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STATE OF ALASKA
GROUP HEALTH AND LIFE FUND

(An Internal Service Fund of the State of Alaska)

Financial Statements

June 30, 2011 and 2010

(With Independent Auditors' Report Thereon)

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

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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 (the Plan), (an Internal Service Fund of the State of Alaska), as of June 30, 2011 and 2010, 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, 2011 and 2010, 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 20, 2011

This section presents management's discussion and analysis (MD&A) of the Group Health and Life Fund's (the Plan) financial condition and performance for the years ended June 30, 2011 and 2010. 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, 2011 and 2010. Information for fiscal year 2009 is presented for comparative purposes.

Financial Highlights

The Plan financial highlights as of June 30, 2011 were as follows:

- The Plan's unrestricted net assets increased by $5.7 million during fiscal year 2011.
- The Plan's health premiums increased by $16.5 million during fiscal year 2011.
- The Plan's investment earnings during fiscal year 2011 were $630,934.
- The Plan's benefit expense totaled $90.8 million during fiscal year 2011.

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 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. This statement reflects the Plan's cash and short-term investments, receivables, and other assets less liabilities at June 30, 2011 and 2010.

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, 2011 and 2010 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, 2011 and 2010, and the sources and uses of those funds during fiscal years 2011 and 2010.

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 are essential to a full understanding of the Plan's financial statements.

Condensed Financial Information

Net Assets

Description		2011	2010	Increase (decrease) Amount	Increase (decrease) Percentage		2009
Assets:							
Cash and cash equivalents	$	40,155,448	35,299,978	4,855,470	13.8%	$	44,741,173
Receivables		94,508	36,447	58,061	159.3		15,027
Other assets		840,649	840,649	—	—		840,649
Total assets		41,090,605	36,177,074	4,913,531	13.6		45,596,849
Liabilities:							
Claims payable		14,096,000	15,266,619	(1,170,619)	(7.7)		12,491,742
Due to State of Alaska General Fund		1,151,148	786,149	364,999	46.4		1,341,286
Accrued expenses		229,253	202,876	26,377	13.0		772,106
Total liabilities		15,476,401	16,255,644	(779,243)	(4.8)		14,605,134
Net assets	$	25,614,204	19,921,430	5,692,774	28.6%	$	30,991,715

Changes in Net Assets

Description		2011	2010	Increase (decrease) Amount	Increase (decrease) Percentage		2009
Net assets, beginning of year	$	19,921,430	30,991,715	(11,070,285)	(35.7)%	$	38,909,709
Operating revenues:							
Health premiums		97,600,974	81,098,549	16,502,425	20.3		75,267,871
Other revenues		1,915,110	1,720,541	194,569	11.3		744,868
Total operating revenues		99,516,084	82,819,090	16,696,994	20.2		76,012,739
Operating expenses:							
Benefits		90,752,756	91,429,449	(676,693)	(0.7)		80,599,402
Administrative		3,701,488	3,924,530	(223,042)	(5.7)		5,345,960
Total operating expenses		94,454,244	95,353,979	(899,735)	(0.9)		85,945,362
Operating income (loss)		5,061,840	(12,534,889)	17,596,729	(140.4)		(9,932,623)
Nonoperating revenues:							
Net investment income		630,934	1,464,604	(833,670)	(56.9)		2,014,629
Change in net assets		5,692,774	(11,070,285)	16,763,059	(151.4)		(7,917,994)
Net assets, end of year	$	25,614,204	19,921,430	5,692,774	28.6%	$	30,991,715

Financial Analysis of the Plan

The statement of net assets as of June 30, 2011 and 2010 showed total assets exceeding total liabilities by $25,614,204 and $19,921,430, 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 an increase in net assets of $5,692,774 or 28.6%, a decrease of $11,070,285 or 35.7% over fiscal year 2010 and 2009, 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' (the 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)		
	2011	2010	Amount	Percentage	2009
Health insurance premiums	$ 97,600,974	81,098,549	16,502,425	20.3%	$ 75,267,871
Other income	1,915,110	1,720,541	194,569	11.3	744,868
Net investment income	630,934	1,464,604	(833,670)	(56.9)	2,014,629
Total	$ 100,147,018	84,283,694	15,863,324	18.8%	$ 78,027,368

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

Healthcare premiums benefit credit paid by the State of Alaska (the State) increased from $910 per month per person in fiscal year 2010 to $1,088 per month per person in fiscal year 2011. Premiums were $867 in fiscal year 2009. 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 2011, there was also an increase of approximately 100 members over fiscal year 2010.

Net investment income decreased by $833,670 or 56.9% from amounts recorded in fiscal year 2010 and decreased by $550,025 or 27.3% from amounts recorded in fiscal year 2009. In both fiscal years 2010 and 2011, 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

(GeFONSI). The GeFONSI is an investment pool managed by the State of Alaska Treasury Division in the Department of Revenue. For fiscal year 2011 and 2010, the GeFONSI investments generated 1.72% and 3.38% rate of return, respectively. The GeFONSI annualized rate or return was 3.11% over the last three years and 4.15% over the last five years. The invested balance increased $4,855,470 in fiscal year 2011, and decreased $9,441,195 and increased $5,930,173 in fiscal years 2010 and 2009, 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 decreased by $676,693 or 0.7% from fiscal year 2010 and increased by $10,830,047 or 13.4% during fiscal years 2009. Although fiscal year 2011 saw a slight increase in covered members, healthcare costs remained at approximately the same level as fiscal year 2010.

	Expenses				
			Increase (decrease)		
	2011	2010	Amount	Percentage	2009
Healthcare benefits	$ 90,752,756	91,429,449	(676,693)	(0.7)%	$ 80,599,402
Administrative	3,701,488	3,924,530	(223,042)	(5.7)	5,345,960
Total	$ 94,454,244	95,353,979	(899,735)	(0.9)%	$ 85,945,362

Administrative expenses decreased $223,042 and $1,421,430 or 5.7% and 26.6% from fiscal years 2010 and 2009. The decrease was due to the new contract with the new third-party administrator of healthcare benefits whereby the State negotiated a better rate.

Legislation

During fiscal year 2010, the Twenty-Sixth Alaska State Legislature enacted one law that affects the System:

- House Bill 300 appropriates $54,054 from the general fund to the Department of Administration for deposit in the Plan for health benefit reserves to implement the collective bargaining agreement for the Teachers' Education Association of Mt. Edgecumbe, for the fiscal year ended June 30, 2011.

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
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Statements of Net Assets

June 30, 2011 and 2010

		2011	2010
Assets:			
Cash and cash equivalents (notes 3 and 4):			
Investment in State of Alaska General Fund and other Nonsegregated Investments Pool	$	40,155,448	35,299,978
Premiums receivable		32,015	36,447
Other receivable		62,493	—
Other assets		840,649	840,649
Total assets		41,090,605	36,177,074
Liabilities:			
Claims payable (note 5)		14,096,000	15,266,619
Due to State of Alaska General Fund (note 2)		1,151,148	786,149
Accrued expenses		229,253	202,876
Total liabilities		15,476,401	16,255,644
Unrestricted net assets	$	25,614,204	19,921,430

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, 2011 and 2010

		2011	2010
Operating revenues:			
Employer health premiums	$	80,575,203	66,004,308
Member health premiums		17,025,771	15,094,241
Cobra subsidy		62,838	129,425
Other		1,852,272	1,591,116
Total operating revenues		99,516,084	82,819,090
Operating expenses:			
Benefits		90,752,756	91,429,449
Administrative		3,701,488	3,924,530
Total operating expenses		94,454,244	95,353,979
Operating income (loss)		5,061,840	(12,534,889)
Nonoperating revenues:			
Net investment income		630,934	1,464,604
Change in unrestricted net assets		5,692,774	(11,070,285)
Total unrestricted net assets, beginning of year		19,921,430	30,991,715
Total unrestricted net assets, end of year	$	25,614,204	19,921,430

See accompanying notes to financial statements.

STATE OF ALASKA
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Statements of Cash Flows

Years ended June 30, 2011 and 2010

		2011	2010
Operating activities:			
Cash received for premiums from the State of Alaska	$	97,600,974	80,643,097
Cash received from others for premiums		67,270	563,458
Cash received from third-party administrator		1,789,780	1,591,116
Cash payments to third-party administrator for benefits		(91,558,376)	(89,209,710)
Cash payments to employees		(196,648)	(196,019)
Cash payments to suppliers		(3,478,464)	(4,297,741)
Net cash provided by (used in) operating activities		4,224,536	(10,905,799)
Investing activity:			
Net investment income received		630,934	1,464,604
Net cash provided by investing activity		630,934	1,464,604
Net increase (decrease) in cash and cash equivalents		4,855,470	(9,441,195)
Cash and cash equivalents, beginning of year		35,299,978	44,741,173
Cash and cash equivalents, end of year	$	40,155,448	35,299,978
Operating activities:			
Operating income (loss)	$	5,061,840	(12,534,889)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
(Increase) decrease in assets:			
Premiums receivable		4,431	(21,419)
Other assets		(62,492)	—
Increase (decrease) in liabilities:			
Claims payable		(1,129,000)	3,134,000
Due to State of Alaska General Fund		364,999	(555,138)
Accrued expenses		(15,242)	(928,353)
Net cash provided by (used in) operating activities	$	4,224,536	(10,905,799)

See accompanying notes to financial statements.

(1) Description

The following brief description of the State of Alaska Group Health and Life Fund (the Plan), an Internal Service Fund of the State of Alaska (the 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. 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, 2011 and 2010, there were approximately 6,200 and 6,100 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
- Masters Mates and Pilots
- 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.

(1) Description (cont.)

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 pretax 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.

(Continued)

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

The Plan participates in the State General Fund and Other Non-segregated 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.

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, 2011 and 2010. 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 (the 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).

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 GeFONSI pool. 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 (Treasury). The complete financial activity of the fund is shown in the Comprehensive Annual Financial Report available from the Division of Finance in the Department of Administration.

(3) Investments (cont.)

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 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, 2011, 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**
Commercial paper	$ 1,663,479	61,826	—	1,725,305
Corporate bonds	7,358,249	3,158,569	—	10,516,818
Mortgage backed	341,618	624,702	—	966,320
Other asset backed	7,382,578	293,557	—	7,676,135
Overnight sweep account (LMCS)	198,490	—	—	198,490
U.S. government agency	410,534	824,583	—	1,235,117
U.S. government agency discount notes	608,342	—	—	608,342
U.S. Treasury bills	3,477,990	—	—	3,477,990
U.S. Treasury notes	—	12,335,775	—	12,335,775
U.S. Treasury strip	—	11,293	—	11,293
Yankees:				
Corporate	145,263	523,072	—	668,335
Government	—	139,762	—	139,762
Total invested assets	21,586,543	17,973,139	—	39,559,682
Pool-related net assets	14,856	311,509	—	326,365
Net invested assets	21,601,399	18,284,648	—	39,886,047
Participant unallocated cash	—	—	269,401	269,401
Net cash and cash equivalents	$ 21,601,399	18,284,648	269,401	40,155,448

(3) Investments (cont.)

At June 30, 2010, 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	$ (32,687)	—	—	(32,687)
Commercial paper	867,303	—	—	867,303
Corporate bonds	8,124,312	2,463,228	—	10,587,540
Mortgage backed	136,850	1,025,413	—	1,162,263
Other asset backed	3,812,586	27,891	—	3,840,477
U.S. government agency	1,152,913	1,824,461	—	2,977,374
U.S. government agency discount notes	—	395,118	—	395,118
U.S. Treasury bills	2,110,634	—	—	2,110,634
U.S. Treasury notes	—	5,374,648	—	5,374,648
U.S. Treasury when-issued	324,716	6,979,629	—	7,304,345
Yankees:				
Corporate	227,495	634,293	—	861,788
Government	—	155,257	—	155,257
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

(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.

(4) Deposit and Investment Risk (cont.)

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, 2011, the expected average life of individual fixed rate securities range from one day to one year and the expected average life of floating rate securities ranged from eight days to fourteen 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 effective duration of the Intermediate-Term Fixed Income Pool to the following:

Intermediate-Term Fixed Income Pool – ± 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, 2011, was 2.54 years.

At June 30, 2011, the effective duration by investment type was as follows:

	Intermediate-term fixed income pool
Commercial Paper	0.05
Corporate Bonds	2.01
Mortgage-Backed	1.52
Other Asset-Backed	1.08
U.S. Treasury Notes	3.09
U.S. Treasury Strip	6.37
U.S. Government Agency	2.56
Yankees:	
Corporate	2.28
Government	1.92
Portfolio effective duration (in years)	2.53

(4) Deposit and Investment Risk (cont.)

Credit Risk

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

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

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 non-agency mortgage securities must be rated investment grade. The investment grade rating is defined as the median rating of the following three rating agencies: Standard & Poor's Corporation, Moody's, and Fitch. Asset-backed and non-agency mortgage securities may be purchased if only rated by one of these agencies if they are rated AAA.

(4) Deposit and Investment Risk (cont.)

At June 30, 2011, 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	6.95%	—%
Commercial paper	Not rated	0.75	0.31
Corporate bonds	AAA	23.65	10.25
Corporate bonds	AA	1.45	1.07
Corporate bonds	A	3.20	3.20
Corporate bonds	BBB	—	1.39
Corporate bonds	Not rated	5.78	—
Mortgage backed	AAA	1.58	2.79
Mortgage backed	AA	—	0.06
Mortgage backed	A	—	0.02
Mortgage backed	Not rated	—	0.28
Other asset backed	AAA	30.49	1.32
Other asset backed	A	0.07	—
Other asset backed	CCC	—	0.02
Other asset backed	Not rated	3.62	—
U.S. government agency	AAA	1.90	3.47
U.S. government agency discount notes	Not rated	2.82	0.69
U.S. Treasury bills	AAA	16.10	—
U.S. Treasury notes	AAA	—	62.13
U.S. Treasury strip	AAA	—	0.06
Yankees:			
Corporate	AAA	—	0.98
Corporate	AA	0.49	1.02
Corporate	A	0.11	0.40
Corporate	BBB	—	0.23
Corporate	Not rated	0.07	—
Government	AA	—	0.65
Government	A	—	0.01
Government	Not rated	—	0.05
No credit exposure		0.97	9.60
		100.00%	100.00%

(Continued)

(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 5% of a pool's holdings in corporate bonds of any one company or affiliated group.

At June 30, 2011, the fund did not have more than 5% of their investments in any one group or affiliated group.

(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:

		2011	2010
Beginning of year:			
Due to State of Alaska General Fund for outstanding warrants	$	786,149	1,341,286
Outstanding claims included in accrued expenses		41,619	400,742
Incurred but not reported		15,225,000	12,091,000
Total, beginning of year		16,052,768	13,833,028
Benefit deduction		90,752,756	91,429,449
Benefits paid		(91,558,376)	(89,209,709)
Total, end of year	$	15,247,148	16,052,768
End of year:			
Due to State of Alaska General Fund for outstanding warrants	$	1,151,148	786,149
Outstanding claims included in claims payable		—	41,619
Incurred but not reported		14,096,000	15,225,000
Total, end of year	$	15,247,148	16,052,768