



**STATE OF ALASKA
RETIREE HEALTH FUND**

(An Enterprise Fund of the State of Alaska)

Financial Statements

June 30, 2017

(With Independent Auditors' Report Thereon)

**STATE OF ALASKA
RETIREE HEALTH FUND**
(An Enterprise Fund of the State of Alaska)

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KPMG LLP
Suite 600
701 West Eighth Avenue
Anchorage, AK 99501

Independent Auditors' Report

The Division of Retirement and Benefits
State of Alaska Retiree Health Fund:

We have audited the accompanying financial statements of the State of Alaska Retiree Health Fund (the Fund), an enterprise fund of the State of Alaska, as of and for the year ended June 30, 2017, and the related notes to financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the State of Alaska Retiree Health Fund as of June 30, 2017, and the changes in net position and cash flows for the year then ended, in accordance with U.S. generally accepted accounting principles.



Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis, on pages 3-9, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplemental Schedules

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Fund's basic financial statements. The supplemental schedules on pages 18-20 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

KPMG LLP

February 2, 2018

**STATE OF ALASKA
RETIREE HEALTH FUND**

(An Enterprise Fund of the State of Alaska)

Management's Discussion and Analysis (Unaudited)

June 30, 2017

This section presents management's discussion and analysis (MD&A) of the Retiree Health Fund's (the Fund) financial condition and performance for the year ended June 30, 2017. 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 Fund during the fiscal year ended June 30, 2017. Information for fiscal years 2016 and 2015 are presented for comparative purposes.

Financial Highlights

The Fund's financial highlights as of June 30, 2017 were as follows:

- The Fund's net position – unrestricted increased by \$47.0 million during fiscal year 2017.
- The Fund's health premiums totaled \$74.5 million during fiscal year 2017, an increase of \$3.1 million from fiscal year 2016.
- The Fund's net investment income increased \$14.5 million during fiscal year 2017 from fiscal year 2016.
- The Fund's benefit expenses totaled \$55.5 million during fiscal year 2017, a decrease of \$0.2 million from fiscal year 2016.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Fund's financial statements. The Fund's financial statements are composed of four components: (1) statement of net position, (2) statement of revenues, expenses and changes in net position, (3) statement of cash flows, and (4) notes to financial statements.

Statement of Net Position – This statement presents information regarding the Fund's assets, liabilities, and resulting net position. This statement reflects the Fund's investments at fair value, along with cash and cash equivalents, receivables, and other assets less liabilities at June 30, 2017.

Statement of Revenues, Expenses and Changes in Net Position – This statement presents how the Fund's net position changed during the fiscal years ended June 30, 2017. This statement presents health premiums and net investment income during the period. Expenses for postemployment healthcare benefits and operations are also presented.

Statement of Cash Flows – This statement presents the Fund's cash flows from operations and investing activities. The Fund 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, 2017, and the sources and uses of those funds during fiscal year 2017.

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 Fund's financial statements.

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Condensed Financial Information

Description	Net position				2015
	2017	2016	Increase (decrease)		
			Amount	Percentage	
Assets:					
Cash and cash equivalents	\$ 39,788,718	37,915,566	1,873,152	4.9%	\$ 39,150,862
Investments, at fair value	462,199,555	415,163,905	47,035,650	11.3	386,508,447
Other	2,797,294	2,610,776	186,518	7.1	1,654,968
Total assets	<u>504,785,567</u>	<u>455,690,247</u>	<u>49,095,320</u>	<u>10.8</u>	<u>427,314,277</u>
Liabilities:					
Current liabilities:					
Claims payable	13,369,000	13,459,740	(90,740)	(0.7)	12,858,552
Accrued expenses	284,489	659,299	(374,810)	(56.8)	299,395
Due to other funds	135,342	69,517	65,825	94.7	1,099,048
Total current liabilities	<u>13,788,831</u>	<u>14,188,556</u>	<u>(399,725)</u>	<u>(2.8)</u>	<u>14,256,995</u>
Noncurrent liabilities:					
Claims payable	21,071,000	18,587,260	2,483,740	13.4	17,757,048
Total liabilities	<u>34,859,831</u>	<u>32,775,816</u>	<u>2,084,015</u>	<u>6.4</u>	<u>32,014,043</u>
Total net position	<u>\$ 469,925,736</u>	<u>422,914,431</u>	<u>47,011,305</u>	<u>11.1%</u>	<u>\$ 395,300,234</u>

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Revenues, expenses and changes in net position					
Description	2017	2016	Increase (decrease)		2015
			Amount	Percentage	
Net position, beginning of year	\$ 422,914,431	395,300,234	27,614,197	7.0%	\$ 373,352,167
Operating revenues:					
Healthcare insurance premiums	74,487,285	71,355,285	3,132,000	4.4	68,053,063
Medicare retiree drug subsidy	74,849	106,196	(31,347)	(29.5)	219,253
Other income	1,560,921	135,044	1,425,877	1,055.9	145,297
Total operating revenues	<u>76,123,055</u>	<u>71,596,525</u>	<u>4,526,530</u>	<u>6.3</u>	<u>68,417,613</u>
Operating expenses:					
Healthcare benefits	55,534,359	55,780,519	(246,160)	(0.4)	54,199,457
Administrative	2,800,593	2,906,599	(106,006)	(3.6)	2,591,967
Total operating expenses	<u>58,334,952</u>	<u>58,687,118</u>	<u>(352,166)</u>	<u>(0.6)</u>	<u>56,791,424</u>
Operating income	<u>17,788,103</u>	<u>12,909,407</u>	<u>4,878,696</u>	<u>37.8</u>	<u>11,626,189</u>
Nonoperating revenues:					
Net investment income	29,223,202	14,704,790	14,518,412	98.7	10,321,878
Change in net position	<u>47,011,305</u>	<u>27,614,197</u>	<u>19,397,108</u>	<u>70.2</u>	<u>21,948,067</u>
Net position, end of year	<u>\$ 469,925,736</u>	<u>422,914,431</u>	<u>47,011,305</u>	<u>11.1%</u>	<u>\$ 395,300,234</u>

Financial Analysis of the Fund

The statement of net position as of June 30, 2017 shows a net position of \$469,925,736. The entire amount is available to cover the Fund's obligations to pay postemployment healthcare benefits for its members and their beneficiaries. These amounts also represent an increase in total net position of \$47,011,305 or 11.1% over fiscal year 2016.

Healthcare coverage is 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, Vision, and Audio (DVA) and Long-Term Care (LTC) funds are expected to cover all claims costs. It is anticipated that there will continue to be increases in future healthcare costs, and the funds must continue to accumulate assets to meet current and future claims costs.

The investment of fund assets is a long-term undertaking. On an annual basis, the Commissioner of Revenue reviews the asset allocation policies related to fund assets and adopts an asset allocation strategy to ensure the asset mix will remain at an optimal risk/return level given the Fund's constraints and objectives.

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During fiscal years 2017 and 2016, the asset allocation for the major medical fund was 100% Short-term Fixed Income Fund and the asset allocation for the DVA fund was 100% General Fund and Other Nonsegregated Investments (GeFONSI). The asset allocation for the Long-Term Care fund was as follows:

	2017	
	Long-term Care	
	Allocation	Range
Broad market fixed income pool	61.00%	62 ± 10
Domestic equity pool	21.00	25 ± 10
International equity pool	15.00	13 ± 4
Real estate investment trust pool	3.00	-3%/+ 4%
Short-term fixed income pool	—	2%
Total	<u>100.00%</u>	
	2016	
	Long-term Care	
	Allocation	Range
Broad market fixed income pool	62.00%	62 ± 10
Domestic equity pool	25.00	25 ± 10
International equity pool	13.00	13 ± 4
Short-term fixed income pool	—	0%/+ 2%
Total	<u>100.00%</u>	

Insurance Premium Calculations

The overall objective of the Fund is to have sufficient funds to meet claim costs. The insurance 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. Insurance premiums are based on a benefit 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 benefit year.

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Healthcare Insurance Premiums and Investment Income

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

	Revenues				2015
	2017	2016	Increase (decrease)		
			Amount	Percentage	
Employer paid health insurance premiums	\$ 1,790,260	1,802,485	(12,225)	(0.7)	\$ 1,816,797
Member health insurance premiums	72,697,025	69,552,800	3,144,225	4.5	66,236,266
Medicare retiree drug subsidy	74,849	106,196	(31,347)	(29.5)	219,253
Other	1,560,921	135,044	1,425,877	1,055.9	145,297
Net investment income	29,223,202	14,704,790	14,518,412	98.7	10,321,878
Total	\$ 105,346,257	86,301,315	19,044,942	22.1%	\$ 78,739,491

Employer paid medical premiums were \$1,223 per month per eligible retiree for calendar years 2017, 2016, and 2015.

Member health insurance premiums increased as a result of a higher member count within the dental, vision, and audio plan as well as the long-term care plan.

Other income primarily comprises of reimbursements for retiree prescription medication and prescription drug rebates paid through the third-party administrator (TPA). The Fund 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 postemployment healthcare Funds the opportunity to receive an RDS payment if the sponsor's Fund provides a prescription drug benefit that is actuarially equivalent to the Medicare Part D benefit. The RDS is equal to 28% 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 Fund.

The Fund's net investment income in fiscal year 2017 increased by \$14,518,412 or 98.7% from amounts recorded in fiscal year 2016. During fiscal year 2017, the Fund experienced positive returns on investments, though most gains were primarily in the LTC Plan, though returns were below the expected 7.00%.

For fiscal year 2017, the Major Medical Plan investments generated 0.88% rate of return. The Major Medical Plan annualized rate of return was 0.58% over the last three years and 0.45% over the last five years. The DVA Plan is invested in the GeFONSI. The GeFONSI is an investment pool managed by the State of Alaska, Treasury Division in the Department of Revenue. For fiscal year 2017, the GeFONSI investments generated 0.56% rate of return. The GeFONSI annualized rate of return was 0.61% over the last three years and 0.54% over the last five years. For fiscal year 2017, the LTC Plan investments generated 6.79% rate of return. The LTC Plan annualized rate of return was 4.39% over the last three years and 6.14% over the last five years.

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Benefits and Expenses

The primary expense of the Fund is the payment of postemployment healthcare benefits. These benefit costs and the costs of administering the Fund comprise the costs of operation.

	Expenses				
	2017	2016	Increase (decrease)		2015
			Amount	Percentage	
Healthcare benefits	\$ 55,534,359	55,780,519	(246,160)	(0.4)%	\$ 54,199,457
Administrative	2,800,593	2,906,599	(106,006)	(3.6)	2,591,967
Total	<u>\$ 58,334,952</u>	<u>58,687,118</u>	<u>(352,166)</u>	<u>(0.6)%</u>	<u>\$ 56,791,424</u>

Healthcare benefit expense decreased by \$246,160 or 0.4% from fiscal year 2016. The Fund contracted with two new TPAs in January 2014, and a new LTC TPA in May 2016. The TPAs use networks to help reduce healthcare benefit costs. Currently, the Fund is benefiting through the use of networks provided by the TPAs in its continued efforts at cost containment.

Administrative expenses decreased by \$106,006 or 3.6% as costs remained relatively stable. The primary change was that in May 2016, the LTC Plan incurred a one-time transition cost when the Plan contracted with a new TPA. The Plan's benefit consultants and Division continue to identify and develop premiums necessary to cover claims costs.

Funding

Postemployment healthcare benefits are funded by health insurance premiums received from the remaining participating retirement systems and fund members as well as from income earned on fund investments. Healthcare insurance 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

The overall objective of the Fund 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.

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Management's Discussion and Analysis (Unaudited)

June 30, 2017

Requests for Information

This financial report is designed to provide a general overview of the Fund's financial condition for all those with interest in the Fund'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 Retiree Health Fund
Division of Retirement and Benefits, Finance Section
P.O. Box 110203
Juneau, Alaska 99811-0203

STATE OF ALASKA
RETIREE HEALTH FUND
(An Enterprise Fund of the State of Alaska)

Statement of Net Position

June 30, 2017

Assets:

Current assets:

Cash and cash equivalents (notes 2 and 3):

Investment in State of Alaska General Fund and other nonsegregated investments pool	\$ 20,040,542
Short-term fixed income pool	<u>19,748,176</u>
Total cash and cash equivalents	<u>39,788,718</u>

Investments (notes 2 and 3):

Broad market fixed income pool	281,569,551
Domestic equity pool	93,619,062
International equity pool	74,245,287
Real estate investment trust pool	<u>12,765,655</u>
Total investments	<u>462,199,555</u>

Receivables:

Accounts receivable	9,908
Interest and dividends receivable	19,682
Due from State of Alaska General Fund	<u>347,209</u>
Total receivables	<u>376,799</u>

Total current assets	<u>502,365,072</u>
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Noncurrent assets:

Other assets	<u>2,420,495</u>
Total assets	<u>504,785,567</u>

Liabilities:

Current liabilities:

Claims payable (note 4)	13,369,000
Accrued expenses	284,489
Due to State of Alaska General Fund	<u>135,342</u>
Total current liabilities	<u>13,788,831</u>

Noncurrent liabilities:

Claims payable (note 4)	<u>21,071,000</u>
Total noncurrent liabilities	<u>21,071,000</u>
Total liabilities	<u>34,859,831</u>

Net position – unrestricted	<u>\$ 469,925,736</u>
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See accompanying notes to financial statements.

STATE OF ALASKA
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(An Enterprise Fund of the State of Alaska)

Statement of Revenues, Expenses and Changes in Net Position
Year ended June 30, 2017

Operating revenues:	
Employer health insurance premiums	\$ 1,790,260
Member health insurance premiums	72,697,025
Medicare retiree drug subsidy (note 5)	74,849
Other income	1,560,921
Total operating revenues	<u>76,123,055</u>
Operating expenses:	
Healthcare benefits (note 4)	55,534,359
Administrative	2,800,593
Total operating expenses	<u>58,334,952</u>
Operating income	<u>17,788,103</u>
Nonoperating revenues:	
Investment income:	
Net appreciation in fair value	21,223,064
Interest	7,514,903
Dividends	569,755
Total investment income	<u>29,307,722</u>
Less investment expense	<u>84,520</u>
Net investment income	<u>29,223,202</u>
Change in unrestricted net position	47,011,305
Net position, beginning of year	<u>422,914,431</u>
Net position, end of year	<u>\$ 469,925,736</u>

See accompanying notes to financial statements.

STATE OF ALASKA
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Statement of Cash Flows

Year ended June 30, 2017

Cash flows from operating activities:	
Cash received for premiums from the State of Alaska	\$ 1,560,189
Cash received for premiums from others	72,601,640
Cash received from third-party administrator	1,635,770
Cash payments for benefits to third-party administrator	(52,998,438)
Cash payments to employees	(8,799)
Cash payments to suppliers	<u>(3,104,081)</u>
Net cash provided by operating activities	<u>19,686,281</u>
Cash flows from investing activity:	
Purchase of investments	(205,405,670)
Proceeds from sale and maturities of investments	159,104,083
Investment income received	<u>28,488,458</u>
Net cash used in investing activities	<u>(17,813,129)</u>
Net increase in cash and cash equivalents	1,873,152
Cash and cash equivalents, beginning of year	<u>37,915,566</u>
Cash and cash equivalents, end of year	<u>\$ 39,788,718</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 17,788,103
Adjustments to reconcile operating income to net cash provided by operating activities:	
(Increase) decrease in assets:	
Due from State of Alaska General Fund	(230,071)
Accounts receivable	(95,385)
Other assets	139,789
Increase (decrease) in liabilities:	
Claims payable	2,393,000
Due to State of Alaska General Fund	65,825
Accrued expenses	<u>(374,980)</u>
Net cash provided by operating activities	<u>\$ 19,686,281</u>

See accompanying notes to financial statements.

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Notes to Financial Statements

June 30, 2017

(1) Description

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

(a) General

The Fund was established to provide low cost health insurance options to retirees of the Public Employees' Retirement System (PERS), Teachers' Retirement System (TRS), Judicial Retirement System (JRS), and Elected Public Officers Retirement System (EPORS) (collectively referred to as the Retirement Systems) beginning July 1, 1997. The Fund is an enterprise fund of the State financial reporting entity and is included as such in the State's Comprehensive Annual Financial Report (CAFR).

(b) Premiums and Participants

The Fund's health plan options are funded by monthly premiums paid by members and eligible recipients. A member may extend coverage to dependents for an additional monthly premium based on the coverage requested.

(c) Benefits

The Fund offers major medical; voluntary dental, vision, and audio (DVA); and voluntary long-term care (LTC) insurance options to eligible recipients of the Retirement Systems and their dependents.

(d) Medical

The Fund provides medical benefits to qualified benefit recipients of the Retirement Systems. The State pays the medical premiums for benefit recipients of the EPORS, for benefit recipients of the Marine Engineers Beneficial Association who retired from the State after July 1, 1986, and for benefit recipients of the NorthWest Marine Trust who retired from the State before July 1, 1984.

The following benefit recipients must elect coverage and pay a premium:

- Benefit recipients of the 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 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).

(e) Voluntary DVA and LTC

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

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Notes to Financial Statements

June 30, 2017

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

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

(b) Financial Statement Presentation

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

(c) 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.

(d) Investments

The Department of Revenue, Treasury Division (Treasury) has created a pooled environment by which it manages the investments the Commissioner of Revenue (the Commissioner) has fiduciary responsibility. Actual investing is performed by investment officers in Treasury or by contracted external investment managers. The funds invest in the State's internally managed General Fund and Other Nonsegregated Investments Pool (GeFONSI), Short-term Fixed Income Pool, Broad Market Fixed Income Pool, SSgA Russell 3000 Pool, SSgA MSCI EAFE Index Pool, and the Lazard International Equity Pool. The GeFONSI consists of investments in the State's internally managed Short-term Fixed Income Pool, Short-term Liquidity Fixed Income Pool, and Intermediate-term Fixed Income Pool. The complete financial activity of the funds is shown in the State's CAFR available from the Department of Administration, Division of Finance.

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

(e) Valuation and Income Allocation

Assets in the pools are reported at fair value. Investment purchases and sales are recorded on a trade-date basis. Securities are valued each business day using prices obtained from a pricing service.

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

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Income in the Short-term, Short-term Liquidity, Intermediate-term Fixed Income, Broad Market Fixed Income Pool, and the Domestic and International Equity Pools is allocated to the pool participants daily on a pro-rata basis.

(f) Statement of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include the Fund's investment in the GeFONSI and the short-term fixed income pool at June 30, 2017. This investment pool has the general characteristics of a demand deposit account.

(g) Administration

The Fund is administered by the State's Division of Retirement and Benefits (the Division). The Division utilizes the services of claims administrators, Aetna, Moda Health, Pay Flex, and Capgemini US, to process all medical, prescription drug, DVA, and LTC claims and pays monthly administrative fees to these claims administrators. Other administrative expenses are related to employees of the Division and related office expenses.

(h) Funding

The Fund is self-insured for all benefits. The Fund's funding policy provides for the collection of insurance premiums from the Retirement Systems administered by the Division as well as from 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.

(i) Due from (to) State of Alaska General Fund

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

(3) Investments

At June 30, 2017, the Fund's share of pool investments was as follows:

<u>Investment Pool</u>	<u>Major medical</u>	<u>Long-term care</u>
Cash and Cash Equivalents		
Short-term fixed income pool	\$ 16,168,266	3,579,910
Domestic Fixed Income		
Broad market fixed income pool	—	281,569,551
Equity		
Domestic Equity Pool	—	93,619,062
International Equity pool	—	74,245,287
Real estate investment trust pool	—	12,765,655
Total	<u>\$ 16,168,266</u>	<u>465,779,465</u>

**STATE OF ALASKA
RETIREE HEALTH FUND**

(An Enterprise Fund of the State of Alaska)

Notes to Financial Statements

June 30, 2017

	Dental, vision, and audio
GeFONSI balance	\$ <u><u>20,040,542</u></u>

For additional information on interest rate risk, credit risk, foreign exchange, derivatives, fair value, and counterparty credit risk, see the separately issued report on the Invested Assets of the Commissioner of Revenue at <http://treasury.dor.alaska.gov/Investments/Annual-Investment-Reports.aspx>.

(4) Claims Payable

The liability for claims represents the estimated amounts necessary to settle all outstanding claims including incurred but not reported, as of the balance sheet date. The Fund'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 are as follows:

Beginning of year:	
Current liabilities:	
Due to State of Alaska General Fund for outstanding warrants	\$ 69,517
Incurred but not reported	<u>13,459,740</u>
	<u>13,529,257</u>
Noncurrent liabilities:	
Incurred but not reported	<u>18,587,260</u>
Total, beginning of year	32,116,517
Benefit deductions	55,534,359
Benefits paid	<u>(53,075,534)</u>
Total, end of year	<u>\$ 34,575,342</u>
End of year:	
Current liabilities:	
Due to State of Alaska General Fund	\$ 135,342
Incurred but not reported	<u>13,369,000</u>
	13,504,342
Noncurrent liabilities:	
Incurred but not reported	<u>21,071,000</u>
Total, end of year	<u>\$ 34,575,342</u>

**STATE OF ALASKA
RETIREE HEALTH FUND**

(An Enterprise Fund of the State of Alaska)

Notes to Financial Statements

June 30, 2017

(5) Medicare Part D Retiree Drug Subsidy

One of the provisions of Medicare Part D provides sponsors of postemployment healthcare Funds the opportunity to receive a retiree drug subsidy (RDS) payment if the sponsor's Fund provides a prescription drug benefit that is actuarially equivalent to the Medicare Part D benefit. The RDS is equal to 28% 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 Fund. The Fund was approved for participation in the Medicare Part D program beginning calendar year 2006.

STATE OF ALASKA
RETIREE HEALTH FUND
(An Enterprise Fund of the State of Alaska)

Combining Statement of Net Position

June 30, 2017

	<u>Major medical</u>	<u>Dental, vision, and audio</u>	<u>Long-term care</u>	<u>Total</u>
Assets:				
Current assets:				
Cash and cash equivalents (notes 2 and 3):				
Investment in State of Alaska General Fund and other nonsegregated investments pool	\$ —	20,040,542	—	20,040,542
Short-term fixed income pool	<u>16,168,266</u>	<u>—</u>	<u>3,579,910</u>	<u>19,748,176</u>
Total cash and cash equivalents	<u>16,168,266</u>	<u>20,040,542</u>	<u>3,579,910</u>	<u>39,788,718</u>
Investments (notes 2 and 3):				
Broad market fixed income pool	—	—	281,569,551	281,569,551
Domestic equity pool	—	—	93,619,062	93,619,062
International equity pool	—	—	74,245,287	74,245,287
Real estate investment trust pool	<u>—</u>	<u>—</u>	<u>12,765,655</u>	<u>12,765,655</u>
Total investments	<u>—</u>	<u>—</u>	<u>462,199,555</u>	<u>462,199,555</u>
Receivables:				
Accounts receivable	9,908	—	—	9,908
Interest and dividends receivable	16,947	—	2,735	19,682
Due from State of Alaska General Fund	<u>347,209</u>	<u>—</u>	<u>—</u>	<u>347,209</u>
Total receivables	<u>374,064</u>	<u>—</u>	<u>2,735</u>	<u>376,799</u>
Total current assets	<u>16,542,330</u>	<u>20,040,542</u>	<u>465,782,200</u>	<u>502,365,072</u>
Other assets	<u>3,570</u>	<u>1,216,925</u>	<u>1,200,000</u>	<u>2,420,495</u>
Total assets	<u>16,545,900</u>	<u>21,257,467</u>	<u>466,982,200</u>	<u>504,785,567</u>
Liabilities:				
Current liabilities:				
Claims payable (note 4)	129,000	2,959,000	10,281,000	13,369,000
Accrued expenses	91,338	140,379	52,772	284,489
Due to State of Alaska General Fund	<u>—</u>	<u>102,908</u>	<u>32,434</u>	<u>135,342</u>
Total current liabilities	<u>220,338</u>	<u>3,202,287</u>	<u>10,366,206</u>	<u>13,788,831</u>
Noncurrent liabilities:				
Claims payable (note 4)	<u>—</u>	<u>—</u>	<u>21,071,000</u>	<u>21,071,000</u>
Total noncurrent liabilities	<u>—</u>	<u>—</u>	<u>21,071,000</u>	<u>21,071,000</u>
Total liabilities	<u>220,338</u>	<u>3,202,287</u>	<u>31,437,206</u>	<u>34,859,831</u>
Net position	<u>\$ 16,325,562</u>	<u>18,055,180</u>	<u>435,544,994</u>	<u>469,925,736</u>

See accompanying notes to financial statements.

STATE OF ALASKA
RETIREE HEALTH FUND
(An Enterprise Fund of the State of Alaska)

Combining Statement of Revenues, Expenses and Changes in Net Position

Year ended June 30, 2017

	<u>Major medical</u>	<u>Dental, vision, and audio</u>	<u>Long-term care</u>	<u>Total</u>
Operating revenues:				
Employer health insurance premiums	\$ 1,790,260	—	—	1,790,260
Member health insurance premiums	201,958	41,544,620	30,950,447	72,697,025
Medicare retiree drug subsidy (note 5)	74,849	—	—	74,849
Other income	99,728	29,124	1,432,069	1,560,921
Total operating revenues	<u>2,166,795</u>	<u>41,573,744</u>	<u>32,382,516</u>	<u>76,123,055</u>
Operating expenses:				
Healthcare benefits (note 4)	1,069,332	39,415,323	15,049,704	55,534,359
Administrative	125,140	2,174,329	501,124	2,800,593
Total operating expenses	<u>1,194,472</u>	<u>41,589,652</u>	<u>15,550,828</u>	<u>58,334,952</u>
Operating income (loss)	<u>972,323</u>	<u>(15,908)</u>	<u>16,831,688</u>	<u>17,788,103</u>
Nonoperating revenues:				
Investment income:				
Net appreciation in fair value	137,181	—	21,085,883	21,223,064
Interest	—	113,550	7,401,353	7,514,903
Dividends	—	—	569,755	569,755
Total investment income	<u>137,181</u>	<u>113,550</u>	<u>29,056,991</u>	<u>29,307,722</u>
Less investment expense	<u>3,394</u>	<u>—</u>	<u>81,126</u>	<u>84,520</u>
Net investment income	<u>133,787</u>	<u>113,550</u>	<u>28,975,865</u>	<u>29,223,202</u>
Change in restricted net position	<u>1,106,110</u>	<u>97,642</u>	<u>45,807,553</u>	<u>47,011,305</u>
Net position, beginning of year	<u>15,219,452</u>	<u>17,957,538</u>	<u>389,737,441</u>	<u>422,914,431</u>
Net position, end of year	<u>\$ 16,325,562</u>	<u>18,055,180</u>	<u>435,544,994</u>	<u>469,925,736</u>

See accompanying notes to financial statements.

STATE OF ALASKA
RETIREE HEALTH FUND
 (An Enterprise Fund of the State of Alaska)

Combining Statement of Cash Flows

Year ended June 30, 2017

	<u>Major medical</u>	<u>Dental, vision, and audio</u>	<u>Long-term care</u>	<u>Total</u>
Cash flows from operating activities:				
Cash received for premiums from the State of Alaska	\$ 1,560,189	—	—	1,560,189
Cash received for premiums from others	192,050	41,459,143	30,950,447	72,601,640
Cash received from third-party administrator	174,577	29,124	1,432,069	1,635,770
Cash payments for benefits to third-party administrator	(1,185,039)	(39,560,466)	(12,252,933)	(52,998,438)
Cash payments to employees	(8,799)	—	—	(8,799)
Cash payments to suppliers	(36,053)	(2,283,808)	(784,220)	(3,104,081)
	<u>696,925</u>	<u>(356,007)</u>	<u>19,345,363</u>	<u>19,686,281</u>
Net cash provided by (used in) operating activities				
Cash flows from investing activity:				
Purchase of investments	—	—	(205,405,670)	(205,405,670)
Proceeds from sale and maturities of investments	—	—	159,104,083	159,104,083
Investment income received	128,607	113,550	28,246,301	28,488,458
	<u>128,607</u>	<u>113,550</u>	<u>(18,055,286)</u>	<u>(17,813,129)</u>
Net cash provided by (used in) investing activities				
Net increase (decrease) in cash and cash equivalents				
	825,532	(242,457)	1,290,077	1,873,152
Cash and cash equivalents, beginning of year	15,342,734	20,282,999	2,289,833	37,915,566
Cash and cash equivalents, end of year	<u>\$ 16,168,266</u>	<u>20,040,542</u>	<u>3,579,910</u>	<u>39,788,718</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ 972,323	(15,908)	16,831,688	17,788,103
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
(Increase) decrease in assets:				
Due from State of Alaska General Fund	(230,071)	—	—	(230,071)
Accounts receivable	(9,908)	(85,477)	—	(95,385)
Other assets	11,293	112,857	15,639	139,789
Increase (decrease) in liabilities:				
Claims payable	(127,000)	(258,000)	2,778,000	2,393,000
Due to State of Alaska General Fund	—	62,693	3,132	65,825
Accrued expenses	80,288	(172,172)	(283,096)	(374,980)
	<u>696,925</u>	<u>(356,007)</u>	<u>19,345,363</u>	<u>19,686,281</u>
Net cash provided by (used in) operating activities				

See accompanying notes to financial statements.