



**STATE OF ALASKA
RETIREE HEALTH FUND**

(An Enterprise Fund of the State of Alaska)

Financial Statements and Supplemental Schedules

June 30, 2023 and 2022

(With Independent Auditors' Report Thereon)

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

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Independent Auditors' Report

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

Opinion

We have audited the financial statements of the Retiree Health Fund (the Fund) of the State of Alaska, as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Fund, as of June 30, 2023 and 2022, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the State of Alaska and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Fund and do not purport to, and do not, present fairly the financial position of the State of Alaska, as of June 30, 2023 and 2022, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for 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' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.



In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 State of Alaska's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 GAAS, 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 audits 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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Fund's financial statements. The supplementary schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 GAAS. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

KPMG LLP

Anchorage, Alaska
January 30, 2024

**STATE OF ALASKA
RETIREE HEALTH FUND**
(An Enterprise Fund of the State of Alaska)
Management's Discussion and Analysis (Unaudited)
June 30, 2023 and 2022

This section presents management's discussion and analysis (MD&A) of the State of Alaska Retiree Health Fund's (the Fund) financial condition and performance for the years ended June 30, 2023 and 2022. 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 years ended June 30, 2023 and 2022. Information for fiscal year 2021 is presented for comparative purposes.

Financial Highlights

The Fund's financial highlights for the year ended June 30, 2023 were as follows:

- The Fund's unrestricted net position increased by \$85.3 million during fiscal year 2023.
- The Fund's health premiums totaled \$91.5 million, an increase of \$907 thousand from fiscal year 2022.
- The Fund's net investment income increased by \$165.8 million when compared to fiscal year 2022, to a gain of \$64.9 million.
- The Fund's benefit expenses totaled \$67.8 million, a decrease of \$8.0 million from fiscal year 2022.

Overview of the Financial Statements

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

Statements of net position – These statements present information regarding the Fund's assets, liabilities, and resulting net position. These statements reflect the Fund's investments at fair value, along with cash and cash equivalents, receivables, and other assets less liabilities at June 30, 2023 and 2022.

Statements of revenues, expenses, and changes in net position – These statements present how the Fund's net position changed during the fiscal years ended June 30, 2023 and 2022 as a result of health premiums, net investment income, healthcare benefits, and operating expenses.

Statements of cash flows – These statements present 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, 2023 and 2022, and the sources and uses of those funds during fiscal years 2023 and 2022.

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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Supplemental schedules – Supplemental schedules include detailed information on the underlying individual funds that comprise the Fund and are composed of three components: (1) combining statement of net position; (2) combining statement of revenue, expenses, and changes in net position; and (3) combining statement of cash flows.

Condensed Financial Information

Description	Net position				
	2023	2022	Increase (decrease)		2021
			Amount	Percentage	
Assets:					
Cash and cash equivalents	\$ 61,706,935	55,154,326	6,552,609	11.9%	\$ 49,339,074
Investments at fair value	740,086,949	664,952,123	75,134,826	11.3	749,860,662
Receivables	132,047	60,590	71,457	117.9	29,363
Other	2,335,018	2,335,018	—	—	2,335,018
Total assets	804,260,949	722,502,057	81,758,892	11.3	801,564,117
Liabilities:					
Current liabilities:					
Claims payable	24,510,000	25,342,000	(832,000)	(3.3)	21,840,000
Accrued expenses	394,253	552,371	(158,118)	(28.6)	594,316
Due to State of Alaska General Fund	146,915	47,567	99,348	208.9	64,910
Due to Retirement System - PERS	—	—	—	—	2,510
Total current liabilities	25,051,168	25,941,938	(890,770)	(3.4)	22,501,736
Noncurrent liabilities:					
Claims payable	38,688,000	41,337,000	(2,649,000)	(6.4)	34,575,000
Total liabilities	63,739,168	67,278,938	(3,539,770)	(5.3)	57,076,736
Net position - Unrestricted	\$ 740,521,781	655,223,119	85,298,662	13.0%	\$ 744,487,381

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Condensed Financial Information (continued)

Description	Revenue, expenses, and changes in net position				
	2023	2022	Increase (decrease)		2021
			Amount	Percentage	
Unrestricted net position, beginning of year	\$ 655,223,119	744,487,381	(89,264,262)	(12.0)%	\$ 617,740,866
Operating revenue:					
Health insurance premiums	91,483,730	90,576,933	906,797	1.0	88,545,604
Employer group waiver plan	157,728	149,805	7,923	5.3	159,769
Medicare retiree drug subsidy	2,618	4,696	(2,078)	(44.3)	448
Pharmacy rebates	174,232	109,888	64,344	58.6	75,954
Pharmacy management allowance	322	26,005	(25,683)	(98.8)	856
Miscellaneous income	14,956	45,324	(30,368)	(67.0)	30,154
Total operating revenue	91,833,586	90,912,651	920,935	1.0	88,812,785
Operating expenses:					
Healthcare benefits	67,848,507	75,801,347	(7,952,840)	(10.5)	65,126,040
Administrative	3,565,855	3,493,807	72,048	2.1	3,604,054
Total operating expenses	71,414,362	79,295,154	(7,880,792)	(9.9)	68,730,094
Operating income	20,419,224	11,617,497	8,801,727	75.8	20,082,691
Nonoperating revenue:					
Net investment income (loss)	64,879,438	(100,881,759)	165,761,197	164.3	106,663,824
Change in net position	85,298,662	(89,264,262)	174,562,924	195.6	126,746,515
Unrestricted net position, end of year	\$ 740,521,781	655,223,119	85,298,662	13.0%	\$ 744,487,381

Financial Analysis of the Fund

The statements of net position as of June 30, 2023 and 2022 show a net position of \$740,521,781 and \$655,223,119, respectively. The entire amount is available to cover the Fund's obligation to pay healthcare benefits for its members and their beneficiaries.

This represents an increase in total net position of \$85,298,662 or 13.0% from fiscal year 2022 to 2023, and a decrease of \$89,264,262 or 12.0% from fiscal year 2021 to 2022. The fiscal year 2023 increase is attributed to the long-term care (LTC) plan with an increase in premiums collected and positive investment returns. The decrease in fiscal year 2022 is primarily due to losses on the LTC plan investments.

Premiums are collected monthly from retirees to cover members, dependents, and beneficiaries. Over the long term, healthcare premiums collected for the major medical; dental, vision, and audio (DVA); and LTC funds are expected to cover all claims costs. It is anticipated that there will continue to be increases in future healthcare costs and these funds must continue to accumulate assets to meet current and future claims costs.

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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.

During fiscal years 2023 and 2022, 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 LTC fund was as follows:

	<u>2023</u>		<u>2022</u>	
	<u>LTC</u>		<u>LTC</u>	
	<u>Allocation</u>	<u>Range</u>	<u>Allocation</u>	<u>Range</u>
Broad marked fixed income pool	37.0%	± 5	41.0%	± 5
Domestic equity pool	35.0	± 5	33.0	± 5
International equity pool	22.0	± 5	21.0	± 5
Real Assets	5.0	± 5	4.0	± 4
Short-term fixed income pool	1.0	- 1 / + 2	1.0	- 1 / + 2
Total	<u>100.0%</u>		<u>100.0%</u>	

Insurance Premium Calculations

The overall objective of the Fund is to have sufficient funds to meet healthcare benefit costs. The insurance premiums are recommended each year by the Division of Retirement and Benefits' (the Division) benefit consultant with review by the advisory committee and the administrator's approval. Insurance premiums are based on a Fund's benefit year. The benefit consultant reviews the historical claims experience and administrative costs and uses that data to estimate trends to recommend premiums for the next benefit year.

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Health Insurance Premiums and Investment Income

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

	2023	2022	Revenues		2021
			Amount	Increase (decrease) Percentage	
Employer health insurance premiums	\$ 1,447,664	1,475,906	(28,242)	(1.9)%	\$ 1,522,388
Member health insurance premiums	90,036,066	89,101,027	935,039	1.0	87,023,216
Employer group waiver plan	157,728	149,805	7,923	5.3	159,769
Medicare retiree drug subsidy	2,618	4,696	(2,078)	(44.3)	448
Pharmacy rebates	174,232	109,888	64,344	58.6	75,954
Pharmacy management allowance	322	26,005	(25,683)	(98.8)	856
Miscellaneous income	14,956	45,324	(30,368)	(67.0)	30,154
Net investment income (loss)	64,879,438	(100,881,759)	165,761,197	164.3	106,663,824
Total	\$ 156,713,024	(9,969,108)	166,682,132	1,672.0%	\$ 195,476,609

Employer-paid medical premiums were \$1,046 for calendar years 2023 and 2022 per month per eligible retiree. Employer-paid medical premiums were \$1,101 per month per eligible retiree for calendar year 2021. Member health insurance premiums received increased as a result of higher member participation counts within the DVA and LTC.

The Division of Retirement and Benefits (the Division) implemented a group Medicare Part D prescription drug plan known as an enhanced Employer Group Waiver Plan (EGWP) for all Medicare-eligible members covered under the Retiree Health Fund (RHF) Major Medical Fund. During fiscal year 2023, the RHF received \$157,728 in EGWP funds from the Center of Medicare and Medicaid Services (CMS) through the EGWP Plan Sponsor, OptumRx, compared to fiscal year 2022 receipts of \$149,805, and fiscal year 2021 receipts of \$159,769. The changes each year are based on prescription drug usage as well as costs of those same prescription drugs that determine EGWP funds paid to the Fund.

Pharmacy rebates are reimbursed to the RHF by the third-party administrators. During fiscal year 2023, the RHF received \$174,232 in pharmacy rebates compared to \$109,888 received during fiscal year 2022, and \$75,954 during fiscal year 2021. The Division negotiated higher rebates beginning in calendar year 2021; as these rebates have become fully integrated into the system they have had a progressively positive impact to the RHF.

The Fund's net investment income in fiscal year 2023 increased by \$165,761,197 or 164.3% from the amounts in fiscal year 2022. The Fund's net investment income in 2022 decreased by \$207,545,583 or 194.6% from amounts recorded in fiscal year 2021. Investment returns were higher due to an overall better investment environment during fiscal year 2023 in the equities market compared to fiscal year 2022. Fiscal year 2022 investment returns were lower due to the many financial challenges, such as war, inflation, and escalating concerns over a slowing global economy.

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The plans' rate of returns for the year ended June 30 and annualized were as follows:

	<u>Year ended</u>		<u>Annualized</u>	
	<u>2023</u>	<u>2022</u>	<u>3 years</u>	<u>5 years</u>
Major Medical	4.01 %	0.12 %	1.42 %	1.71 %
DVA	3.56	(1.47)	0.70	1.46
LTC	9.16	(12.98)	3.52	5.10

Benefits and Expenses

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

	<u>Expenses</u>				
	<u>2023</u>	<u>2022</u>	<u>Decrease</u>		<u>2021</u>
			<u>Amount</u>	<u>Percentage</u>	
Healthcare benefits	67,848,507	75,801,347	(7,952,840)	(10.5)%	65,126,040
Administrative	3,565,855	3,493,807	72,048	2.1	3,604,054
Total	<u>\$ 71,414,362</u>	<u>79,295,154</u>	<u>(7,880,792)</u>	<u>(9.9)%</u>	<u>\$ 68,730,094</u>

Healthcare benefits expense decreased by \$7,952,840 or (10.5)% from fiscal year 2022 and increased by \$10,675,307 or 16.4% from fiscal year 2021. The fiscal year 2023 decrease is primarily because the LTC plan had a major reduction of \$10.6 million due to having fewer open claims during fiscal year 2023, partially offset by modest increases in the major medical and DVA plans . The fiscal year 2022 increase in healthcare benefits expense is due to more DVA and LTC claims.

Administrative expenses increased by \$72,048 or 2.1% from fiscal year 2022 and decreased by \$110,247 or 3.1% from fiscal year 2021. The increase in administrative expenses during fiscal year 2023 is mostly due to contractual services, such as increases in management and consulting and transportation. The decrease in fiscal year 2022 is mostly due to contractual services such as decreases in advertising, communication, rental/leases and legal fees. The Fund's benefit consultants and the Division continue to identify and develop premiums necessary to cover claims and administrative cost.

Funding

Postemployment healthcare benefits are funded by health insurance premiums received from participants in the retirement system 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.

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June 30, 2023 and 2022

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.

Requests for Information

This financial report is designed to provide a general overview for those parties interested 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)

Statements of Net Position

June 30, 2023 and 2022

	2023	2022
Assets:		
Current assets:		
Cash and cash equivalents:		
Investment in State of Alaska General Fund and other nonsegregated investments pool	\$ 19,869,195	22,923,560
Short-term fixed income pool	41,837,740	32,230,766
Total cash and cash equivalents	61,706,935	55,154,326
Investments:		
Broad market fixed income pool	376,435,373	292,409,727
Domestic equity pool	195,293,209	207,624,551
International equity pool	137,221,233	138,785,419
Real estate investment trust pool	31,137,134	26,132,426
Total investments	740,086,949	664,952,123
Receivables:		
Accounts receivable	32,691	60,590
Due from State of Alaska General Fund	99,356	—
Total receivables	132,047	60,590
Total current assets	801,925,931	720,167,039
Noncurrent assets:		
Other assets	2,335,018	2,335,018
Total assets	804,260,949	722,502,057
Liabilities:		
Current liabilities:		
Claims payable	24,510,000	25,342,000
Accrued expenses	394,253	552,371
Due to State of Alaska General Fund	146,915	47,567
Total current liabilities	25,051,168	25,941,938
Noncurrent liabilities:		
Claims payable	38,688,000	41,337,000
Total noncurrent liabilities	38,688,000	41,337,000
Total liabilities	63,739,168	67,278,938
Net position – unrestricted	\$ 740,521,781	655,223,119

See accompanying notes to financial statements.

STATE OF ALASKA
RETIREE HEALTH FUND
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Statements of Revenue, Expenses, and Changes in Net Position

Years ended June 30, 2023 and 2022

	2023	2022
Operating revenues:		
Employer health insurance premiums	\$ 1,447,664	1,475,906
Member health insurance premiums	90,036,066	89,101,027
Total health insurance premiums	91,483,730	90,576,933
Other income:		
Employer group waiver plan	157,728	149,805
Medicare retiree drug subsidy	2,618	4,696
Pharmacy rebates	174,232	109,888
Pharmacy management allowance	322	26,005
Miscellaneous income	14,956	45,324
Total other income	349,856	335,718
Total operating revenues	91,833,586	90,912,651
Operating expenses:		
Healthcare benefits	67,848,507	75,801,347
Administrative	3,565,855	3,493,807
Total operating expenses	71,414,362	79,295,154
Operating income	20,419,224	11,617,497
Nonoperating revenue:		
Investment income:		
Net appreciation (depreciation) in fair value	55,845,746	(108,776,639)
Interest	7,565,310	7,096,738
Dividends	1,478,065	964,216
Total investment income (loss)	64,889,121	(100,715,685)
Less investment expense	9,683	166,074
Net investment income (loss)	64,879,438	(100,881,759)
Change in unrestricted net position	85,298,662	(89,264,262)
Net position – unrestricted, beginning of year	655,223,119	744,487,381
Net position – unrestricted, end of year	\$ 740,521,781	655,223,119

See accompanying notes to financial statements.

STATE OF ALASKA
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Statements of Cash Flows

Years ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Cash received for premiums from the State of Alaska	\$ 1,344,368	1,489,864
Cash received for premiums from others	90,036,066	89,143,641
Cash received from third-party administrator	377,755	249,348
Cash payments for benefits to third-party administrator	(71,229,890)	(65,548,825)
Cash payments to employees	(6,520)	(8,548)
Cash payments to suppliers	(3,713,782)	(3,537,009)
Net cash provided by operating activities	<u>16,807,997</u>	<u>21,788,471</u>
Cash flows from investing activities:		
Purchase of investments	(370,101,456)	(634,769,689)
Proceeds from sale and maturities of investments	299,920,815	607,168,389
Investment income received	59,925,253	11,628,081
Net cash used in investing activities	<u>(10,255,388)</u>	<u>(15,973,219)</u>
Net increase in cash and cash equivalents	6,552,609	5,815,252
Cash and cash equivalents, beginning of year	<u>55,154,326</u>	<u>49,339,074</u>
Cash and cash equivalents, end of year	<u>\$ 61,706,935</u>	<u>55,154,326</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 20,419,224	11,617,497
Adjustments to reconcile operating income to net cash provided by operating activities:		
(Increase) decrease in assets:		
Accounts receivable	27,899	(41,245)
Due from State of Alaska General Fund	(99,356)	10,018
Increase (decrease) in liabilities:		
Claims payable	(3,481,000)	10,264,000
Accrued expenses	(158,118)	(41,946)
Due to State of Alaska General Fund	99,348	(17,343)
Due to Retirement System – PERS	—	(2,510)
Net cash provided by operating activities	<u>\$ 16,807,997</u>	<u>21,788,471</u>

See accompanying notes to financial statements.

**STATE OF ALASKA
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Notes to Financial Statements

June 30, 2023 and 2022

(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 “AlaskaCare Defined Benefit Retiree Insurance Information Booklet” and the “State of Alaska Long-Term Care Booklet” for more complete information.

(a) General

The Fund was established on July 1, 1997 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). The Fund is an enterprise fund of the State financial reporting entity and is included as such in the State’s Annual Comprehensive Financial Report (ACFR).

(b) Premiums and Participants

The Fund’s major medical health insurance premiums are funded by the applicable Retirement Systems as well as contributions from the Alaska Department of Transportation and Public Facilities for retired members of the Marine Engineers Beneficial Association. 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 and the Masters Mates and Pilots 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. Retiree COBRA enrollees must elect coverage and pay a premium to continue participation.

(e) Voluntary DVA and LTC

Individuals receiving benefits from one of the Retirement Systems, including 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 or may be paid directly.

(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 in conformity with U.S. generally accepted accounting principles (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). Insurance

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premiums are recognized in the period in which they are due. Benefits are recognized when due and payable and expenses are recorded when the corresponding liabilities are incurred, regardless of when premiums are received, or payment is made.

(b) Financial Statement Presentation

The Fund distinguishes operating revenue and expenses from nonoperating revenue and expenses. The principal operating revenue of the Fund is employer and member health insurance premiums. Operating expenses for the Fund include postemployment healthcare benefits and administrative expenses. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

(c) Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP 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 Fund invests in the State's internally managed General Fund and Other Nonsegregated Investments Pool (GeFONSI). The complete financial activity of the funds is shown in the State's ACFR available from the Department of Administration, Division of Finance.

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 investment income. GeFONSI investment income is distributed to pool participants monthly if prescribed by statute or if appropriated by state legislature. Income in the Short-term Fixed Income Pool, Broad Market Fixed Income Pool, Domestic Equity Pool, International Equity Pool, and Real Estate Investment Trust Pool is allocated to the pool participants daily on a pro rata basis.

(e) 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. These investment pools have the general characteristics of a demand deposit account.

(f) 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, PayFlex, and CHCS Services Inc. to process all medical, DVA, and LTC claims and utilizes the services of pharmacy benefit manager

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OptumRx to process prescription drug claims. Monthly administrative fees are paid to these claims administrators. Other administrative expenses are related to employees of the Division and related office expenses.

(g) 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.

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

Amounts due from State of Alaska General Fund represent the amounts remitted by employers to the General Fund but not yet transmitted to the System. Amounts due to the State of Alaska General Fund represent the amounts paid by others on behalf of the System.

(i) Other Income

Other income consists of Employer Group Waiver Plan (EGWP) rebates, Medicare Part D Retiree Drug Subsidy (RDS) rebates, pharmacy rebates, pharmacy management allowance, and other miscellaneous items. This other income is recognized on an accrual basis.

(3) Investments

At June 30, 2023, the Fund's share of pool investments was as follows:

<u>Investment pool</u>	<u>Major medical</u>	<u>LTC</u>	<u>Total</u>
Cash and cash equivalents:			
Short-term fixed income pool	\$ 19,601,509	22,236,231	41,837,740
Domestic fixed income:			
Broad market fixed income pool	—	376,435,373	376,435,373
Equity:			
Domestic equity pool	—	195,293,209	195,293,209
International equity pool	—	137,221,233	137,221,233
Real Assets:			
Real estate investment trust pool	—	31,137,134	31,137,134
Total	<u>\$ 19,601,509</u>	<u>762,323,180</u>	<u>781,924,689</u>
		<u>DVA</u>	
GeFONSI balance		\$ 19,869,195	

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At June 30, 2022, the Fund's share of pool investments was as follows:

<u>Investment pool</u>	<u>Major medical</u>	<u>LTC</u>	<u>Total</u>
Cash and cash equivalents:			
Short-term fixed income pool	\$ 19,418,151	12,812,615	32,230,766
Domestic fixed income:			
Broad market fixed income pool	—	292,409,727	292,409,727
Equity:			
Domestic equity pool	—	207,624,551	207,624,551
International equity pool	—	138,785,419	138,785,419
Real Assets:			
Real estate investment trust pool	—	26,132,426	26,132,426
Total	<u>\$ 19,418,151</u>	<u>677,764,738</u>	<u>697,182,889</u>
		<u>DVA</u>	
GeFONSI balance		\$ 22,923,560	

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 Under the Investment Authority of the Commissioner of Revenue (Audited)" at treasury.dor.alaska.gov/home/investments/annual-investment-reports.

(4) Claims Payable

The liabilities for claims payable and claims incurred but not reported (IBNR) represent the estimated amounts necessary to settle all outstanding claims incurred and the present value of amounts not yet due (PVANYD) for LTC as of the balance sheet date. The Fund's reserve estimates for IBNR are based primarily on historical development patterns adjusted for current trends that would modify past experience. The Fund's reserve estimates for PVANYD is based on an actuarial valuation that considers expected future benefits, expense, and premium revenue discounted to the current valuation date. 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.

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Changes in the balances of claims liabilities are as follows:

	2023	2022
Total, beginning of year	\$ 66,726,567	56,479,910
Healthcare benefits	67,848,507	75,801,347
Benefits paid	(71,230,159)	(65,554,690)
Total, end of year	\$ 63,344,915	66,726,567
End of year:		
Current liabilities:		
Due to State of Alaska General Fund	\$ 146,915	47,567
Claims payable and IBNR	8,112,000	7,821,000
PVANYD	16,398,000	17,521,000
	24,656,915	25,389,567
Noncurrent liabilities:		
Claims payable and IBNR	3,843,000	4,106,000
PVANYD	34,845,000	37,231,000
Total, end of year	\$ 63,344,915	66,726,567

(5) Employer Group Waiver Program

Effective January 1, 2019, the Fund implemented a group Medicare Part D prescription drug plan known as an enhanced EGWP for all Medicare-eligible members covered under the Major Medical Fund. The enhanced EGWP leverages increased federal subsidies to the Major Medical Fund for prescription drugs covered by Medicare Part D while also providing coverage for medications not covered by Medicare Part D through a “wrap” of additional benefits. Moving to an enhanced EGWP has resulted in the Fund receiving significantly higher subsidies, while simultaneously maintaining the prescription drug coverage retirees had prior to implementation of the enhanced EGWP. Currently, EGWP is the primary program used by the Division; however, there are still retirees that are covered by the RDS if they do not meet the requirements of EGWP.

(6) Medicare Part D Retiree Drug Subsidy

A provision 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 was approved for participation in the Medicare Part D program beginning calendar year 2006.

SUPPLEMENTAL SCHEDULES

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Combining Statement of Net Position

June 30, 2023

	<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:				
Investment in State of Alaska General Fund and other nonsegregated investments pool	\$ —	19,869,195	—	19,869,195
Short-term fixed income pool	<u>19,601,509</u>	<u>—</u>	<u>22,236,231</u>	<u>41,837,740</u>
Total cash and cash equivalents	<u>19,601,509</u>	<u>19,869,195</u>	<u>22,236,231</u>	<u>61,706,935</u>
Investments:				
Broad market fixed income pool	—	—	376,435,373	376,435,373
Domestic equity pool	—	—	195,293,209	195,293,209
International equity pool	—	—	137,221,233	137,221,233
Real estate investment trust pool	<u>—</u>	<u>—</u>	<u>31,137,134</u>	<u>31,137,134</u>
Total investments	<u>—</u>	<u>—</u>	<u>740,086,949</u>	<u>740,086,949</u>
Receivables:				
Accounts receivable	32,691	—	—	32,691
Due from State of Alaska General Fund	<u>99,356</u>	<u>—</u>	<u>—</u>	<u>99,356</u>
Total receivables	<u>132,047</u>	<u>—</u>	<u>—</u>	<u>132,047</u>
Total current assets	19,733,556	19,869,195	762,323,180	801,925,931
Noncurrent assets:				
Other assets	<u>3,570</u>	<u>1,131,448</u>	<u>1,200,000</u>	<u>2,335,018</u>
Total assets	<u>19,737,126</u>	<u>21,000,643</u>	<u>763,523,180</u>	<u>804,260,949</u>
Liabilities:				
Current liabilities:				
Claims payable	303,000	4,194,000	20,013,000	24,510,000
Accrued expenses	20,358	298,675	75,220	394,253
Due to State of Alaska General Fund	<u>—</u>	<u>3,956</u>	<u>142,959</u>	<u>146,915</u>
Total current liabilities	<u>323,358</u>	<u>4,496,631</u>	<u>20,231,179</u>	<u>25,051,168</u>
Noncurrent liabilities:				
Claims payable	<u>—</u>	<u>—</u>	<u>38,688,000</u>	<u>38,688,000</u>
Total noncurrent liabilities	<u>—</u>	<u>—</u>	<u>38,688,000</u>	<u>38,688,000</u>
Total liabilities	<u>323,358</u>	<u>4,496,631</u>	<u>58,919,179</u>	<u>63,739,168</u>
Net position – unrestricted	<u>\$ 19,413,768</u>	<u>16,504,012</u>	<u>704,604,001</u>	<u>740,521,781</u>

See accompanying independent auditors' report.

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, 2023

	<u>Major medical</u>	<u>Dental, vision, and audio</u>	<u>Long-term care</u>	<u>Total</u>
Operating revenues:				
Employer health insurance premiums	\$ 1,447,664	—	—	1,447,664
Member health insurance premiums	196,796	49,154,037	40,685,233	90,036,066
Total health insurance premiums	<u>1,644,460</u>	<u>49,154,037</u>	<u>40,685,233</u>	<u>91,483,730</u>
Other income:				
Employer group waiver plan	157,728	—	—	157,728
Medicare retiree drug subsidy	2,618	—	—	2,618
Pharmacy rebates	174,232	—	—	174,232
Pharmacy management allowance	322	—	—	322
Miscellaneous income	14,956	—	—	14,956
Total other income	<u>349,856</u>	<u>—</u>	<u>—</u>	<u>349,856</u>
Total operating revenues	<u>1,994,316</u>	<u>49,154,037</u>	<u>40,685,233</u>	<u>91,833,586</u>
Operating expenses:				
Healthcare benefits	2,597,871	50,102,857	15,147,779	67,848,507
Administrative	84,678	2,636,666	844,511	3,565,855
Total operating expenses	<u>2,682,549</u>	<u>52,739,523</u>	<u>15,992,290</u>	<u>71,414,362</u>
Operating income (loss)	<u>(688,233)</u>	<u>(3,585,486)</u>	<u>24,692,943</u>	<u>20,419,224</u>
Nonoperating revenue:				
Investment income:				
Net appreciation in fair value	759,235	768,418	54,318,093	55,845,746
Interest	—	—	7,565,310	7,565,310
Dividends	—	—	1,478,065	1,478,065
Total investment income	<u>759,235</u>	<u>768,418</u>	<u>63,361,468</u>	<u>64,889,121</u>
Less investment expense	264	—	9,419	9,683
Net investment income	<u>758,971</u>	<u>768,418</u>	<u>63,352,049</u>	<u>64,879,438</u>
Change in unrestricted net position	70,738	(2,817,068)	88,044,992	85,298,662
Net position – unrestricted, beginning of year	<u>19,343,030</u>	<u>19,321,080</u>	<u>616,559,009</u>	<u>655,223,119</u>
Net position – unrestricted, end of year	<u>\$ 19,413,768</u>	<u>16,504,012</u>	<u>704,604,001</u>	<u>740,521,781</u>

See accompanying independent auditors' report.

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

Combining Statement of Cash Flows

Year ended June 30, 2023

	<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	\$ 1,344,368	—	—	1,344,368
Cash received for premiums from others	196,796	49,154,037	40,685,233	90,036,066
Cash received from third-party administrator	377,755	—	—	377,755
Cash payments for benefits to third-party administrator	(2,410,871)	(50,248,857)	(18,570,162)	(71,229,890)
Cash payments to employees	(6,520)	—	—	(6,520)
Cash payments to suppliers	(77,141)	(2,727,963)	(908,678)	(3,713,782)
	<u>(575,613)</u>	<u>(3,822,783)</u>	<u>21,206,393</u>	<u>16,807,997</u>
Cash flows from investing activities:				
Purchase of investments	—	—	(370,101,456)	(370,101,456)
Proceeds from sale and maturities of investments	—	—	299,920,815	299,920,815
Investment income (loss) received	758,971	768,418	58,397,864	59,925,253
	<u>758,971</u>	<u>768,418</u>	<u>(11,782,777)</u>	<u>(10,255,388)</u>
Net increase (decrease) in cash and cash equivalents				
	183,358	(3,054,365)	9,423,616	6,552,609
Cash and cash equivalents, beginning of year				
	<u>19,418,151</u>	<u>22,923,560</u>	<u>12,812,615</u>	<u>55,154,326</u>
Cash and cash equivalents, end of year				
	<u>\$ 19,601,509</u>	<u>19,869,195</u>	<u>22,236,231</u>	<u>61,706,935</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ (688,233)	(3,585,486)	24,692,943	20,419,224
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
(Increase) decrease in assets:				
Accounts receivable	27,899	—	—	27,899
Due from State of Alaska General Fund	(99,356)	—	—	(99,356)
Increase (decrease) in liabilities:				
Claims payable	187,000	(146,000)	(3,522,000)	(3,481,000)
Accrued expenses	1,017	(94,969)	(64,166)	(158,118)
Due to State of Alaska General Fund	(3,940)	3,672	99,616	99,348
Due to Retirement System – PERS	—	—	—	—
	<u>(575,613)</u>	<u>(3,822,783)</u>	<u>21,206,393</u>	<u>16,807,997</u>

See accompanying independent auditors' report.

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

Combining Statement of Net Position

June 30, 2022

	<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:				
Investment in State of Alaska General Fund and other nonsegregated investments pool	\$ —	22,923,560	—	22,923,560
Short-term fixed income pool	19,418,151	—	12,812,615	32,230,766
Total cash and cash equivalents	19,418,151	22,923,560	12,812,615	55,154,326
Investments:				
Broad market fixed income pool	—	—	292,409,727	292,409,727
Domestic equity pool	—	—	207,624,551	207,624,551
International equity pool	—	—	138,785,419	138,785,419
Real estate investment trust pool	—	—	26,132,426	26,132,426
Total investments	—	—	664,952,123	664,952,123
Receivables:				
Accounts receivable	60,590	—	—	60,590
Total receivables	60,590	—	—	60,590
Total current assets	19,478,741	22,923,560	677,764,738	720,167,039
Noncurrent assets:				
Other assets	3,570	1,131,448	1,200,000	2,335,018
Total assets	19,482,311	24,055,008	678,964,738	722,502,057
Liabilities:				
Current liabilities:				
Claims payable	116,000	4,340,000	20,886,000	25,342,000
Accrued expenses	19,341	393,644	139,386	552,371
Due to State of Alaska General Fund	3,940	284	43,343	47,567
Total current liabilities	139,281	4,733,928	21,068,729	25,941,938
Noncurrent liabilities:				
Claims payable	—	—	41,337,000	41,337,000
Total noncurrent liabilities	—	—	41,337,000	41,337,000
Total liabilities	139,281	4,733,928	62,405,729	67,278,938
Net position – unrestricted	\$ 19,343,030	19,321,080	616,559,009	655,223,119

See accompanying independent auditors' report.

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, 2022

	<u>Major medical</u>	<u>Dental, vision, and audio</u>	<u>Long-term care</u>	<u>Total</u>
Operating revenues:				
Employer health insurance premiums	\$ 1,475,906	—	—	1,475,906
Member health insurance premiums	194,394	49,688,429	39,218,204	89,101,027
Total health insurance premiums	<u>1,670,300</u>	<u>49,688,429</u>	<u>39,218,204</u>	<u>90,576,933</u>
Other income:				
Employer group waiver plan	149,805	—	—	149,805
Medicare retiree drug subsidy	4,696	—	—	4,696
Pharmacy rebates	109,888	—	—	109,888
Pharmacy management allowance	26,005	—	—	26,005
Miscellaneous income	199	31,595	13,530	45,324
Total other income	<u>290,593</u>	<u>31,595</u>	<u>13,530</u>	<u>335,718</u>
Total operating revenues	<u>1,960,893</u>	<u>49,720,024</u>	<u>39,231,734</u>	<u>90,912,651</u>
Operating expenses:				
Healthcare benefits	1,361,251	48,648,838	25,791,258	75,801,347
Administrative	94,744	2,505,841	893,222	3,493,807
Total operating expenses	<u>1,455,995</u>	<u>51,154,679</u>	<u>26,684,480</u>	<u>79,295,154</u>
Operating income (loss)	<u>504,898</u>	<u>(1,434,655)</u>	<u>12,547,254</u>	<u>11,617,497</u>
Nonoperating revenue:				
Investment income:				
Net appreciation (depreciation) in fair value	22,819	(335,547)	(108,463,911)	(108,776,639)
Interest	—	—	7,096,738	7,096,738
Dividends	—	—	964,216	964,216
Total investment income (loss)	<u>22,819</u>	<u>(335,547)</u>	<u>(100,402,957)</u>	<u>(100,715,685)</u>
Less investment expense	4,581	—	161,493	166,074
Net investment income (loss)	<u>18,238</u>	<u>(335,547)</u>	<u>(100,564,450)</u>	<u>(100,881,759)</u>
Change in unrestricted net position	523,136	(1,770,202)	(88,017,196)	(89,264,262)
Net position – unrestricted, beginning of year	<u>18,819,894</u>	<u>21,091,282</u>	<u>704,576,205</u>	<u>744,487,381</u>
Net position – unrestricted, end of year	<u>\$ 19,343,030</u>	<u>19,321,080</u>	<u>616,559,009</u>	<u>655,223,119</u>

See accompanying independent auditors' report.

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

Combining Statement of Cash Flows

Year ended June 30, 2022

	<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	\$ 1,489,864	—	—	1,489,864
Cash received for premiums from others	194,394	49,719,149	39,230,098	89,143,641
Cash received from third-party administrator	249,348	—	—	249,348
Cash payments for benefits to third-party administrator	(1,409,251)	(48,161,838)	(15,977,736)	(65,548,825)
Cash payments to employees	(8,548)	—	—	(8,548)
Cash payments to suppliers	(77,881)	(2,477,920)	(981,208)	(3,537,009)
Net cash provided by (used in) operating activities	<u>437,926</u>	<u>(920,609)</u>	<u>22,271,154</u>	<u>21,788,471</u>
Cash flows from investing activities:				
Purchase of investments	—	—	(634,769,689)	(634,769,689)
Proceeds from sale and maturities of investments	—	—	607,168,389	607,168,389
Investment income (loss) received	18,238	(335,547)	11,945,390	11,628,081
Net cash provided by (used in) investing activities	<u>18,238</u>	<u>(335,547)</u>	<u>(15,655,910)</u>	<u>(15,973,219)</u>
Net increase (decrease) in cash and cash equivalents	456,164	(1,256,156)	6,615,244	5,815,252
Cash and cash equivalents, beginning of year	<u>18,961,987</u>	<u>24,179,716</u>	<u>6,197,371</u>	<u>49,339,074</u>
Cash and cash equivalents, end of year	<u>\$ 19,418,151</u>	<u>22,923,560</u>	<u>12,812,615</u>	<u>55,154,326</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ 504,898	(1,434,655)	12,547,254	11,617,497
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
(Increase) decrease in assets:				
Accounts receivable	(41,245)	—	—	(41,245)
Due from State of Alaska General Fund	10,018	—	—	10,018
Increase (decrease) in liabilities:				
Claims payable	(48,000)	487,000	9,825,000	10,264,000
Accrued expenses	8,315	37,725	(87,986)	(41,946)
Due to State of Alaska General Fund	3,940	(9,805)	(11,478)	(17,343)
Due to Retirement System – PERS	—	(874)	(1,636)	(2,510)
Net cash provided by (used in) operating activities	<u>\$ 437,926</u>	<u>(920,609)</u>	<u>22,271,154</u>	<u>21,788,471</u>

See accompanying independent auditors' report.