KPMG

STATE OF ALASKA
GROUP HEALTH AND LIFE FUND

(An Internal Service Fund of the State of Alaska)

Financial Statements

June 30, 2010 and 2009

(With Independent Auditors' Report Thereon)

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KPMG LLP
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Independent Auditors' Report

Division of Retirement and Benefits and
Members of the Alaska Retirement Management Board
State of Alaska 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, 2010 and 2009, 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 audits 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the State of Alaska Group Health and Life Fund as of June 30, 2010 and 2009, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board (GASB). 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 this information and express no opinion on it.

KPMG LLP

October 29, 2010

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, 2010 and 2009. 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, 2010 and 2009. Information for fiscal year 2008 is presented for comparative purposes.

Financial Highlights

The Plan's unrestricted net assets as of June 30, 2010 and 2009 are $19,921,430 and $30,991,715, respectively.

The Plan's unrestricted net assets as of June 30, 2010 and 2009 decreased by $11,070,285 or 35.7% and $7,917,994 or 20.3% from fiscal years 2009 and 2008, respectively.

Total health premiums totaled $81,098,549 and $75,267,871 during fiscal years 2010 and 2009; reflecting an increase of $5,830,678 and $3,524,861 or 7.7% and 4.9% from fiscal years 2009 and 2008, respectively.

Investment earnings decreased from $2,014,629 in 2009 to $1,464,604 in 2010 and decreased from $2,944,845 in 2008 to $2,014,629 in 2009; reflecting a decrease of 27.3% and 31.6% in 2009 and 2008, respectively.

Benefit expense totaled $91,429,449 and $80,599,402 during fiscal years 2010 and 2009; reflecting an increase of $10,830,047 and $13,716,714 or 13.4% and 20.5% from fiscal years 2009 and 2008, 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 revenues, expenses 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, 2010 and 2009 as a result of health premiums, investment income, and operating expenses.

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, 2010 and 2009, and the sources and uses of those funds during fiscal years 2010 and 2009.

Notes to Financial Statements –The notes to 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.

Condensed Financial Information

Net Assets

Description	2010	2009	Increase/(decrease) Amount	Increase/(decrease) Percentage	2008
Assets:					
Cash and cash equivalents	$ 35,299,978	44,741,173	(9,441,195)	(21.1)%	$ 50,671,346
Receivables	36,447	15,027	21,420	142.5	75,888
Other assets	840,649	840,649	—	—	—
Total assets	36,177,074	45,596,849	(9,419,775)	(20.7)	50,747,234
Liabilities:					
Claims payable	15,266,619	12,491,742	2,774,877	22.2	10,627,127
Due to State of Alaska General Fund	786,149	1,341,286	(555,137)	(41.4)	609,813
Accrued expenses	202,876	772,106	(569,230)	(73.7)	600,585
Total liabilities	16,255,644	14,605,134	1,650,510	11.3	11,837,525
Net assets	$ 19,921,430	30,991,715	(11,070,285)	(35.7)%	$ 38,909,709

Changes in Net Assets

Description	2010	2009	Increase/(decrease) Amount	Increase/(decrease) Percentage	2008
Net assets, beginning of year	$ 30,991,715	38,909,709	(7,917,994)	(20.3)%	$ 34,531,621
Operating revenues:					
Health premiums	81,098,549	75,267,871	5,830,678	7.7	71,743,010
Other revenues	1,720,541	744,868	975,673	131.0	716,385
Total operating revenues	82,819,090	76,012,739	6,806,351	9.0	72,459,395
Operating deductions:					
Benefits	91,429,449	80,599,402	10,830,047	13.4	66,882,688
Administrative	3,924,530	5,345,960	(1,421,430)	(26.6)	4,143,464
Total operating deductions	95,353,979	85,945,362	9,408,617	10.9	71,026,152
Operating (loss) income	(12,534,889)	(9,932,623)	(2,602,266)	26.2	1,433,243
Nonoperating revenues:					
Net investment income	1,464,604	2,014,629	(550,025)	(27.3)	2,944,845
Change in net assets	(11,070,285)	(7,917,994)	(3,152,291)	39.8	4,378,088
Net assets, end of year	$ 19,921,430	30,991,715	(11,070,285)	(35.7)%	$ 38,909,709

(Continued)

Financial Analysis of the Plan

The Statement of Net Assets as of June 30, 2010 and 2009 showed total assets exceeding total liabilities by $19,921,430 and $30,991,715, respectively. These amounts represent the total plan net 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 a decrease in net assets of $11,070,285 or 35.7% and $7,917,994 or 20.3% over fiscal years 2009 and 2008, 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, other income, and net investment income.

	Revenues				
			Increase/(decrease)		
	2010	2009	Amount	Percentage	2008
Health insurance premiums	$ 81,098,549	75,267,871	5,830,678	7.7%	$ 71,743,010
Other income	1,720,541	744,868	975,673	131.0	716,385
Net investment income	1,464,604	2,014,629	(550,025)	(27.3)	2,944,845
Total	$ 84,283,694	78,027,368	6,256,326	8.0%	$ 75,404,240

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

Healthcare premiums increased from $867 per month per person in fiscal year 2009 to $910 per month per person in fiscal year 2010. Premiums were $851 in fiscal year 2008. Increases to health premiums are the result of rising healthcare costs related to covered benefits. Premiums are based on historical and anticipated experience. During fiscal year 2010, there was also a net increase of approximately 100 members over fiscal year 2009.

Net investment income decreased by $550,025 or 27.3% from amounts recorded in fiscal year 2009 and decreased by $930,216 or 31.6% from amounts recorded in fiscal year 2008. In both fiscal years 2009 and 2010, the decrease was due to lower returns on investments as well as a lower invested balance from higher healthcare costs. The Group Health and Life Fund is invested in the General Fund and Other Non Segregated Investments

(Continued)

(GeFONSI). The GeFONSI is an investment pool managed by the State of Alaska Treasury Division in the Department of Revenue. For Fiscal Year 2010 and 2009, the GeFONSI investments generated 3.38% and 4.24% rate of return. The GeFONSI annualized rate or return was 4.49% over the last three years and 4.39% over the last five years. The invested balance decreased $9,441,195 in fiscal year 2010, and decreased $5,930,173 and increased $3,274,987 in fiscal years 2009 and 2008, 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.

Benefit expense increased $10,830,047 and $13,716,714 or 13.4% and 20.5% from fiscal years 2009 and 2008. The increases in fiscal years 2010 and 2009 were due to increasing healthcare costs and an increase in covered members.

	Expenses				
			Increase/(decrease)		
	2010	2009	Amount	Percentage	2008
Healthcare benefits	$ 91,429,449	80,599,402	10,830,047	13.4%	$ 66,882,688
Administrative	3,924,530	5,345,960	(1,421,430)	(26.6)	4,143,464
Total	$ 95,353,979	85,945,362	9,408,617	10.9%	$ 71,026,152

Administrative expenses decreased $1,421,430 and increased $1,202,496 or 26.6% and 29.0% from fiscal years 2009 and 2008. The decrease was due to the new contract with the new third party administrator of healthcare benefits whereby the State negotiated a better rate.

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 resources available to pay 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 Group Health and Life Fund
Division of Retirement and Benefits, Accounting Section
P.O. Box 110203
Juneau, Alaska 99811–0203

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

Statements of Net Assets

June 30, 2010 and 2009

		2010	2009
Assets:			
Cash and cash equivalents (notes 3 and 4):			
Investment in State of Alaska General Fund and other Nonsegregated Investments Pool	$	35,299,978	44,741,173
Premiums receivable		36,447	15,027
Other assets		840,649	840,649
Total assets		36,177,074	45,596,849
Liabilities:			
Claims payable (note 5)		15,266,619	12,491,742
Due to State of Alaska General Fund (note 2)		786,149	1,341,286
Accrued expenses		202,876	772,106
Total liabilities		16,255,644	14,605,134
Unrestricted net assets	$	19,921,430	30,991,715

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, 2010 and 2009

		2010	2009
Operating revenues:			
Employer health premiums	$	66,004,308	61,490,471
Member health premiums		15,094,241	13,777,400
Cobra subsidy		129,425	—
Other		1,591,116	744,868
Total operating revenues		82,819,090	76,012,739
Operating expenses:			
Benefits		91,429,449	80,599,402
Administrative		3,924,530	5,345,960
Total operating expenses		95,353,979	85,945,362
Operating loss		(12,534,889)	(9,932,623)
Nonoperating revenues:			
Net investment income		1,464,604	2,014,629
Change in net assets		(11,070,285)	(7,917,994)
Total net assets, beginning of year		30,991,715	38,909,709
Total net assets, end of year	$	19,921,430	30,991,715

See accompanying notes to financial statements.

STATE OF ALASKA
GROUP HEALTH AND LIFE FUND
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Statements of Cash Flows

Years ended June 30, 2010 and 2009

		2010	2009
Operating activities:			
Cash received for premiums from the State of Alaska	$	80,643,097	74,811,585
Cash received from others for premiums		563,458	517,147
Cash received from third party administrator		1,591,116	744,868
Cash payments to third party administrator for benefits		(89,209,710)	(78,003,314)
Cash payments to employees		(196,019)	(194,196)
Cash payments to suppliers		(4,297,741)	(5,820,892)
Net cash used by operating activities		(10,905,799)	(7,944,802)
Investing activities:			
Net investment income received		1,464,604	2,014,629
Net cash provided by investing activities		1,464,604	2,014,629
Net decrease in cash and cash equivalents		(9,441,195)	(5,930,173)
Cash and cash equivalents, beginning of year		44,741,173	50,671,346
Cash and cash equivalents, end of year	$	35,299,978	44,741,173
Operating activities:			
Operating loss	$	(12,534,889)	(9,932,623)
Adjustments to reconcile operating income to net cash provided by operating activities:			
(Increase) decrease in assets:			
Premiums receivable		(21,419)	60,861
Other assets		—	(840,649)
Increase (decrease) in liabilities:			
Claims payable		3,134,000	1,878,000
Due to State of Alaska General Fund		(555,138)	731,473
Accrued expenses		(928,353)	158,136
Net cash used by operating activities	$	(10,905,799)	(7,944,802)

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. Participants 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, 2010 and 2009, there were approximately 6,100 and 6,000 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 and long-term nonpermanent employees of the State are covered by the Plan, including permanent and long-term nonpermanent seasonal and 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

(Continued)

(1) Description (cont.)

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 healthcare reimbursement account for that employee.

(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.

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 participants if prescribed by statute or if appropriated by state legislature.

(2) Summary of Significant Accounting Policies (cont.)

Statements 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, 2010 and 2009. This investment pool has the general characteristics of a demand deposit account.

Administration

The Plan is administered by the State's Division of Retirement and Benefits (Division). The Division utilizes the services of a claims administrator, Wells Fargo Insurance Services (Wells Fargo), 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). Claims were processed by Premera in fiscal year 2009.

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.

Federal Income Tax Status

The Plan is a qualified plan under section 401(a) of the Internal Revenue Code and is exempt from federal income taxes under Section 501(a).

(3) Investments

The Plan invests in the State's internally managed General Fund and Other Non Segregated 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.

(Continued)

(3) Investments (cont.)

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

At June 30, 2010, the Plan's share of pool investments was as follows:

	Fair value			
Investment type	**Short-term fixed income pool**	**Intermediate-term fixed income pool**	**Other**	**Total**
Deposit	$ (32,687)	—	—	(32,687)
Commercial paper	867,303	—	—	867,303
U.S. Treasury notes	—	5,374,648	—	5,374,648
U.S. Treasury bills	2,110,634	—	—	2,110,634
U.S. Treasury when-issued	324,716	6,979,629	—	7,304,345
U.S. government agency	1,152,913	1,824,461	—	2,977,374
U.S. government agency discount notes	—	395,118	—	395,118
Mortgage-backed	136,850	1,025,413	—	1,162,263
Other asset-backed	3,812,586	27,891	—	3,840,477
Corporate bonds	8,124,312	2,463,228	—	10,587,540
Yankees:				
Government	—	155,257	—	155,257
Corporate	227,495	634,293	—	861,788
Total invested assets	16,724,122	18,879,938	—	35,604,060
Pool related net assets (liabilities)	131,649	(434,980)	—	(303,331)
Net invested assets	16,855,771	18,444,958	—	35,300,729
Participant unallocated cash	—	—	(751)	(751)
Net cash and cash equivalents	$ 16,855,771	18,444,958	(751)	35,299,978

(3) Investments (cont.)

At June 30, 2009, the Plan share of pool investments was as follows:

	Fair value			
Investment type	Short-term fixed income pool	Intermediate-term fixed income pool	Other	Total
Deposit	$ 54,006	—	—	54,006
Commercial paper	1,083,009	—	—	1,083,009
U.S. Treasury notes	—	12,136,490	—	12,136,490
U.S. Treasury bills	6,110,302	—	—	6,110,302
U.S. government agency	473,845	7,908,896	—	8,382,741
Mortgage-backed	681,594	2,506,987	—	3,188,581
Other asset-backed	2,157,815	164,845	—	2,322,660
Corporate bonds	5,833,431	2,919,890	—	8,753,321
Yankees:				
Government	—	208,463	—	208,463
Corporate	1,255,740	1,150,228	—	2,405,968
Total invested assets	17,649,742	26,995,799	—	44,645,541
Pool related net assets	23,995	73,448	—	97,443
Net invested assets	17,673,737	27,069,247	—	44,742,984
Participant unallocated cash	—	—	(1,811)	(1,811)
Net cash and cash equivalents	$ 17,673,737	27,069,247	(1,811)	44,741,173

(4) Deposit and Investment Risk

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 to maturity or fourteen months expected average life upon purchase. Floating rate securities are limited to three years to maturity or three years expected average life upon purchase. Treasury utilizes the actual maturity date for commercial paper and twelve-month prepay speeds for other securities. At June 30, 2010, the expected average life of

(4) Deposit and Investment Risk (cont.)

individual fixed rate securities range from one day to twenty-nine years and the expected average life of floating rate securities ranged from one day to nine and three-quarters years.

Intermediate–Term Fixed Income Pool

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 the Intermediate-Term Fixed Income Pool portfolio 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, 2010, was 2.49 years.

At June 30, 2010, the effective duration by investment type was as follows:

	Intermediate-term fixed income pool
Corporate bonds	2.24
Mortgage-backed	1.71
Other asset-backed	0.65
U.S. Treasury notes	2.91
U.S. Tresasury when-issued	2.73
U.S. government agency	1.69
U.S. government agency discount notes	0.67
Yankees:	
Corporate	2.65
Government	1.87
Portfolio effective duration	**2.47**

Credit Risk

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

(4) Deposit and Investment Risk (cont.)

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

Short–term Fixed Income Pool investments are limited to instruments with a long–term credit rating of at least A3 or equivalent and instruments with a short–term credit rating of at least P-1 or equivalent. Asset-backed and nonagency 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 nonagency mortgage securities may be purchased if only rated by one of these agencies if they are rated AAA.

Intermediate–term 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 nonagency 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 nonagency mortgage securities may be purchased if only rated by one of these agencies if they are rated AAA.

(4) Deposit and Investment Risk (cont.)

At June 30, 2010, 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
Commercial paper	A-1	1.17%	—%
Commercial paper	Not rated	4.03	—
Corporate bonds	AAA	41.70	6.53
Corporate bonds	AA	1.88	1.78
Corporate bonds	A	3.74	2.90
Corporate bonds	BBB	—	1.12
Corporate bonds	Not rated	1.35	0.51
Mortgage-backed	AAA	0.79	4.51
Mortgage-backed	AA	—	0.05
Mortgage-backed	BBB	—	0.20
Mortgage-backed	Not rated	0.03	0.58
Other asset-backed	AAA	21.16	0.05
Other asset-backed	AA	—	0.03
Other asset-backed	A	—	0.06
Other asset-backed	Not rated	1.68	—
U.S. government agency	AAA	1.07	9.47
U.S. government agency	Not rated	5.84	0.04
U.S. government agency Discount notes	Not rated	—	2.06
U.S. Treasury Bills	AAA	12.65	—
U.S. Treasury notes	AAA	—	28.02
U.S. Treasury when-issued	AAA	1.95	36.40
Yankees:			
Government	AAA	—	0.07
Government	AA	—	0.74
Corporate	AAA	0.58	1.81
Corporate	AA	0.20%	0.91%
Corporate	A	—	0.46
Corporate	BBB	—	0.08
Corporate	Not rated	0.58	0.05
No credit exposure		(0.40)	1.57
		100.00%	100.00%

(4) Deposit and Investment Risk (cont.)

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 of any one company or affiliated group. Federal National Mortgage Association securities are not classified as corporate bonds.

At June 30, 2010, the Plan had more than five percent of their investments in Federal National Mortgage Association as follows:

		Fair value	Percent of total investments
Federal National Mortgage Association	$	1,896,207	5.37%

(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.

(Continued)

(5) Claims Payable (cont.)

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

		2010	2009
Beginning of year:			
Due to State of Alaska General Fund for outstanding warrants	$	1,341,286	609,813
Outstanding claims included in accrued expenses		400,742	414,127
Incurred but not reported		12,091,000	10,213,000
Total, beginning of year		13,833,028	11,236,940
Benefit deduction		91,429,449	80,599,402
Benefits paid		(89,209,709)	(78,003,314)
Total, end of year	$	16,052,768	13,833,028
End of year:			
Due to State of Alaska General Fund for outstanding warrants	$	786,149	1,341,286
Outstanding claims included in claims payable		41,619	400,742
Incurred but not reported		15,225,000	12,091,000
Total, end of year	$	16,052,768	13,833,028