**STATE OF ALASKA RETIREE HEALTH FUND**
(A Pension Trust Fund of the State of Alaska)

Financial Statements

June 30, 2008 and 2007

(With Independent Auditors’ Report Thereon)

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**KPMG LLP**
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# Independent Auditors' Report

Alaska Retirement Management Board and
Division of Retirement and Benefits
Retiree Health Fund:

We have audited the accompanying statements of fiduciary net assets of the State of Alaska Retiree Health Fund (Plan), a Pension Trust Fund of the State of Alaska, as of June 30, 2008 and 2007, and the related statements of changes in fiduciary net assets 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 Retiree Health 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 Retiree Health Fund, a Pension Trust Fund of the State of Alaska, as of June 30, 2008 and 2007, and the changes in financial position 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 8 is not a required part of the basic 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 Retiree Health 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 the 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 total net assets held in trust for post employment healthcare benefits as of June 30, 2008 and 2007 are $177,625,297 and $332,799,401, respectively.

The Plan's total net assets held in trust for post employment healthcare benefits as of June 30, 2008 and 2007 decreased by ($155,174,104) or -46.6% and increased by $93,949,910 or 39.3% over the closing balances of those assets in fiscal years 2007 and 2006.

Total health premiums totaled $43,891,815 and $364,107,013 during fiscal years 2008 and 2007, a decrease of ($320,215,198) or -87.9% and an increase of $20,669,678 or 6.0% from fiscal years 2007 and 2006.

Net investment earnings decreased from $36,364,601 to ($6,960,689) during fiscal year 2008 and increased from $12,572,055 to $36,364,601 during fiscal year 2007; reflecting a decrease of -119.1% and an increase of 189.2% from fiscal years 2007 and 2006.

Benefit expenses totaled $194,610,984 and $301,285,999 during fiscal years 2008 and 2007, a decrease of ($106,675,015) or -35.4% and an increase of $6,677,840 or 2.3% from fiscal years 2007 and 2006.

## 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 three components: (1) statement of fiduciary net assets, (2) statement of changes in fiduciary net assets, and (3) notes to financial statements.

*Statement of Fiduciary Net Assets* – This statement presents information regarding the Plan's assets, liabilities, and resulting net assets held in trust for post employment healthcare benefits. This statement reflects the Plan's investments at fair market value, along with cash and short-term investments, receivables, and other assets less current liabilities at June 30, 2008 and 2007.

*Statement of Changes in Fiduciary Net Assets* – This statement presents how the Plan's net assets held in trust for post employment healthcare benefits changed during the fiscal years ended June 30, 2008 and 2007. This statement presents health premiums earned and net investment income (loss) during the period. Deductions for post employment healthcare benefits and operating deductions are also presented.

The above statements represent resources available for investment and payment of benefits as of the fiscal year–end and the sources and uses of those funds during the fiscal year.

*Notes to Financial Statements* – The notes to financial statements are an integral part of the financial statements and provide additional detailed information and schedules to better understand the Plan's financial statements.

## Condensed Financial Information

**Net Assets**

| Description | 2008 | 2007 | Increase/(decrease) Amount | Increase/(decrease) Percentage | 2006 |
|---|---|---|---|---|---|
| Assets: | | | | | |
| Cash and receivables | $ 28,438,971 | 122,003,590 | (93,564,619) | (76.7)% | 47,526,134 |
| Securities lending collateral | — | 14,346,159 | (14,346,159) | n/a | 29,889,665 |
| Due from other funds | 5,493,278 | — | 5,493,278 | n/a | — |
| Investments, at fair value | 162,890,166 | 270,081,512 | (107,191,346) | (39.7) | 248,608,714 |
| Total assets | 196,822,415 | 406,431,261 | (209,608,846) | (51.6) | 326,024,513 |
| Liabilities: | | | | | |
| Claims payable | 15,568,302 | 54,983,905 | (39,415,603) | (71.7) | 55,727,785 |
| Accrued expenses | 2,577,741 | 2,803,877 | (226,136) | (8.1) | 326,441 |
| Securities lending collateral payable | — | 14,346,159 | (14,346,159) | n/a | 29,889,664 |
| Due to other funds | 1,051,075 | 1,497,919 | (446,844) | (29.8) | 1,231,132 |
| Total liabilities | 19,197,118 | 73,631,860 | (54,434,742) | (73.9) | 87,175,022 |
| Total net assets | $ 177,625,297 | 332,799,401 | (155,174,104) | (46.6)% | 238,849,491 |

**Changes in Net Assets**

| Description | 2008 | 2007 | Increase/(decrease) Amount | Increase/(decrease) Percentage | 2006 |
|---|---|---|---|---|---|
| Net assets, beginning of year | $ 332,799,401 | 238,849,491 | 93,949,910 | 39.3% | 236,295,867 |
| Additions: | | | | | |
| Healthcare premiums and other | 60,744,982 | 371,832,120 | (311,087,138) | (83.7) | 347,904,982 |
| Net investment income (loss) | (6,960,689) | 36,364,601 | (43,325,290) | (119.1) | 12,572,055 |
| Total additions | 53,784,293 | 408,196,721 | (354,412,428) | (86.8) | 360,477,037 |
| Deductions: | | | | | |
| Benefits | 194,610,984 | 301,285,999 | (106,675,015) | (35.4) | 294,608,159 |
| Administrative | 14,347,413 | 12,960,812 | 1,386,601 | 10.7 | 13,315,254 |
| Transfer to retirement systems | — | — | — | — | 50,000,000 |
| Total deductions | 208,958,397 | 314,246,811 | (105,288,414) | (33.5) | 357,923,413 |
| Increase (decrease) in net assets | (155,174,104) | 93,949,910 | (249,124,014) | (265.2) | 2,553,624 |
| Net assets, end of year | $ 177,625,297 | 332,799,401 | (155,174,104) | (46.6)% | 238,849,491 |

## Financial Analysis of the Plan

The Statements of Fiduciary Net Assets as of June 30, 2008 and 2007 showed net assets held in trust for post employment healthcare benefits of $177,625,297 and $332,799,401, respectively. The entire amount is available to cover the Plan's obligations to pay postemployment healthcare benefits for its members and their beneficiaries.

These amounts also represent a decrease in total net assets held in trust for post employment healthcare benefits of ($155,174,104) or -46.6% and an increase of $93,949,910 or 39.3% over fiscal years 2007 and 2006, respectively. Beginning on July 1, 2007, the Alaska Retiree Health Care Trust (ARHCT) replaced the major medical fund of the Plan for retired members and beneficiaries covered under Public Employees' Retirement System (PERS), Teachers' Retirement System (TRS), and Judicial Retirement System (JRS). Previously, these Systems had paid a monthly health insurance premium to the Plan. With the creation of the ARHCT, participating PERS, TRS, and JRS employer contributions were deposited directly to the ARHCT replacing the monthly health insurance premiums. Health care coverage is still accounted for some retired members, dependents, and beneficiaries in the major medical fund via monthly health insurance premiums. Over the long term, healthcare premiums collected for the Dental, Visual and Audio (DVA) and Long-Term Care (LTC) funds 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.

The investment of Plan assets is a long–term undertaking. On an annual basis, the Commissioner of Revenue reviews the asset allocation policies related to Plan assets and adopts an asset allocation strategy to ensure the asset mix will remain at an optimal risk/return level given the Plan's constraints and objectives. In fiscal year 2008, the Department of Revenue allocated Retiree Major Medical assets in the following manner: 100% in the short–term fixed income pool, 0% in the broad market fixed income pool, 0% in the domestic equity pool and 0% in the international equity pool. In fiscal year 2007, the Department of Revenue allocated Retiree Major Medical assets in the following manner: 38% in the short–term fixed income pool, 42% in the broad market fixed income pool, 14% in the domestic equity pool and 6% in the international equity pool. In fiscal year 2008, long-term care assets were allocated in the following manner: 28% in the broad market fixed income pool, 21% in the international equity pool, 50% in the domestic equity pool, and 1% in the short–term fixed income pool. In fiscal year 2007, long-term care assets were allocated in the following manner: 31% in the broad market fixed income pool, 19% in the international equity pool, 49% in the domestic equity pool, and 1% in the short–term fixed income pool. In fiscal years 2008 and 2007, Dental, Visual and Audio assets were invested in the general fund and other non–segregated investments pool.

## 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 a calendar year. The benefit consultant reviews the historical claims experience and administrative costs and uses that data to estimate trends to develop recommended premiums for the next calendar year.

### Healthcare Premiums and Investment Income

The additions required to fund postemployment healthcare benefits are accumulated through a combination of health premiums, prescription drug rebates, and net investment income.

**Additions**

| | | | Increase/(decrease) | | |
|---|---|---|---|---|---|
| | **2008** | **2007** | **Amount** | **Percentage** | **2006** |
| Employer health premiums | $ — | 322,313,472 | (322,313,472) | n/a | 304,239,895 |
| Member health premiums | 43,891,815 | 41,793,541 | 2,098,274 | 5.0 | 39,197,440 |
| Other | 16,853,167 | 7,725,107 | 9,128,060 | 118.2 | 4,467,647 |
| Net investment income (loss) | (6,960,689) | 36,364,601 | (43,325,290) | (119.1) | 12,572,055 |
| Total | $ 53,784,293 | 408,196,721 | (354,412,428) | (86.8)% | 360,477,037 |

Premiums remained at $876 per month per person for calendar year 2006, 2007, and 2008. The Division's consultant has not recommended a premium increase but is vigilant of rising healthcare costs related to covered benefits.

Other income represents prescription drug rebates which have increased in the last two years due to greater drug utilization as well as an increasing number of Plan members.

The Plan was approved for participation in the Medicare Part D retiree drug subsidy (RDS) program starting in calendar year 2006. One of the provisions of Medicare Part D provides sponsors of pension healthcare plans the opportunity to receive a payment, the retiree drug subsidy (RDS) if the sponsor's plan provides a prescription drug benefit that is actuarially equivalent to the Medicare Part D benefit. The RDS is equal to twenty–eight percent of the amount of eligible prescription drug benefit costs of retirees who are eligible for, but not enrolled in, Medicare Part D, by virtue of continuing to be covered by the sponsor's plan. The data required for the RDS program is based on a calendar year; therefore, data for the six month period ended June 30, 2008, cannot be reasonably estimated and is not recorded in the financial statements for the period ended June 30, 2008.

Net investment income decreased by ($43,325,290) or -119.1% from amounts recorded in fiscal year 2007. Net investment income increased by $23,792,546 or 189.2% over amounts recorded in fiscal year 2006. The Plan had more than forty-nine percent of invested assets in the broad market fixed income and intermediate-term fixed income pools 2008. The broad market fixed income pool had a return of 6.4% in fiscal year 2008 compared to 5.8% in fiscal year 2007. The intermediate-term fixed income pool was new in 2008 and realized a return of 7.4%.

## Benefits and Deductions

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

**Deductions**

| | | | Increase/(decrease) | | |
|---|---|---|---|---|---|
| | **2008** | **2007** | **Amount** | **Percentage** | **2006** |
| Healthcare benefits | $ 194,610,984 | 301,285,999 | (106,675,015) | (35.4)% | 294,608,159 |
| Administrative | 14,347,413 | 12,960,812 | 1,386,601 | 10.7 | 13,315,254 |
| Transfer to retirement systems | — | — | — | — | 50,000,000 |
| Total | $ 208,958,397 | 314,246,811 | (105,288,414) | (33.5)% | 357,923,413 |

Benefit expenses decreased ($106,675,015) or -35.4% and increased $6,677,840 or 2.3% from fiscal years 2007 and 2006. Beginning on March 1, 2008, health care claims related to eligible members and dependents of the PERS, TRS, and JRS plans are paid from the respective ARHCT. Those retirees eligible for healthcare coverage but not eligible under PERS, TRS, or JRS health benefits are accounted for separately within the Plan. The Plan's benefit consultants identify and develop premiums necessary to cover the increased claims costs.

During fiscal year 2006, a review was conducted of all medical reserve amounts. An analysis was conducted which considered: (1) the medical portion of net assets held in trust for benefits and other purposes, (2) prior and current year amounts incurred but not paid, (3) the amount necessary for the contingency reserve, and (4) the amount necessary for a premium stabilization reserve. The result was excess reserve balances over those deemed necessary for the continued operation of the Plan. The excess amount was allocated to participating plans. Such an analysis is conducted periodically to determine that reserves are adequate, but not excessive. Based on the review completed during fiscal year 2008 and 2007, no transfer occurred.

## Funding

Post employment healthcare benefits are funded by premiums received from the remaining participating retirement systems and plan members as well as from income earned on Plan investments. Healthcare premiums are recommended each year by the Division's consultant with the governing body's concurrence and the Administrator's approval.

## Economic Conditions, Market Environment, and Results

There are three plans offered through the Retiree Health Fund: major medical (mostly paid by the remaining participating retirement funds), DVA and LTC plans (both paid by retirees). The overall objective of the Plan is to have sufficient funds to meet current and future claim costs. The premiums for the major medical and DVA plans are calculated each 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. The amount of reserves is considered when setting the premiums. The premiums for the LTC plan have been developed to provide future benefits for the retirees, much like an annuity. The LTC plan will accumulate large reserves to pay future benefits.

## Requests for Information

This financial report is designed to provide a general overview of the Plan's financial condition for all 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 RETIREE HEALTH FUND**
(A Pension Trust Fund of the State of Alaska)

Statements of Fiduciary 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 | $ 17,158,150 | 16,462,653 |
| Short-term fixed income pool | 11,208,980 | 99,848,528 |
| Securities lending collateral | — | 14,346,159 |
| Total cash and cash equivalents | 28,367,130 | 130,657,340 |
| Investments (notes 3 and 4): | | |
| Broad market fixed income pool | 54,839,403 | 122,379,594 |
| Domestic equity account | 76,675,799 | 104,336,057 |
| International equity pool | 31,374,964 | 43,365,861 |
| Total investments | 162,890,166 | 270,081,512 |
| Other: | | |
| Premiums receivable | 44,428 | 152,269 |
| Interest and dividends receivable | 27,413 | 412,374 |
| Due from PERS Alaska Retiree Health Care Trust | 5,484,706 | — |
| Due from JRS Alaska Retiree Health Care Trust | 8,572 | — |
| Other receivables | — | 5,127,766 |
| Total other | 5,565,119 | 5,692,409 |
| Total assets | 196,822,415 | 406,431,261 |
| Liabilities: | | |
| Claims payable (note 5): | | |
| Medical, dental, visual and audio | 3,374,302 | 45,811,905 |
| Long-term Care | 12,194,000 | 9,172,000 |
| Total claims payable | 15,568,302 | 54,983,905 |
| Accrued expenses (note 5) | 2,577,741 | 2,803,877 |
| Due to State of Alaska General Fund (note 5) | 296,775 | 1,497,919 |
| Due to TRS Alaska Retiree Health Care Trust | 754,300 | — |
| Securities lending collateral payable (note 4) | — | 14,346,159 |
| Total liabilities | 19,197,118 | 73,631,860 |
| Contingency (note 8) | | |
| Held in trust for postemployment healthcare benefits: | | |
| Major medical | 10,601,385 | 167,644,571 |
| Dental, visual and audio | 13,909,381 | 11,738,761 |
| Long-term care | 153,114,531 | 153,416,069 |
| Total net assets held in trust for postemployment healthcare benefits | $ 177,625,297 | 332,799,401 |

See accompanying notes to financial statements.

**STATE OF ALASKA RETIREE HEALTH FUND**
(A Pension Trust Fund of the State of Alaska)

Statements of Changes in Fiduciary Net Assets

Years ended June 30, 2008 and 2007

| | 2008 | 2007 |
|---|---|---|
| Additions: | | |
| Contributions: | | |
| Employer health insurance premiums | $ — | 322,313,472 |
| Member health insurance premiums | 43,891,815 | 41,793,541 |
| Total contributions | 43,891,815 | 364,107,013 |
| Other (note 7) | 16,853,167 | 7,725,107 |
| Investment income (loss): | | |
| Net appreciation (depreciation) in fair value (note 3) | (16,363,846) | 21,568,646 |
| Interest | 6,819,639 | 12,325,870 |
| Dividends | 2,732,569 | 2,577,900 |
| Total investment income (loss) | (6,811,638) | 36,472,416 |
| Less investment expense | 181,068 | 145,173 |
| Net investment income (loss) before seurities lending activities | (6,992,706) | 36,327,243 |
| Securities lending income (note 4) | 279,242 | 1,016,182 |
| Less securities lending expense (note 4) | 247,225 | 978,824 |
| Net income from securities lending activities | 32,017 | 37,358 |
| Net investment income (loss) | (6,960,689) | 36,364,601 |
| Total additions | 53,784,293 | 408,196,721 |
| Deductions: | | |
| Benefits (note 5) | 194,610,984 | 301,285,999 |
| Administrative | 14,347,413 | 12,960,812 |
| Total deductions | 208,958,397 | 314,246,811 |
| Net change in fiduciary net assets | (155,174,104) | 93,949,910 |
| Net assets, beginning of year | 332,799,401 | 238,849,491 |
| Net assets, end of year | $ 177,625,297 | 332,799,401 |

See accompanying notes to financial statements.

## (1) Description

The following brief description of the State of Alaska Retiree Health Fund (Plan), a pension trust fund of the State of Alaska (State), is provided for general information purposes only. Participants should refer to the Retiree Group Insurance Information Booklet for more complete information.

### *General*

The Plan was established to provide self–insured healthcare benefits to retirees of the Public Employees' Retirement System, Teachers' Retirement System, Judicial Retirement System and Elected Public Officers Retirement System (collectively referred to as the Retirement Systems) beginning July 1, 1997. The Plan is a pension trust 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 31,700 and 29,900 retirees, respectively, excluding dependents, covered by the Plan.

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

### *Benefits*

The Plan offers major medical, voluntary dental–visual–audio (DVA) and voluntary long–term care (LTC) benefits to eligible benefit recipients of the Retirement Systems and their dependents.

### *Medical*

The Plan provides medical benefits to qualified benefit recipients of the Retirement Systems. The Retirement Systems pay the medical premiums for the benefit recipients, except for the following who must elect coverage and pay a premium:

- Benefit recipients of the Public Employees' Retirement System (PERS) first hired under the PERS on or after July 1, 1986, who are under age 60, are not receiving a disability benefit, and had less than 25 years of peace officer/firefighter service or less than 30 years of other service.
- Benefit recipients of the Teachers' Retirement System (TRS) first hired under the TRS on or after July 1, 1990, who are under age 60, are not receiving a disability benefit, and had less than 25 years of service.
- Benefit recipients of the PERS first hired under the PERS on or after July 1, 1996, who are age 60 or older and do not have at least 10 years of credited service.
- Alternate payees under a Qualified Domestic Relations Order (QDRO).

The State also pays the medical premiums for benefit recipients of the Marine Engineers Beneficial Association who retired from the State after July 1, 1986.

Beginning July 1, 2007, the Alaska Retiree Healthcare Trust (ARHCT), a healthcare trust fund of the State, was established. The ARHCT is self-funded and provides major medical coverage to retirees of the Plan. The Plan retains the risk of loss of allowable claims for eligible members. The ARHCT began paying member healthcare claims on March 1, 2008. Prior to that, healthcare claims were paid for by the Plan.

### *Voluntary DVA and LTC*

Individuals receiving benefits from one of the Retirement Systems, excluding alternate payees under a QDRO, may elect coverage for themselves and their eligible dependents. If coverage is elected, the premiums are paid by deductions from retirement checks.

### *Administration*

The Plan is administered by the State's Division of Retirement and Benefits (DRB). DRB utilizes the services of a claims administrator, Premera, to process all medical, dental, and prescription drug claims.

### *Funding*

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

### *Due to State of Alaska General Fund*

Due to the State of Alaska General Fund represent reimbursements to be made by the Plan to other funds for net payments made by other funds on behalf of the Plan.

## (2) Summary of Significant Accounting Policies

### *Basis of Accounting*

The Plan's financial statements are prepared using the economic resource 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.

### *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. Dividend income on domestic and international equity securities is accrued on the ex–dividend date.

In fiscal year 2005, GASB Statement No. 40, *Deposits and Investment Risk Disclosures* (GASB 40) 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.

Fixed income and international equity securities are valued each business day using an independent pricing service. The securities underlying the domestic equity account are valued each business day by the Trustee Committee in good faith and pursuant to procedures established by the Trustee. The domestic equity account's net asset value per share is determined by dividing the fair value of its underlying assets by the number of units that represent total ownership. Securities expressed in terms of foreign currencies are translated into U.S. dollars at the prevailing exchange rates. Money markets are valued at amortized cost, which approximates fair value.

The cost of securities is determined on the average cost basis.

With the exception of general fund and other non–segregated investments (GeFONSI) and short–term fixed income pool investments, income from pooled securities is allocated daily to each pool participant on a pro rata basis. Income in the short–term fixed income pool is calculated daily and credited monthly to each participant on a pro rata basis. GeFONSI income is distributed to pool participants monthly if prescribed by statute or if appropriated by state legislature. Domestic equity income is distributed quarterly.

***Federal Income Tax Status***

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

## (3) Investments

The State has created a pooled environment by which it manages investments. Actual investing is performed by investment officers in the State's Department of Revenue, Treasury Division, or by contracted external investment managers. The Plan invests in the State's internally managed GeFONSI, short–term and broad marked fixed income pools as well as the State's externally managed domestic equity account and international equity pool. GeFONSI consist of investments in the State's internally managed short-term and intermediate-term fixed income pools. A complete description of the investment policy for each pool is included in the *Department of Revenue, Treasury Division, Policies and Procedures Manual*.

***General Fund and Other Non–Segregated Investment (GeFONSI) Pool***

The Plan participates in the State's internally managed GeFONSI pool which consists of investments in the State's internally managed short–term and intermediate–term fixed income pools. At June 30, 2008 and 2007, the Plan had a 0.23% and 0.37% direct ownership in the GeFONSI.

***Short–Term Fixed Income Pool***

The Plan participates in the State's internally managed short–term fixed income pool which was established March 15, 1993, with a start up and maintained share price of $1. Treasury staff determine the allocation between permissible securities. Each participant owns shares in the pool, the number of which fluctuates daily with contributions and withdrawals. Participant shares also change at the beginning of each month when income is paid. Participants include the intermediate–term and broad market fixed income pools and a number of other funds, some of which are not under the fiduciary responsibility of the Commissioner. At June 30, 2008 and 2007, the Plan had a 0.26% and 3.7% direct ownership in the short–term fixed income pool.

***Intermediate–Term Fixed Income Pool***

The Plan participates in the State's internally managed intermediate–term fixed income pool which was established July 1, 1994, with a start up share price of $1,000. The share price at June 30, 2008, was $2,216. Treasury staff determine the allocation between permissible securities. The pool has an intermediate time horizon, a more limited need for liquidity than the money invested in the short–term fixed income pool, a limited need for inflation protection, and can be invested at a moderate risk level. The net asset value per share on any given valuation date is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Ownership in the pool is based on the number of shares held by each participant. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2008 and 2007, the Plan had a 0% direct ownership in the intermediate–term fixed income pool.

***International Equity Pool***

The Plan participates in the State's externally managed international equity pool, which was established in April 2000, with a start up share price of $1,000. The share price at June 30, 2008, was $1,344. The external manager independently determines the allocation between permissible securities. The pool has a time horizon that is longer than any of the fixed income investment pools limited liquidity, long term inflation protection and a high risk tolerance. The net asset value per share on any given valuation date is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Ownership in the pool is based on the number of shares held by each participant. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2008 and 2007, the Plan had a 13.07% and 18.77% direct ownership in the international equity pool.

### *Broad Market Fixed Income Pool*

The Plan participates in the State's internally managed broad market fixed income pool which was established July 1, 1994, with a start up share price of $1,000. The share price at June 30, 2008, was $2,411. Treasury staff determines the allocation between permissible securities. When compared to the short or intermediate–term fixed income pools, this pool has a longer time horizon, a more limited need for liquidity, a moderate need for long–term inflation protection, and can be invested at a high risk level. The net asset value per share on any given valuation date is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Ownership in the pool is based on the number of shares held by each participant. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2008 and 2007, the Plan had a 2.31% and 12.07% direct ownership in the broad market fixed income pool.

### *Domestic and International Equity Account*

The Plan participates in the State's externally managed domestic and international equity account. The participants in these accounts hold shares in the State Street Global Advisers (SSgA) Russell 3000 and SSgA Morgan Stanley Capital Investment (MSCI) Europe, Australasia and Far East (EAFE), Index Common Trust Fund (Trust), passively managed commingled index fund. The Trust includes other non–State institutional investors. The investment objective of the Trust is to replicate, as closely as possible, the return of the Russell 3000 Stock Index and the MSCI EAFE Stock Index and thus are comprised of securities included in these indices. The net asset value per share on any given valuation date is determined by dividing the total fair value of the net assets of the common trust by the number of shares outstanding on the valuation date. Ownership in common trusts is based on the number of shares held by each participant. Contributions to and withdrawals from a common trust are based on the beginning of the day net asset value per share on the day of the transaction.

**STATE OF ALASKA**
**RETIREE HEALTH FUND**
(A Pension Trust Fund of the State of Alaska)

Notes to the Financial Statements

June 30, 2008 and 2007

At June 30, 2008, the Plan had the following investments:

| | | Fair value | | | | |
|---|---|---|---|---|---|---|
| **Investment type** | | **Short-term fixed income pool** | **Intermediate-term fixed income pool** | **Broad market fixed income pool** | **Other** | **Total** |
| Overnight sweep account (LMCS) | $ | 47,948 | — | — | — | 47,948 |
| Commercial paper | | 1,534,204 | — | — | — | 1,534,204 |
| U.S. Treasury bonds | | — | — | 1,680,885 | — | 1,680,885 |
| U.S. Treasury notes | | — | 5,363,571 | 4,149,953 | — | 9,513,524 |
| U.S. government agency | | 10,239,768 | 1,297,310 | 866,494 | — | 12,403,572 |
| Municiple Bonds | | — | — | 6,074 | — | 6,074 |
| Mortgage-backed | | 822,689 | 1,336,302 | 30,941,421 | — | 33,100,412 |
| Other asset-backed | | 4,770,095 | 353,107 | 2,818,268 | — | 7,941,470 |
| Corporate bonds | | 4,515,088 | 795,046 | 11,742,891 | — | 17,053,025 |
| Yankees: | | | | | | |
| Government | | — | 96,123 | 130,264 | — | 226,387 |
| Corporate | | 1,353,743 | 277,607 | 1,454,092 | — | 3,085,442 |
| Domestic equity | | — | — | — | 76,675,799 | 76,675,799 |
| International equity | | — | — | — | 30,967,490 | 30,967,490 |
| Total invested assets | | 23,283,535 | 9,519,066 | 53,790,342 | 107,643,289 | 194,236,232 |
| Pool related net assets (liabilities) | | 42,417 | 57,849 | (3,486,676) | 407,474 | (2,978,936) |
| Other pool ownership | | (4,535,737) | — | 4,535,737 | — | — |
| GeFONSI | | (7,581,235) | (9,576,915) | — | 17,158,150 | — |
| Participant unallotted cash | | | | | | — |
| Net invested assets | $ | 11,208,980 | — | 54,839,403 | 125,208,913 | 191,257,296 |

At June 30, 2007, the Plan had the following investments:

| | | Fair value | | | | |
|---|---|---|---|---|---|---|
| **Investment type** | | **Short-term fixed income pool** | **Intermediate-term fixed income pool** | **Broad market fixed income pool** | **Other** | **Total** |
| Overnight sweep account | $ | 774,741 | — | — | — | 774,741 |
| Money market | | — | — | — | 14,346,159 | 14,346,159 |
| Short-term investment fund | | 5,041,653 | 1,023,775 | 7,243,235 | — | 13,308,663 |
| Commercial paper | | 11,167,541 | — | 110,002 | — | 11,277,543 |
| U.S. Treasury bonds | | — | — | 6,102,136 | — | 6,102,136 |
| U.S. Treasury notes | | — | 3,081,209 | 10,293,524 | — | 13,374,733 |
| U.S. government agency | | — | 2,692,010 | 2,706,007 | — | 5,398,017 |
| Mortgage-backed | | 8,627,948 | 1,404,718 | 68,088,241 | — | 78,120,907 |
| Other asset-backed | | 61,994,822 | 377,555 | 6,436,408 | — | 68,808,785 |
| Corporate bonds | | 32,144,365 | 910,855 | 23,650,047 | — | 56,705,267 |
| Yankees: | | | | | | |
| Government | | — | 117,079 | 505,513 | — | 622,592 |
| Corporate | | 6,780,307 | 308,697 | 2,735,543 | — | 9,824,547 |
| Domestic equity | | — | — | — | 104,336,057 | 104,336,057 |
| International equity | | — | — | — | 43,875,974 | 43,875,974 |
| Total invested assets | | 126,531,377 | 9,915,898 | 127,870,656 | 162,558,190 | 426,876,121 |
| Pool related net assets (liabilities) | | (516,477) | (1,304,667) | (23,806,424) | (510,113) | (26,137,681) |
| Other pool ownership | | (18,315,362) | — | 18,315,362 | — | — |
| GeFONSI | | (7,851,010) | (8,611,231) | — | 16,462,241 | — |
| Participant unallotted cash | | — | — | — | 412 | 412 |
| Total | $ | 99,848,528 | — | 122,379,594 | 178,510,730 | 400,738,852 |

### *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 individual fixed rate securities ranged from eight days less than three months.

**Intermediate–Term and Broad Market 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* – ± 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.

*Broad market fixed income pool* – ± 20% of the Lehman Brothers Aggregate Bond Index. The effective duration for the Lehman Brothers Aggregate Bond Index at June 30, 2008, was 4.68 years.

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

| | **Intermediate-term fixed income pool** | **Broad market fixed income pool** |
|---|---|---|
| U.S. treasury notes | 2.71 | 7.24 |
| U.S. treasury bonds | — | 13.48 |
| U.S. government and agency securities | 2.46 | 4.85 |
| Municipal Bonds | — | 10.96 |
| Mortgage-backed | 2.18 | 4.37 |
| Other asset-backed | 0.65 | 2.58 |
| Corporate bonds | 2.38 | 4.91 |
| Yankees: | | |
| Government | 3.56 | 11.93 |
| Corporate | 2.52 | 5.48 |
| **Portfolio effective duration** | **2.32** | **4.57** |

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.

Treasury has no policy with regard to interest rate risk for the money market balance held in the International Equity Pool.

***Credit Risk***

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

There is limited credit risk associated with the lending transactions since the Commissioner of Revenue (Commissioner) is indemnified by State Street Corporation (Bank) against any loss resulting from counterparty failure or default on a loaned security or its related income distributions.

The Bank further indemnifies the Commissioner against loss due to borrower rebates in excess of earnings on cash collateral. Indemnifications are subject to limitation relating to war, civil unrest or revolution, or beyond the reasonable control of the Bank.

The Plan is subject to limited credit risk associated with securities lending transaction since the Commissioner 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 earnings on cash collateral. Indemnifications are subject to limitation relating to war, civil unrest or revolution, or beyond the reasonable control of the 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.

The SSgA Russell 3000 and SSgA MSCI EAFA Index Common Trust Fund (Trust), a passively managed commingled index fund, may lend assets or transfer securities to broker agents or other entities for collateral in the form of cash or securities and simultaneously agree to return the collateral for the same securities in the future. The credit risk associated with the lending transactions is that an issuer or other counterparty to an investment does not fulfill its obligations and a loss results from counterparty failure or default on a loaned security.

At June 30, 2008, the 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 | Broad market fixed income pool |
|---|---|---|---|---|
| Commercial paper | Not Rated | 6.80% | —% | —% |
| U.S. Treasury Notes | AAA | — | 52.06 | 7.57 |
| U.S. Treasury Bonds | | — | — | 3.07 |
| U.S. government agency | AAA | 44.00 | 12.55 | 1.33 |
| U.S. government agency | Not Rated | — | 0.03 | 0.25 |
| Municipal Bonds | AA | — | — | 0.01 |
| Mortgage-backed | AAA | 2.99 | 9.41 | 45.66 |
| Mortgage-backed | AA | 0.20 | — | — |
| Mortgage-backed | A | 0.12 | — | — |
| Mortgage-backed | BBB | — | 0.02 | — |
| Mortgage-backed | Not Rated | 0.24 | 3.53 | 10.76 |
| Other asset-backed | AAA | 16.17 | 2.03 | 2.88 |
| Other asset-backed | AA | 0.63 | 0.08 | 0.32 |
| Other asset-backed | A | 2.53 | 1.12 | 1.12 |
| Other asset-backed | BBB | 0.24 | 0.09 | 0.34 |
| Other asset-backed | BB | 0.92 | 0.11 | 0.48 |
| Corporate bonds | AAA | 2.01 | 1.09 | 1.88 |
| Corporate bonds | AA | 12.20 | 2.58 | 4.97 |
| Corporate bonds | A | 4.10 | 1.86 | 8.83 |
| Corporate bonds | BBB | — | 1.39 | 4.70 |
| Corporate bonds | Not Rated | 1.09 | 0.79 | 1.03 |
| Yankees – Government | AA | — | 0.93 | — |
| Yankees – Government | BBB | — | — | 0.15 |
| Yankees – Government | Not Rated | — | — | 0.09 |
| Yankees – Corporate | AAA | — | 0.94 | — |
| Yankees – Corporate | AA | 3.81 | 1.06 | 0.61 |
| Yankees – Corporate | A | 1.26 | 0.09 | 1.04 |
| Yankees – Corporate | BBB | — | 0.39 | 0.78 |
| Yankees – Corporate | Not Rated | 0.74 | 0.20 | 0.22 |
| No credit exposure | | (0.05) | 7.65 | 1.91 |
| | | 100.00% | 100.00% | 100.00% |

### *Custodial Credit Risk – Deposits*

Custodial credit risk is the risk that deposits may not be returned in the event of a bank failure. Treasury's policy with regard to custodial credit risk is to collateralize state deposits to the extent possible. At June 30, 2008, the Plan's deposits were uncollateralized and uninsured.

### *Foreign Currency Risk*

The Commissioner formally adopts asset allocation policies for the Plan at the beginning of each fiscal year which places policy limitations on the amount of international securities the Plan is allowed to hold. The following policy was in place during fiscal year 2008 and invested assets included the following holdings at June 30, 2008, for the Plan's investment in the international equity Pool:

| | Policy | Actual |
|---|---|---|
| Retiree Health Insurance Fund, Long-term Care | 21% ± 4% | 18.94% |

At June 30, 2008, the Plan had exposure to foreign currency risk as follows:

| Currency | | Amount |
|---|---|---|
| Deposits: | | |
| Euro Currency | $ | 12,671 |
| Japanese Yen | | 32,734 |
| | | 45,405 |
| Investments – international equity: | | |
| Canadian Dollar | | 584,436 |
| Euro Currency | | 8,651,704 |
| Japanese Yen | | 3,748,536 |
| Norwegian Krone | | 252,766 |
| Pound Sterling | | 5,585,032 |
| Singapore Dollar | | 768,920 |
| Swedish Krona | | 219,733 |
| Swiss Franc | | 3,149,968 |
| | | 22,961,095 |
| Total | $ | 23,006,500 |

***Concentration of Credit Risk***

At June 30, 2008, the Plans investment in the intermediate-term fixed income pool and the broad market fixed income pool had more than 5.0% of their investments in Federal Home Loan Mortgage Corporation as follows:

| | Fair Value | Percent of total plan investments |
|---|---|---|
| Federal Home Loan Mortgage Corporation | $ 17,779,421 | 9% |

Treasury's policy with regard to concentration of credit risk is to prohibit the purchase of more than 5.0% 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 to lend assets, under an agreement and for a fee, against deposited collateral. In February 2008, the Commissioner suspended the securities lending agreement with 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 $14,046,248. While the securities lending agreement was active there was no limit to the amount that could 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 was received or delivered the following day to maintain collateral levels.

Cash collateral 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 were 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 securities collateral unless the borrower defaulted, they were not recorded on the financial statements. Securities under loan, cash collateral and cash collateral payable were recorded on 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 the loaned security or is related income distributions. The Bank further indemnified the ARMB against loss due to borrower rebates in excess of earning on cash collateral. Indemnifications were subject to limitation related to war, civil unrest or revolution, or beyond the reasonable control of the Bank.

For the years ended June 30, 2008 and 2007, there were no losses incurred as a result of securities lending transactions and there were no significant violations of legal or contractual provisions or 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, 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 follows:

| | | 2008 | 2007 |
|---|---|---|---|
| Beginning of year: | | | |
| Due to State of Alaska General Fund for outstanding warrants | $ | 1,497,919 | 1,246,397 |
| Outstanding claims received but not paid | | 811,905 | 12,359,785 |
| Incurred but not reported | | 54,172,000 | 43,368,000 |
| Total, beginning of year | | 56,481,824 | 56,974,182 |
| Benefit deductions | | 194,610,984 | 301,285,999 |
| Benefits paid | | (235,227,731) | (301,778,357) |
| Total, end of year | $ | 15,865,077 | 56,481,824 |
| End of year: | | | |
| Due to State of Alaska General Fund for outstanding warrants | $ | 296,775 | 1,497,919 |
| Outstanding claims received but not paid | | 416,302 | 811,905 |
| Incurred but not reported | | 15,152,000 | 54,172,000 |
| Total, end of year | $ | 15,865,077 | 56,481,824 |

## (6) Contingency

The Department of Administration determined that statutory changes were needed to ensure that the Defined Benefit Retiree Health Program is funded in compliance with the Internal Revenue Code. Consequently, during the fiscal year 2007 legislative session, a law was enacted that created the Alaska Retiree Health Care Trusts (ARHCT), two separate irrevocable trusts. Senate Bill 123 (SB 123), effective June 7, 2007, directs all separately calculated employer contributions for the retiree health benefits, and appropriations, earning and reserves for payment of retiree medical obligations, to be credited to the ARHCT. Pursuant to SB 123, Treasury and the Department of Administration established and implemented the ARHCT effective as of July 1, 2007. The ARHCT is funded through employer contributions, premiums paid by retirees, and investment income.

Approximately 50 Plan members had filed administrative challenges to the DB Plan administrator’s refusal to include leave cash-in payments in the compensation used to calculate the members’ retirement benefits. The members were all first hired by DB Plan employers before July 1, 1977, and claim that they have a constitutional right, based on the DB Plan statutes in effect before that date, to have leave cash-in payments included. The DB Plan’s prior board, which heard appeals from decisions of the Plan administrator, had ruled on two of the appeals, and those rulings had in turn been appealed to the Alaska Superior Court. The remaining appeals have been stayed by the DB Plan's board. In addition, a class action lawsuit, raising the same issues, had been filed in the superior court, but has been put on hold until final resolution of the members' claim. On January 27, 2006, the Alaska Supreme Court decided one such member's case in the State's favor. Subsequently, retirees who had worked under pre-1977 collective bargaining agreements filed appeals with the Office of Administrative Hearings (OAH). Some members litigated before the OAH and the Division prevailed in these cases. Since then, other retirees eventually dismissed their cases and pending claims.

**(7) Medicare Part D Retiree Drug Subsidy**

One of the provisions of Medicare Part D provides sponsors of pension healthcare plans the opportunity to receive a retiree drug subsidy (RDS) payment if the sponsor's plan provides a prescription drug benefit that is actuarially equivalent to the Medicare Part D benefit. The RDS is equal to twenty–eight percent of the amount of eligible prescription drug benefit costs of retirees who are eligible for, but not enrolled in, Medicare Part D, by virtue of continuing to be covered by the sponsor's plan. The Plan was approved for participation in the Medicare Part D program beginning calendar year 2006. The RDS for the six month period ended June 30, 2008, cannot be reasonably estimated, and therefore is not recorded in the financial statements for the period ended June 30, 2008.

**(8) 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.