of year	12,683,884	10,364,766
Benefit deduction	66,882,688	61,859,256
Benefits paid	(68,329,632)	(59,540,138)
Total, end of year	$ 11,236,940	12,683,884
End of year:		
Due to State of Alaska General Fund for outstanding warrants	$ 609,813	276,043
Outstanding claims included in claims payable	414,127	207,841
Incurred but not reported	10,213,000	12,200,000
Total, end of year	$ 11,236,940	12,683,884

(6) Subsequent Event

Recent market conditions have resulted in an unusually high degree of volatility and increased the risks and short-term liquidity associated with certain investments held by the Plan, which could impact the value of investments after the date of these financial statements. The ultimate impact on Plan assets will be determined based upon market conditions in effect when the annual audit report for the year ended June 30, 2009 is performed.