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

Financial Statements

June 30, 2017

(With Independent Auditors’ Report Thereon)
<table>
<thead>
<tr>
<th>Section</th>
<th>Page(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independent Auditors’ Report</td>
<td>1–2</td>
</tr>
<tr>
<td>Management’s Discussion and Analysis (Unaudited)</td>
<td>3–9</td>
</tr>
<tr>
<td>Statement of Net Position</td>
<td>10</td>
</tr>
<tr>
<td>Statement of Revenues, Expenses and Changes in Net Position</td>
<td>11</td>
</tr>
<tr>
<td>Statement of Cash Flows</td>
<td>12</td>
</tr>
<tr>
<td>Notes to Financial Statements</td>
<td>13–17</td>
</tr>
<tr>
<td>Supplementary Schedules:</td>
<td></td>
</tr>
<tr>
<td>Schedule 1 - Combining Statement of Net Position</td>
<td>18</td>
</tr>
<tr>
<td>Schedule 2 - Combining Statement of Revenues, Expenses and Changes in Net Position</td>
<td>19</td>
</tr>
<tr>
<td>Schedule 3 - Combining Statement of Cash Flows</td>
<td>20</td>
</tr>
</tbody>
</table>
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.

February 2, 2018
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.
Condensed Financial Information

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

(Continued)
STATE OF ALASKA
RETIREE HEALTH FUND
(An Enterprise Fund of the State of Alaska)
Management’s Discussion and Analysis (Unaudited)
June 30, 2017

Revenues, expenses and changes in net position

<table>
<thead>
<tr>
<th>Description</th>
<th>2017</th>
<th>2016</th>
<th>Increase (decrease)</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>net position, beginning of year</td>
<td>$422,914,431</td>
<td>395,300,234</td>
<td>27,614,197</td>
<td>7.0%</td>
</tr>
<tr>
<td>Operating revenues:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Health care insurance premiums</td>
<td>74,487,285</td>
<td>71,355,285</td>
<td>3,132,000</td>
<td>4.4%</td>
</tr>
<tr>
<td>Medicare retiree drug subsidy</td>
<td>74,849</td>
<td>106,196</td>
<td>(31,347)</td>
<td>(29.5%)</td>
</tr>
<tr>
<td>Other income</td>
<td>1,560,921</td>
<td>135,044</td>
<td>1,425,877</td>
<td>1,055.9%</td>
</tr>
<tr>
<td>Total operating revenues</td>
<td>76,123,055</td>
<td>71,596,525</td>
<td>4,526,530</td>
<td>6.3%</td>
</tr>
<tr>
<td>Operating expenses:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Health care benefits</td>
<td>55,534,359</td>
<td>55,780,519</td>
<td>(246,160)</td>
<td>(0.4%)</td>
</tr>
<tr>
<td>Administrative</td>
<td>2,800,593</td>
<td>2,906,599</td>
<td>(106,006)</td>
<td>(3.6%)</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>58,334,952</td>
<td>58,687,118</td>
<td>(352,166)</td>
<td>(0.6%)</td>
</tr>
<tr>
<td>Operating income</td>
<td>17,788,103</td>
<td>12,909,407</td>
<td>4,878,696</td>
<td>37.8%</td>
</tr>
<tr>
<td>Nonoperating revenues:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net investment income</td>
<td>29,223,202</td>
<td>14,704,790</td>
<td>14,518,412</td>
<td>98.7%</td>
</tr>
<tr>
<td>Change in net position</td>
<td>47,011,305</td>
<td>27,614,197</td>
<td>19,397,108</td>
<td>70.2%</td>
</tr>
<tr>
<td>Net position, end of year</td>
<td>$469,925,736</td>
<td>422,914,431</td>
<td>47,011,305</td>
<td>11.1%</td>
</tr>
</tbody>
</table>

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.
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 Nonseggregated Investments (GeFONS). The asset allocation for the Long-Term Care fund was as follows:

<table>
<thead>
<tr>
<th>2017 Long-term Care Allocation Range</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Broad market fixed income pool 61.00%</td>
<td>62 ± 10</td>
</tr>
<tr>
<td>Domestic equity pool 21.00</td>
<td>25 ± 10</td>
</tr>
<tr>
<td>International equity pool 15.00</td>
<td>13 ± 4</td>
</tr>
<tr>
<td>Real estate investment trust pool 3.00</td>
<td>-3%/+ 4%</td>
</tr>
<tr>
<td>Short-term fixed income pool —</td>
<td>2%</td>
</tr>
<tr>
<td><strong>Total 100.00%</strong></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2016 Long-term Care Allocation Range</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Broad market fixed income pool 62.00%</td>
<td>62 ± 10</td>
</tr>
<tr>
<td>Domestic equity pool 25.00</td>
<td>25 ± 10</td>
</tr>
<tr>
<td>International equity pool 13.00</td>
<td>13 ± 4</td>
</tr>
<tr>
<td>Short-term fixed income pool —</td>
<td>0%/+ 2%</td>
</tr>
<tr>
<td><strong>Total 100.00%</strong></td>
<td></td>
</tr>
</tbody>
</table>

**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.
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.

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
<th>Increase (decrease)</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>Amount</td>
<td>Amount</td>
<td>Amount</td>
</tr>
<tr>
<td>Employer paid health</td>
<td>1,790,260</td>
<td>1,802,485</td>
<td>(12,225)</td>
<td>(0.7)</td>
</tr>
<tr>
<td>insurance premiums</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Member health insurance</td>
<td>72,697,025</td>
<td>69,552,800</td>
<td>3,144,225</td>
<td>4.5</td>
</tr>
<tr>
<td>Medicare retiree drug</td>
<td>74,849</td>
<td>106,196</td>
<td>(31,347)</td>
<td>(29.5)</td>
</tr>
<tr>
<td>subsidy</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>1,560,921</td>
<td>135,044</td>
<td>1,425,877</td>
<td>1,055.9</td>
</tr>
<tr>
<td>Net investment income</td>
<td>29,223,202</td>
<td>14,704,790</td>
<td>14,518,412</td>
<td>98.7</td>
</tr>
<tr>
<td>Total</td>
<td>$ 105,346,257</td>
<td>$ 86,301,315</td>
<td>$ 19,044,942</td>
<td>22.1%</td>
</tr>
</tbody>
</table>

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.
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.

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

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.
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 19,748,176
  Total cash and cash equivalents 39,788,718
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 12,765,655
  Total investments 462,199,555
Receivables:
  Accounts receivable 9,908
  Interest and dividends receivable 19,682
  Due from State of Alaska General Fund 347,209
  Total receivables 376,799
Total current assets 502,365,072
Noncurrent assets:
  Other assets 2,420,495
Total assets 504,785,567

Liabilities:
Current liabilities:
  Claims payable (note 4) 13,369,000
  Accrued expenses 284,489
  Due to State of Alaska General Fund 135,342
  Total current liabilities 13,788,831
Noncurrent liabilities:
  Claims payable (note 4) 21,071,000
  Total noncurrent liabilities 21,071,000
Total liabilities 34,859,831
Net position – unrestricted $ 469,925,736

See accompanying notes to financial statements.
STATE OF ALASKA
RETIREE HEALTH FUND
(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 76,123,055

Operating expenses:
Healthcare benefits (note 4) 55,534,359
Administrative 2,800,593
Total operating expenses 58,334,952
Operating income 17,788,103

Nonoperating revenues:
Investment income:
Net appreciation in fair value 21,223,064
Interest 7,514,903
Dividends 569,755
Total investment income 29,307,722
Less investment expense 84,520
Net investment income 29,223,202

Change in unrestricted net position 47,011,305
Net position, beginning of year 422,914,431
Net position, end of year $ 469,925,736

See accompanying notes to financial statements.
STATE OF ALASKA
RETIREE HEALTH FUND
(An Enterprise Fund of the State of Alaska)

Statement of Cash Flows
Year ended June 30, 2017

<table>
<thead>
<tr>
<th>Cash flows from operating activities:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash received for premiums from the State of Alaska</td>
<td>$ 1,560,189</td>
</tr>
<tr>
<td>Cash received for premiums from others</td>
<td>72,601,640</td>
</tr>
<tr>
<td>Cash received from third-party administrator</td>
<td>1,635,770</td>
</tr>
<tr>
<td>Cash payments for benefits to third-party administrator</td>
<td>(52,998,438)</td>
</tr>
<tr>
<td>Cash payments to employees</td>
<td>(8,799)</td>
</tr>
<tr>
<td>Cash payments to suppliers</td>
<td>(3,104,081)</td>
</tr>
<tr>
<td><strong>Net cash provided by operating activities</strong></td>
<td><strong>19,686,281</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cash flows from investing activity:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase of investments</td>
<td>(205,405,670)</td>
</tr>
<tr>
<td>Proceeds from sale and maturities of investments</td>
<td>159,104,083</td>
</tr>
<tr>
<td>Investment income received</td>
<td>28,488,458</td>
</tr>
<tr>
<td><strong>Net cash used in investing activities</strong></td>
<td><strong>(17,813,129)</strong></td>
</tr>
<tr>
<td><strong>Net increase in cash and cash equivalents</strong></td>
<td><strong>1,873,152</strong></td>
</tr>
</tbody>
</table>

| Cash and cash equivalents, beginning of year | 37,915,566 |
| Cash and cash equivalents, end of year | $ 39,788,718 |

<table>
<thead>
<tr>
<th>Reconciliation of operating income to net cash provided by operating activities:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating income</td>
<td>$ 17,788,103</td>
</tr>
<tr>
<td>Adjustments to reconcile operating income to net cash provided by operating activities:</td>
<td></td>
</tr>
<tr>
<td>(Increase) decrease in assets:</td>
<td></td>
</tr>
<tr>
<td>Due from State of Alaska General Fund</td>
<td>(230,071)</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>(95,385)</td>
</tr>
<tr>
<td>Other assets</td>
<td>139,789</td>
</tr>
<tr>
<td>Increase (decrease) in liabilities:</td>
<td></td>
</tr>
<tr>
<td>Claims payable</td>
<td>2,393,000</td>
</tr>
<tr>
<td>Due to State of Alaska General Fund</td>
<td>65,825</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>(374,980)</td>
</tr>
<tr>
<td><strong>Net cash provided by operating activities</strong></td>
<td><strong>$ 19,686,281</strong></td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements.
(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.
(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.
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:

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

GeFONSI balance $ 20,040,542

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 13,459,740
  - Total, beginning of year 13,529,257

Noncurrent liabilities:
- Incurred but not reported 18,587,260
  - Total, beginning of year 32,116,517

Benefit deductions 55,534,359
Benefits paid (53,075,534)
  - Total, end of year $ 34,575,342

End of year:

Current liabilities:
- Due to State of Alaska General Fund $ 135,342
- Incurred but not reported 13,369,000
  - Total, end of year 13,504,342

Noncurrent liabilities:
- Incurred but not reported 21,071,000
  - Total, end of year $ 34,575,342
(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

<table>
<thead>
<tr>
<th>Major dental</th>
<th>Dental, vision, and audio</th>
<th>Long-term care</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents (notes 2 and 3):</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment in State of Alaska General Fund</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>and other nonsegregated investments pool</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$</td>
<td>—</td>
<td>20,040,542</td>
<td>20,040,542</td>
</tr>
<tr>
<td>Short-term fixed income pool</td>
<td>16,168,266</td>
<td>—</td>
<td>39,788,718</td>
</tr>
<tr>
<td>Total cash and cash equivalents</td>
<td>16,168,266</td>
<td>20,040,542</td>
<td>39,788,718</td>
</tr>
<tr>
<td>Investments (notes 2 and 3):</td>
<td>39,788,718</td>
<td>281,569,551</td>
<td>321,358,269</td>
</tr>
<tr>
<td>Broad market fixed income pool</td>
<td>—</td>
<td>281,569,551</td>
<td>281,569,551</td>
</tr>
<tr>
<td>Domestic equity pool</td>
<td>—</td>
<td>93,619,062</td>
<td>93,619,062</td>
</tr>
<tr>
<td>International equity pool</td>
<td>—</td>
<td>74,245,287</td>
<td>74,245,287</td>
</tr>
<tr>
<td>Real estate investment trust pool</td>
<td>—</td>
<td>12,765,655</td>
<td>12,765,655</td>
</tr>
<tr>
<td>Total investments</td>
<td>—</td>
<td>462,199,555</td>
<td>462,199,555</td>
</tr>
<tr>
<td>Receivables:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>9,908</td>
<td>—</td>
<td>9,908</td>
</tr>
<tr>
<td>Interest and dividends receivable</td>
<td>16,947</td>
<td>2,735</td>
<td>19,682</td>
</tr>
<tr>
<td>Due from State of Alaska General Fund</td>
<td>347,209</td>
<td>—</td>
<td>347,209</td>
</tr>
<tr>
<td>Total receivables</td>
<td>374,064</td>
<td>2,735</td>
<td>376,799</td>
</tr>
<tr>
<td>Total current assets</td>
<td>16,542,330</td>
<td>20,040,542</td>
<td>502,365,072</td>
</tr>
<tr>
<td>Other assets</td>
<td>3,570</td>
<td>1,216,925</td>
<td>2,420,495</td>
</tr>
<tr>
<td>Total assets</td>
<td>16,545,900</td>
<td>21,257,467</td>
<td>504,785,567</td>
</tr>
<tr>
<td>Liabilities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current liabilities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Claims payable (note 4)</td>
<td>129,000</td>
<td>2,959,000</td>
<td>13,369,000</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>91,338</td>
<td>140,379</td>
<td>284,489</td>
</tr>
<tr>
<td>Due to State of Alaska General Fund</td>
<td></td>
<td>102,908</td>
<td>32,434</td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>220,338</td>
<td>3,202,287</td>
<td>13,788,831</td>
</tr>
<tr>
<td>Noncurrent liabilities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Claims payable (note 4)</td>
<td></td>
<td>21,071,000</td>
<td>21,071,000</td>
</tr>
<tr>
<td>Total noncurrent liabilities</td>
<td></td>
<td>21,071,000</td>
<td>21,071,000</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>220,338</td>
<td>3,202,287</td>
<td>34,859,831</td>
</tr>
<tr>
<td>Net position</td>
<td>16,325,562</td>
<td>18,055,180</td>
<td>469,925,736</td>
</tr>
</tbody>
</table>

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

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

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

<table>
<thead>
<tr>
<th>Major medical</th>
<th>Dental, vision, and audio</th>
<th>Long-term care</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ 1,560,189</td>
<td>—</td>
<td>—</td>
<td>1,560,189</td>
</tr>
<tr>
<td>192,050</td>
<td>41,459,143</td>
<td>30,950,447</td>
<td>72,601,640</td>
</tr>
<tr>
<td>174,577</td>
<td>29,124</td>
<td>1,432,069</td>
<td>1,635,770</td>
</tr>
<tr>
<td>(1,185,039)</td>
<td>(39,560,466)</td>
<td>(12,252,933)</td>
<td>(52,998,438)</td>
</tr>
<tr>
<td>(8,799)</td>
<td>—</td>
<td>—</td>
<td>(8,799)</td>
</tr>
<tr>
<td>(36,053)</td>
<td>(2,283,808)</td>
<td>(784,220)</td>
<td>(3,104,081)</td>
</tr>
<tr>
<td>696,925</td>
<td>(356,007)</td>
<td>19,345,363</td>
<td>19,686,281</td>
</tr>
<tr>
<td>—</td>
<td>—</td>
<td>159,104,083</td>
<td>159,104,083</td>
</tr>
<tr>
<td>128,607</td>
<td>113,550</td>
<td>28,246,301</td>
<td>28,488,458</td>
</tr>
<tr>
<td>128,607</td>
<td>113,550</td>
<td>(18,055,286)</td>
<td>(17,813,129)</td>
</tr>
<tr>
<td>825,532</td>
<td>(242,457)</td>
<td>1,290,077</td>
<td>1,873,152</td>
</tr>
<tr>
<td>15,342,734</td>
<td>20,282,999</td>
<td>2,289,833</td>
<td>37,915,566</td>
</tr>
<tr>
<td>$ 16,168,266</td>
<td>20,040,542</td>
<td>3,579,910</td>
<td>39,788,718</td>
</tr>
</tbody>
</table>

Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:

<table>
<thead>
<tr>
<th>Operating income (loss)</th>
<th>$ 972,323</th>
<th>(15,908)</th>
<th>16,831,688</th>
<th>17,788,103</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:</td>
<td>(Increase) decrease in assets:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Due from State of Alaska General Fund</td>
<td>(230,071)</td>
<td>—</td>
<td>—</td>
<td>(230,071)</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>(9,908)</td>
<td>(85,477)</td>
<td>—</td>
<td>(95,385)</td>
</tr>
<tr>
<td>Other assets</td>
<td>11,293</td>
<td>112,857</td>
<td>15,639</td>
<td>139,789</td>
</tr>
<tr>
<td>Increase (decrease) in liabilities:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Claims payable</td>
<td>(127,000)</td>
<td>(258,000)</td>
<td>2,778,000</td>
<td>2,393,000</td>
</tr>
<tr>
<td>Due to State of Alaska General Fund</td>
<td>—</td>
<td>62,693</td>
<td>3,132</td>
<td>65,825</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>80,288</td>
<td>(172,172)</td>
<td>(283,096)</td>
<td>(374,980)</td>
</tr>
<tr>
<td>Net cash provided by (used in) operating activities</td>
<td>$ 696,925</td>
<td>(356,007)</td>
<td>19,345,363</td>
<td>19,686,281</td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements.