

Yukon-Kuskokwim Health Corporation

Financial Statements and Supplementary Information

Years Ended September 30, 2016 and 2015

WIPFLi^{LLP}
CPAs and Consultants

Yukon-Kuskokwim Health Corporation

Financial Statements and Supplementary Information

Years Ended September 30, 2016 and 2015

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Independent Auditor's Report

Board of Directors
Yukon-Kuskokwim Health Corporation
Bethel, Alaska

Report on the Financial Statements

We have audited the accompanying financial statements of Yukon-Kuskokwim Health Corporation (the "Corporation"), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Corporation'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 accounting principles generally accepted in the United States; 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.

Auditor's 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditor's 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 control 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 respective financial position of Yukon-Kuskokwim Health Corporation as of September 30, 2016, and the respective changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States.

Other Matters

The financial statements of Yukon-Kuskokwim Health Corporation as of September 30, 2015, were audited by other auditors, whose report dated January 15, 2016, expressed an unmodified opinion on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States require that the management's discussion and analysis information on pages 4 through 10 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, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Corporation's financial statements as a whole. The accompanying schedules on pages 46 through 51 are presented for the purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 3, 2017, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

Wipfli LLP

Wipfli LLP

February 3, 2017
Spokane, Washington

Yukon-Kuskokwim Health Corporation

Management's Discussion and Analysis

September 30, 2016 and 2015

Introduction

The following discussion and analysis provides an overview of the financial position and activities of the Yukon-Kuskokwim Health Corporation (the "Corporation") as of and for the years ended September 30, 2016 and 2015. This discussion has been prepared by management and should be read in conjunction with the financial statements, including the footnotes, which follow this section.

Using the Financial Statements

The Corporation's September 30, 2016 and 2015 financial statements are presented in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34. The September 30, 2014 financial statements are not presented in the accompanying financial statements. The condensed September 30, 2014 financial information is presented consistent with 2016 and 2015.

The Corporation's financial report includes three basic financial statements: the statements of net position, the statements of revenues, expenses, and changes in net position, and the statements of cash flows. These statements, along with the notes to the financial statements, comprise the basic financial statements.

The statements of net position display the assets, liabilities, and net position at the end of the fiscal years 2016 and 2015. The statements of revenues, expenses, and changes in net position, portray the revenues earned, the operating and nonoperating expenses incurred, and the resultant income. The lower portion describes the net effect on net position from the beginning of the year to the end of the year. The statements of cash flows illustrate the effect on cash from operating, investing, and financing activities as well as the net increase in cash and cash equivalents.

Supplementary Information

A governmental entity such as the Corporation is comprised of many programs, which can be grouped into major categories. In the combining statements of revenues, expenses, and changes in net position, the various columns represent the corporate general account, the Indian Health Service (IHS) program, State of Alaska programs, federal programs, and other programs.

Statements of Net Position

The statements of net position present the financial position of the Corporation at the end of the fiscal years 2016 and 2015 and includes all assets and liabilities of the Corporation. The difference between total assets and total liabilities (net position) is one indicator of the financial condition of the Corporation, while the change in net position is an indicator of whether the financial condition has improved or declined during the year. Resources are classified into three net position categories - investment in permanent fund, general operations, net investment in capital assets.

Yukon-Kuskokwim Health Corporation

Management's Discussion and Analysis (Continued)

September 30, 2016 and 2015

Statements of Net Position (Continued)

A summarized comparison of the Corporation's assets, liabilities, and net position and certain ratios at September 30 follows (in thousands):

	2016	2015	2014	FY 16 % Increase (Decrease)	FY 15 % Increase (Decrease)
Assets:					
Current assets	\$ 77,284	\$ 56,022	\$ 36,303	38%	54%
Capital assets - Net	150,741	107,952	108,127	40%	0%
Other assets	94,685	87,507	90,716	8%	-4%
Total assets	\$ 322,710	\$ 251,481	\$ 235,146	28%	7%
Liabilities:					
Current liabilities	\$ 29,199	\$ 23,461	34,419	24%	-32%
Noncurrent liabilities	6,901	7,846	8,416	-12%	-7%
Total liabilities	36,100	31,307	42,835	15%	-27%
Net position:					
Net investment in capital assets	137,083	99,301	98,869	38%	0%
Investment in permanent fund	84,634	79,998	81,968	6%	-2%
General operations	64,893	40,875	11,474	59%	256%
Total net position	286,610	220,174	192,311	30%	14%
Total liabilities and net position	\$ 322,710	\$ 251,481	\$ 235,146	28%	7%
Current assets to total assets	24%	22%	15%		
Capital assets - Net, to total assets	47%	43%	46%		
Working capital (current assets less current liabilities)	\$ 48,085	\$ 32,561	\$ 1,884	48%	1,628%

Yukon-Kuskokwim Health Corporation

Management's Discussion and Analysis (Continued)

September 30, 2016 and 2015

Statements of Net Position (Continued)

The Corporation's 2016 statements of net position show an increase of 30% in total net position, 38% increase in current assets, 24% increase in current liabilities and 48% increase in working capital. A more detailed analysis of the reasons for these changes follows:

- The increase in current assets is primarily due to an increase in investments.
- The increase in current liabilities is primarily due to increased accounts payable for construction and equipment and an increase in estimated third-party payor settlements.
- The increase in working capital can be primarily attributed to current assets increasing more than current liabilities.

The Corporation's 2015 statements of net position show an increase of 14% in total net position, 54% increase in current assets, 32% decrease in current liabilities, and 1,628% increase in working capital. A more detailed analysis of the reasons for these changes follows:

- Current assets increased primarily due to an increase in cash and cash equivalents and an increase in investments.
- Current liabilities decreased due to a decreases in unearned revenue, accounts payable, and long-term debt.
- The increase in working capital can be primarily attributed to the increase in current assets and decrease in current liabilities.

Statements of Revenues, Expenses, and Changes in Net Position

The statements of revenues, expenses, and changes in net position presents the results of operations for the Corporation as a whole. Revenues, expenses, and other changes in net position are reported as either operating or nonoperating. Significant recurring sources of the Corporation's revenue are grants, contracts, and compacts with the federal and state agencies and patient service and program income.

Yukon-Kuskokwim Health Corporation

Management's Discussion and Analysis (Continued)

September 30, 2016 and 2015

Statements of Revenue, Expenses, and Changes in Net Position (Continued)

A summarized comparison of the Corporation's revenues, expenses, and changes in net position and certain ratios for the years ended September 30 follows (in thousands):

	2016	2015	2014	FY 16 % Increase (decrease)	FY 15 % Increase (decrease)	% of total operating revenue 2016
Operating revenues:						
Net patient service revenue	\$ 99,954	\$ 86,306	\$ 70,721	16%	22%	51%
Funding agreement	76,287	73,673	70,710	4%	4%	39%
Operating grant revenue	15,094	19,486	21,616	-23%	-10%	8%
Other revenue	3,629	4,287	4,806	-15%	-11%	2%
Total operating revenues	194,964	183,752	167,853	6%	9%	100%
Operating expenses:						
Salaries	74,703	69,242	73,446	8%	-6%	38%
Benefits	18,010	17,321	29,900	4%	-42%	9%
Contracts and fees	18,241	17,852	18,104	2%	-1%	9%
Supplies	14,059	14,378	14,026	-2%	3%	7%
Travel	7,111	6,875	6,585	3%	4%	4%
Utilities	5,943	8,662	8,378	-31%	3%	3%
Depreciation	9,263	7,762	7,470	19%	4%	5%
Rental fees	3,219	3,112	3,131	3%	-1%	2%
Government labor	1,121	1,843	1,886	-39%	-2%	1%
Other	8,179	9,346	10,943	-12%	-15%	4%
Total operating expenses	159,849	156,393	173,869	2%	-10%	82%
Operating income	35,115	27,359	(6,016)			
Nonoperating revenue (expense) -						
Net	6,256	(2,580)	42,584	-342%	-106%	3%
Income before capital contributions	41,371	24,779	36,568			
Capital contributions	25,065	3,084	10,691	713%	-71%	13%
Increase in net position	66,436	27,863	47,259			
Net position, beginning of year	220,174	192,311	145,052			
Net position, end of year	\$ 286,610	\$ 220,174	\$ 192,311	30%	14%	147%

Yukon-Kuskokwim Health Corporation

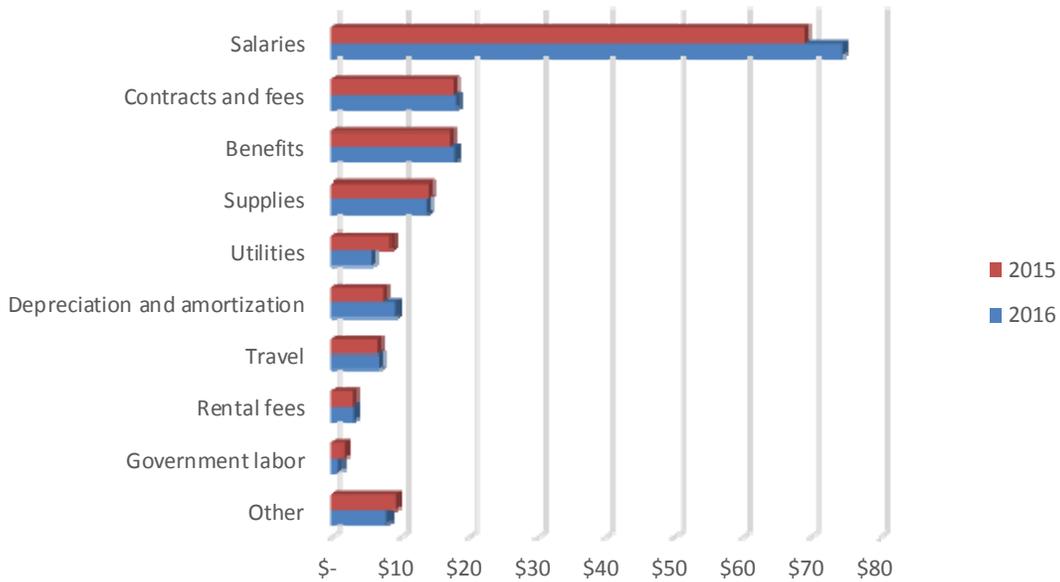
Management's Discussion and Analysis (Continued)

September 30, 2016 and 2015

A comparison of revenues by source for the years ended September 30 follows (in thousands):



A comparison of expenses by natural class for the years ended September 30 follows:



2016 Activity

The statements of revenues, expenses, and changes in net position reflects an overall increase in net position of 30%, or \$66,435,816 for 2016. Major factors contributing to these changes include:

Operating Revenues

- Net patient service revenue increased by \$13,648,296 in 2016.
- Funding agreement revenue increased by \$2,613,856 in 2016.

Yukon-Kuskokwim Health Corporation

Management's Discussion and Analysis (Continued)

September 30, 2016 and 2015

2016 Activity (Continued)

Nonoperating revenue (expense)

Total nonoperating revenue (expense) increased by \$8,835,579, primarily due to increases in equity in gain (loss) of LifeMed and investment income (loss).

Operating Expenses

Total operating expenses for 2016 increased by \$3,456,384. Contributing factors were as follows:

- Salaries increased by \$5,460,911 due to the increases of approximately 17 FTEs in support services and approximately 13 FTEs in health care services.
- Depreciation and amortization expense increased by \$1,501,215 due to significant additions of depreciable capital assets in 2016.

Capital Contributions

Capital contributions received increased by \$21,980,543 in 2016 primarily due to contributions for the new building project and the transfer of building and land to the Corporation from IHS.

2015 Activity

The statement of revenues, expenses, and changes in net position reflects an overall increase in net position of 14%, or \$27,862,772 for 2015. Major factors contributing to these changes include:

Operating Revenues

- Net patient service revenue increased by \$15,584,782 in 2015.
- Funding agreement revenue increased by \$2,963,680 in 2015.

Nonoperating revenue (expense)

Total nonoperating revenue (expense) decreased by \$45,163,805, primarily due to a decrease in nonrecurring revenue and a decrease in investment income.

Yukon-Kuskokwim Health Corporation

Management's Discussion and Analysis (Continued)

September 30, 2016 and 2015

2015 Activity (Continued)

Operating Expenses

Total operating expenses for 2015 decreased by \$17,475,821. Contributing factors were as follows:

- Benefits decreased by \$12,579,784 primarily due to a change from self-insurance to federal employee health benefit insurance.
- Salaries decrease by \$4,203,825 as a result of the reduction in force from the last quarter of fiscal year 2014

Capital Contributions

Capital contributions received in 2015 of \$3,084,092 are due to construction activity funded by grants and the purchase of equipment funded by grants.

Capital and Debt Activities

There was an increase in capital assets - net in fiscal year 2016 of \$42,788,381 and an increase of \$174,732 in fiscal year 2015. At September 30, 2016 and 2015, total long-term debt outstanding was \$7,749,174 and \$8,651,358, respectively.

Contacting Yukon-Kuskokwim Health Corporation's Financial Management

The financial report is designed to provide the Corporation's management, creditors, grantors, members, and customers with a general view of the Corporation's finances and to demonstrate the Corporation's accountability for the funds it receives and expends. For additional information about this report, or if you need additional financial information, please contact the Accounting Department, Yukon-Kuskokwim Health Corporation, P.O. Box 528, Bethel, Alaska 99559.

Yukon-Kuskokwim Health Corporation

Statements of Net Position

September 30, 2016 and 2015

	2016	2015
Current assets:		
Cash and cash equivalents	\$ 10,203,544	\$ 23,147,749
Receivables:		
Funding agencies	9,356,532	6,337,522
Patients - Net	10,649,635	11,973,316
Employee advances and relocation costs	349,588	764,362
Other	6,186	56,676
Investments	41,097,634	9,080,468
Prepaid expenses	2,705,176	1,422,545
Inventory	2,762,682	2,902,771
Current portion of employee home loans receivable	23,788	24,407
Current portion of student loans receivable	129,463	312,307
Total current assets	77,284,228	56,022,123
Noncurrent investments and other assets:		
Employee home loans receivable, less current portion	-	5,484
Student loans receivable, less current portion	178,815	267,915
Investment in Permanent Fund	84,633,607	79,998,307
Investment in LifeMed	9,841,156	7,182,151
Investment in YK Technologies	31,218	53,043
Total noncurrent investments and other assets	94,684,796	87,506,900
Capital assets:		
Nondepreciable capital assets	53,058,231	15,728,283
Depreciable capital assets - Net	97,682,482	92,224,049
Total capital assets - Net	150,740,713	107,952,332
TOTAL ASSETS	\$322,709,737	\$251,481,355

Yukon-Kuskokwim Health Corporation

Statements of Net Position (Continued)

September 30, 2016 and 2015

	2016	2015
Current liabilities:		
Current portion of long-term debt	\$ 848,624	\$ 805,615
Accounts payable and accrued expenses	7,802,264	7,488,022
Accounts payable - Construction and equipment	5,908,918	-
Accrued salaries, leave, and benefits	9,576,129	10,531,348
Estimated third-party payor settlements	1,288,181	-
Unearned revenue	3,775,010	4,636,381
Total current liabilities	29,199,126	23,461,366
Long-term debt, less current portion	6,900,550	7,845,744
Total liabilities	36,099,676	31,307,110
Net position:		
Net investment in capital assets	137,082,621	99,300,973
Unrestricted:		
Investment in Permanent Fund	84,633,607	79,998,307
General operations	64,893,833	40,874,965
Total net position	286,610,061	220,174,245
TOTAL LIABILITIES AND NET POSITION	\$322,709,737	\$251,481,355

Yukon-Kuskokwim Health Corporation

Statements of Revenues, Expenses, and Changes in Net Position

Years Ended September 30, 2016 and 2015

	2016	2015
Operating revenues:		
Net patient service revenue	\$ 99,954,192	\$ 86,305,896
Funding agreement	76,287,319	73,673,463
Operating grant revenue	15,093,937	19,485,682
Other revenue	3,629,475	4,286,576
Total operating revenues	194,964,923	183,751,617
Operating expenses:		
Salaries	74,702,798	69,241,887
Benefits	18,010,103	17,320,525
Contracts and fees	18,241,022	17,851,971
Supplies	14,058,574	14,378,215
Utilities	5,943,271	8,662,367
Travel	7,111,484	6,875,382
Rental fees	3,219,282	3,112,015
Furniture and equipment	1,316,991	1,211,199
Government labor	1,121,458	1,842,624
Freight and postage	1,421,407	1,315,329
Dues and subscriptions	879,611	1,096,894
Insurance	1,237,045	1,083,038
Repairs and maintenance	1,129,506	1,065,117
Education, advertising, and licensing	1,329,865	1,082,923
Relocation	380,207	339,449
Depreciation and amortization	9,263,013	7,761,798
Other	483,990	2,152,510
Total operating expenses	159,849,627	156,393,243
Operating income	35,115,296	27,358,374
Nonoperating revenue (expense):		
Equity in gain (loss) of LifeMed	2,659,005	(1,036,963)
Equity in loss of YK Technologies	(23,076)	-
Investment income (loss)	4,815,720	(1,962,542)
Nonrecurring	-	761,292
Gain on disposal of assets	-	80,672
Financing fees	(851,424)	-
Interest expense	(344,340)	(422,153)
Total nonoperating revenue (expense)	6,255,885	(2,579,694)
Income before capital contributions, excess of revenue over expenses	41,371,181	24,778,680
Capital contributions	25,064,635	3,084,092
Increase in net position	66,435,816	27,862,772
Net position, beginning of year	220,174,245	192,311,473
Net position, end of year	\$286,610,061	\$220,174,245

See accompanying notes to financial statements.

Yukon-Kuskokwim Health Corporation

Statements of Cash Flows

Years Ended September 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Receipts from grants, contracts, and compacts	\$ 87,500,875	\$ 86,704,466
Receipts from programs, patients, and third-party billings	102,566,054	89,612,229
Other receipts	4,094,739	6,914,097
Payments to vendors	(58,702,013)	(64,793,311)
Payments for salaries and benefits	(93,668,120)	(87,201,116)
Net cash provided by operating activities	41,791,535	31,236,365
Cash flows from capital and related financing activities:		
Purchase of capital assets	(26,570,981)	(7,602,190)
Principal paid on capital debt	(902,185)	(606,708)
Proceeds from sale of capital assets	9,347	-
Capital contributions	5,483,797	3,084,092
Financing fees paid	(851,424)	-
Interest paid on capital debt	(344,340)	(422,153)
Net cash used in capital and related financing activities	(23,175,786)	(5,546,959)
Cash flows from investing activities:		
Proceeds from sale of investments	30,022,063	30,621,268
Purchase investments	(63,786,450)	(39,736,299)
Proceeds from interest and dividends, net of broker fees	1,926,386	1,166,060
Loans granted over principal payments received	278,047	53,504
Net cash used in investing activities	(31,559,954)	(7,895,467)
Net increase (decrease) in cash and cash equivalents	(12,944,205)	17,793,939
Cash and cash equivalents at beginning of year	23,147,749	5,353,810
Cash and cash equivalents at end of year	\$ 10,203,544	\$ 23,147,749

Yukon-Kuskokwim Health Corporation

Statements of Cash Flows (Continued)

Years Ended September 30, 2016 and 2015

	2016	2015
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 35,115,296	\$ 27,358,374
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	9,263,013	7,761,798
Changes in operating assets and liabilities:		
Receivables:		
Funding agencies	(3,019,010)	1,935,948
Patients - Net	1,323,681	3,306,333
Other	465,264	2,627,521
Prepaid expenses	(1,282,631)	(556,736)
Inventory	140,089	(275,423)
Accounts payable and accrued expenses	314,242	(1,892,119)
Accrued salaries, leave, and benefits	(955,219)	(638,704)
Estimated third-party payor settlements	1,288,181	-
Unearned revenue	(861,371)	(8,390,627)
Net cash provided by operating activities	\$ 41,791,535	\$ 31,236,365
Noncash capital and financing activities		
Accounts payable - Construction and equipment	\$ 5,908,918	\$ -
Noncash capital contributions	19,580,838	-

See accompanying notes to financial statements.

Yukon-Kuskokwim Health Corporation

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies

In accordance with the guidance established by the American Institute of Certified Public Accountants' (AICPA's) audit and accounting guide, *Audits of State and Local Governments*, Yukon-Kuskokwim Health Corporation (the "Corporation") is subject to accounting principles generally accepted in the United States (GAAP) applicable to state and local governments because its governing board is appointed by tribal governments.

The Corporation follows the provisions of Governmental Accounting Standards Board (GASB) *Statements of Governmental Accounting Standards*. These statements establish standards for external financial reporting for all state and local governmental entities, which includes a management's discussion and analysis section, statements of net position, statements of revenues, expenses, and changes in net position, and statements of cash flows. It requires the classification of net position into three components - net investment in capital assets, restricted, and unrestricted.

The Entity

The Corporation administers a comprehensive health care delivery system for 58 federally recognized tribes in southwest Alaska. The system includes 43 community clinics, five sub-regional clinics, a regional hospital, dental services, inpatient and outpatient behavioral health services, including substance abuse counseling and treatment, health promotion and disease prevention programs, skilled nursing facility, and environmental health services. The Corporation is a tribal organization authorized by each of the 58 federally recognized tribal councils in its service area to negotiate with the federal Indian Health Service (IHS) to provide health care services under Title III of the Indian Self Determination and Education Assistance Act of 1975. The Corporation, along with 20 other tribal organizations, is a co-signer to the Alaska Tribal Health Compact, a consortium that secures federal funding agreements with the federal government to provide health care services to Alaska Natives and Native Americans throughout the state.

Financial Statement Presentation

The financial statements have been prepared in accordance with GAAP as prescribed by GASB. The Corporation's statements are reported using the economic resources measurement focus and full accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when the liability is incurred regardless of the timing of the cash flows. Grants and similar items are recognized as revenue as soon as eligibility requirements imposed by the provider have been met.

Yukon-Kuskokwim Health Corporation

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Use of Estimates

The preparation of the accompanying financial statements in conformity with GAAP requires management to make certain estimates and assumptions that directly 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 revenue and expenses during the reporting period. Actual results may differ from these estimates.

Cash and Cash Equivalents

Highly-liquid debt instruments with an original maturity of three months or less are considered to be cash equivalents, excluding amounts limited as to use.

The Corporation's cash and equivalents are considered to be cash on hand and demand deposits.

Investments

Investments are recorded at fair value based on quoted market prices. All investment income (loss), including changes in fair value of investments, is recorded as nonoperating revenue in the statements of revenues, expenses, and changes in net position.

Yukon-Kuskokwim Health Corporation

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GASB provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

Assets or liabilities measured and reported at fair value are classified and disclosed in one of the three following categories:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Corporation has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets in inactive markets;
- Inputs, other than quoted prices, that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified contractual term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The assets or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used are to maximize the use of observable inputs and minimize the use of unobservable inputs.

Yukon-Kuskokwim Health Corporation

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Funding Agency Receivable

Receivables from funding agencies represent amounts billed under cost-reimbursable grants and amounts awarded and not yet received under the compact.

Patient Accounts Receivable and Credit Policy

Patient accounts receivable are uncollateralized patient obligations that are stated at the amount management expects to collect from outstanding balances. These obligations are primarily from local residents, most of whom are insured under third-party payor agreements. The Corporation bills the third-party payors on the patient's behalf, or if a patient is uninsured, the patient is billed directly. Once claims are settled with the primary payor, any secondary insurance is billed, and patients are billed for copay and deductible amounts that are the patients' responsibility. Payments on patient accounts receivable are applied to the specific claim identified on the remittance advice or statement. The Corporation does not have a policy to charge interest on past due accounts.

Patient accounts receivable are recorded in the accompanying statements of net position net of contractual adjustments and an allowance for uncollectable accounts, which reflect management's best estimate of the amounts that will not be collected. The carrying amounts of patient accounts receivable are reduced by allowances that reflect management's best estimate of the amounts that will not be collected. Management provides for contractual adjustments under terms of third-party reimbursement agreements through a reduction of gross revenue and a credit to patient accounts receivable. In addition, management provides for probably uncollectable amounts, primarily for uninsured patients and amounts patients are personally responsible for, through a reduction of gross revenue and a credit to the allowances for uncollectable accounts.

In evaluating the collectability of patient accounts receivable, the Corporation analyzes past results and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectable accounts and provision for bad debts. Management regularly reviews data from the major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectable accounts and a provision for bad debts for expected uncollectable deductibles and copayments on accounts for which the third-party payor has not yet paid or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely.

Yukon-Kuskokwim Health Corporation

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Patient Accounts Receivable and Credit Policy (Continued)

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Corporation records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectable accounts.

Inventories

Inventories are valued at the lower of cost or market, determined on the first-in, first-out method.

Loans Receivable

Loans receivable relate to financing arrangements made with employees to help pay for the cost of education or to assist them in purchasing a home.

Investments in Joint Ventures

The investments in affiliated companies are accounted for by the equity method. The Corporation would recognize a loss when there is a loss in value in the equity method investment which is other than a temporary decline.

Yukon-Kuskokwim Health Corporation

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Capital Assets

Capital assets are stated at historical cost. Equipment under capital leases are stated at the present value of minimum lease payments. Maintenance, repairs, and minor replacements are charged to expense as incurred. The Corporation's policy is to capitalize all capital asset expenditures exceeding \$5,000. Capital asset acquired with federal and state grants for which the Corporation uses the capital assets in its activities and makes the decisions regarding when and how the capital assets will be used and managed are capitalized and recognized as contributed capital. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets. Equipment held under capital leases and leasehold improvements are amortized straight line over the shorter of the lease term or estimated useful life of the asset. Such amortization is included with depreciation and amortization expense in the accompanying financial statements. The Corporation estimates the useful lives of assets to be as follows:

Buildings and improvements	20 to 35 years
Land improvements	5 to 15 years
Vehicles	4 years
Computer equipment	3 to 5 years
Furnishings and equipment	3 to 10 years
Medical equipment	3 to 10 years
Major computer systems	7 years

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support and are excluded from excess of revenue over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Corporation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed into service.

Capital contributions consist of federal and state grants and asset transfers received to construct capital assets or purchase equipment and capital assets contributed directly to the Corporation.

Yukon-Kuskokwim Health Corporation

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Asset Impairment

The Corporation reviews its capital assets periodically to determine potential impairment by comparing the carrying value with the estimated future net discounted cash flows expected to result from the use of the assets, including cash flows from disposition. Should the sum of the expected future net cash flows be less than the carrying value, the Corporation would recognize an impairment loss at that time. No impairment loss was recognized for the years ended September 30, 2016 or 2015.

Accrued Leave

Personnel leave is recorded in the year earned. All amounts are expected to be paid or used within one year.

Net Position

Net position of the Corporation is classified into three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. It is further reduced by accounts payable for construction and equipment used for the purchase or construction of those assets. Restricted net position is noncapital net position that must be used for a particular purpose as specified by creditors, grantors, contributors external to the Corporation, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation, and includes amounts deposited with trustees as required by revenue bond indenture and note payable escrow agreements. Unrestricted net position is remaining net position that does not meet the definition of net investment in capital assets or restricted.

When both restricted and unrestricted resources are available for use, it is the Organization's policy to use externally restricted resources first. The Corporation had no restricted net position at September 30, 2016 or 2015.

Yukon-Kuskokwim Health Corporation

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Operating Revenues and Expenses

The Corporation's statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenue and expenses. Operating revenues result from exchange transactions associated with providing services and producing and delivering goods in connection with ongoing operations. The Corporation's principal operating revenues include grant, contract, and compact revenues and charges to customers, patients, and third parties for delivery of services. All revenues and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Funding Agreement

The Corporation receives a significant amount of revenue from U.S. Department of Health and Human Services, Indian Health Services Compact (IHS Compact) that provides for direct care including primary care, acute care, ancillary and other healthcare services. The IHS Compact is not an insurance program. In general, all persons of Native American descent who belong to Native American communities are eligible for direct care at the Corporation.

Revenue from the IHS Compact is recognized monthly based on the Compact amount awarded. Amounts designated for specific projects in the funding agreement are considered unearned revenue until the project is complete.

Other Grants and Operating Revenue

The Corporation also administers other federal, state, local, and private foundation grants and contracts, which are generally of a cost-reimbursement type and include provisions for advances and billings for costs incurred. Revenues and receivables are generally recorded when eligible expenses are incurred to the extent of the grant or contract amount. Amounts receivable from funding agencies at year-end included amounts relating to expenses incurred prior to year-end, but not billed until after year-end. Advances from funding agencies are considered liquidated when an expense is recorded. All grant and contract receipts in excess of expenses for ongoing programs have been recorded as unearned revenue.

Yukon-Kuskokwim Health Corporation

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Net Patient Service Revenue

Net patient care revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Estimated uncollectible revenue is reported as provision for bad debts in the financial statements. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Some healthcare is provided with the knowledge it will not be reimbursed. This is reported under charity care.

For uninsured patients who do not qualify for charity care, the Corporation recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates if negotiated or provided by policy). On the basis of historical experience, a significant portion of the Corporation's uninsured patients will be unable or unwilling to pay for services provided. Thus, the Corporation records a provision for bad debts related to uninsured patients in the period the services are provided.

Charity Care

The Corporation provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because collection is not pursued on amounts determined to qualify as charity care, these amounts are not included in net patient service revenue in the accompanying statements of revenue, expenses, and changes in net position.

Federal Agency Costs and Reimbursements

Certain salary and employee benefit expenses of the Corporation's IHS program are paid directly by the federal government through Memorandum of Agreement (MOA). In addition, the Corporation orders and receives supplies from the General Services Administration (GSA) as a federal contractor. These MOA and GSA costs are included as operating revenues and expenses in the statements of revenues, expenses, and changes in net position to indicate the total operating cost of the program.

Allocation of Indirect Expenses

Indirect expenses are allocated to programs based upon an agreement negotiated with the cognizant agency which provides for allocation of indirect costs. These indirect costs are based upon total direct expenditures of each program, less certain subcontracts and equipment purchases. Indirect charges to the various programs have been made at the current negotiated provisional rates unless otherwise limited by contractual agreement.

Yukon-Kuskokwim Health Corporation

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Income Taxes

The Corporation is exempt from income taxes as a nonprofit corporation under Section 501(c)(3) of the Internal Revenue Code. The Corporation is subject to income taxes on certain unrelated business activities. YK Technologies, a wholly owned subsidiary of the Corporation, pays taxes and files a separate tax return.

Advertising Costs

Advertising costs are expensed as incurred.

Employee Retention Bonuses

Amounts earned under the employee retention bonus program are expensed when the employee reaches his anniversary date and the amount becomes payable.

Subsequent Events

Subsequent events have been evaluated through February 3, 2017, which is the date the financial statements were available to be issued.

New Accounting Pronouncements

Management adopted new accounting guidance GASB Statement No. 72, *Fair Value Measurement and Application*. This statement provides guidance for determining a fair value measurement for financial reporting purposes and for applying fair value to certain investments and disclosures related to all fair value measurements.

Yukon-Kuskokwim Health Corporation

Notes to Financial Statements

Note 2: Deposits and Investments

Custodial Credit Risk - Cash and Cash Equivalents

At September 30, 2016 and 2015, the Corporation's bank balances were \$11,705,882 and \$24,625,361, respectively. Balances exceeding the \$250,000 Federal Deposit Insurance Corporation (FDIC) coverage limit are collateralized. The fair value of cash and cash equivalents approximates carrying value.

Investments

The Corporation reports all equity and debt securities at fair value. Unrealized gains and losses are reflected in investment income. The Chief Executive Officer or his designee, guided by the Corporation's investment policy, manages the Corporation's investments. A third-party trustee holds all investments in the Corporation's name.

Investments consisted of the following at September 30, 2016:

	Fair Value	Cost
Money market funds	\$ 6,678,998	\$ 6,678,998
Fixed income:		
Corporate bonds	26,483,979	26,589,720
Government bond obligations	26,941,854	26,886,137
Domestic mutual funds	6,881,637	6,885,401
International mutual funds	1,982,386	1,954,888
Mortgage-backed securities	1,005,576	1,001,887
Other	796,025	801,397
Equities:		
Domestic mutual funds	17,361,904	14,174,298
International mutual funds	5,091,773	5,157,455
Domestic equities	10,875,564	9,899,452
International equities	4,556,852	4,608,865
Other	5,078	236,737
Real estate and specialty assets	16,769,560	17,351,819
Accrued income on investments	300,055	-
Totals	\$ 125,731,241	\$ 122,227,054

Yukon-Kuskokwim Health Corporation

Notes to Financial Statements

Note 2: Deposits and Investments (Continued)

Investments (Continued)

Investments consisted of the following at September 30, 2015:

	Fair Value	Cost
Money market funds	\$ 8,526,388	\$ 8,526,388
Fixed income:		
Corporate bonds	16,110,703	16,117,942
Government bond obligations	2,923,142	2,935,221
Domestic mutual funds	6,937,346	7,052,704
International mutual funds	1,744,808	1,828,188
Mortgage-backed securities	1,522,067	1,525,089
Other	1,606,422	1,669,417
Equities:		
Domestic mutual funds	16,250,282	14,730,311
International mutual funds	4,481,417	4,948,335
Domestic equities	7,987,952	8,029,698
International equities	3,727,120	4,181,758
Other	10,004,657	10,122,134
Real estate and specialty assets	7,057,417	7,687,765
Accrued income on investments	199,054	-
Totals	\$ 89,078,775	\$ 89,354,950

Maturities

Maturities for bonds and fixed income mutual funds held at September 30 were as follows:

Bond maturity	2016	2015
Less than 1 year	\$ 29,028,904	\$ 7,030,615
1-2 years	16,511,978	5,170,778
3-5 years	15,265,636	14,130,284
6-10 years	1,387,567	1,384,322
Not available	95,771	-
Totals	\$ 62,289,856	\$ 27,715,999

Yukon-Kuskokwim Health Corporation

Notes to Financial Statements

Note 2: Deposits and Investments (Continued)

Investment income (loss) consisted of the following for the years ended September 30:

	2016	2015
Increase (decrease) in fair value of investments	\$ 3,776,657	\$ (3,638,406)
Net realized gains (losses)	(988,324)	427,365
Broker fees	(387,988)	(364,793)
Interest and dividends	2,415,375	1,613,292
Total investment income (loss)	\$ 4,815,720	\$ (1,962,542)

Credit Risk

Credit ratings for bonds held at September 30 were as follows:

	2016	2015
AAA	\$ 25,080,103	\$ 3,024,269
AA	5,564,191	2,027,226
A	12,405,840	6,719,532
BAA	10,279,928	7,262,818
BBB	49,210	-
BB	17,392	-
B	21,250	-
Not rated	7,919	-
Totals	\$ 53,425,833	\$ 19,033,845

Custodial Credit Risk - Investments

At September 30, 2016 and 2015 significantly all of the Corporation's investments were held with one financial institution. Balances exceeding the \$500,000 Securities Investor Protection Corporation (SIPC) coverage limit are uninsured. Amounts in the permanent fund are managed accounts, not subject to custodial credit risk.

Yukon-Kuskokwim Health Corporation

Notes to Financial Statements

Note 2: Deposits and Investments (Continued)

Interest Rate Risk

It is the Corporation's policy to achieve the objectives of:

- Maximize earnings of Corporation funds invested in high-quality, low risk securities.
- Invest funds in securities with principal returned in a time frame consistent with the anticipated funding needs of the Corporation thereby reducing the risk of loss of principal.

Foreign Currency Exposure

None.

Permanent Fund

Included in investments are amounts invested in the Permanent Fund totaling \$84,633,607 and \$79,998,307 at September 30, 2016 and 2015, respectively. These investments are not restricted, as defined by GASB; however, it is the intent of the Corporation to maintain the corpus of the fund intact in perpetuity.

Yukon-Kuskokwim Health Corporation

Notes to Financial Statements

Note 3: Fair Value Measurements

The following is a description of the valuation methodologies used for assets measured at fair value.

Money market funds: Valued using a net asset value (NAV) of \$1.

Mutual funds: Valued at the daily closing price as reported by the fund. Mutual funds held by the Corporation are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily NAV and to transact at that price. The mutual funds held by the Corporation are deemed to be actively traded.

Government and agency obligations, municipal obligations, corporate obligations, and foreign obligations: Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

Real estate and specialty assets: Includes real estate investment trusts, real asset funds, and other specialty investments whose fair value is determined based on quoted market prices and other observable market data, excluding Level 3 investments.

Domestic and international equities: The fair value for domestic and international equities is determined based on quoted market prices and other observable market data.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Corporation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Yukon-Kuskokwim Health Corporation

Notes to Financial Statements

Note 3: Fair Value Measurements (Continued)

The Corporation's investments by level within the fair value hierarchy was as follows at September 30, 2016:

	Level 1	Level 2	Level 3	Total Assets at Fair Value
Money market funds	\$ 6,678,998	\$ -	\$ -	\$ 6,678,998
Fixed income:				
Corporate bonds	-	26,483,979	-	26,483,979
Government bond obligations	11,829,704	15,112,150	-	26,941,854
Domestic mutual funds	6,881,637	-	-	6,881,637
International mutual funds	1,982,386	-	-	1,982,386
Mortgage-backed securities	-	1,005,576	-	1,005,576
Other	-	718,309	77,716	796,025
Equities:				
Domestic mutual funds	17,361,904	-	-	17,361,904
International mutual funds	5,091,773	-	-	5,091,773
Domestic equities	10,875,564	-	-	10,875,564
International equities	-	4,556,852	-	4,556,852
Other	5,078	-	-	5,078
Real estate and specialty assets	15,776,859	90,773	901,928	16,769,560
Total investments measured at fair value	\$ 76,483,903	\$ 47,967,639	\$ 979,644	\$ 125,431,186
Accrued interest income on investments				<u>300,055</u>
Total investments				<u><u>125,731,241</u></u>

Yukon-Kuskokwim Health Corporation

Notes to Financial Statements

Note 4: Patient Accounts Receivable

Patient accounts receivable consisted of the following at September 30:

	2016	2015
Hospital and clinics patient accounts receivable:		
Medicare	\$ 4,003,911	\$ 2,586,614
Medicaid	7,967,457	7,488,634
Other third party payors	4,665,752	4,886,718
Noncoverage	1,836,228	4,782,806
Total hospital and clinics patient accounts receivable	18,473,348	19,744,772
Other patient accounts receivable:		
Pharmacy	419,535	313,840
Dental	859,049	2,441,878
Other	732,486	2,265,895
Total other patient accounts receivable	2,011,070	5,021,613
Total patient accounts receivable	20,484,418	24,766,385
Less:		
Contractual allowances	9,569,131	12,488,495
Allowance for doubtful accounts	265,652	304,574
Patient accounts receivable - Net	\$ 10,649,635	\$ 11,973,316

The Corporation did not change its charity care policy or uninsured discount policy during the year ended September 30, 2016. The Corporation does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant writeoffs from third-party payors.

Yukon-Kuskokwim Health Corporation

Notes to Financial Statements

Note 5: Reimbursement Arrangements with Third Party Payors

Agreements are maintained with third-party payors that provide for reimbursement at amounts which vary from its established rates. A summary of the basis of reimbursement with major third-party payors follows:

Hospital

Medicare and Medicaid – Hospital outpatient and tribal clinic services are reimbursed at the federally defined all-inclusive IHS encounter rates. Inpatient hospital acute care services are reimbursed at the daily per diem rates, with additional reimbursement for physician and practitioner services available.

Other - The Corporation has entered into payment agreements with commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment under these agreements includes prospectively determined rates per discharge, discounts from established charges, fee schedules, and prospectively determines daily rates.

Accounting for Medicare and Medicaid Contractual Arrangements

The Corporation is reimbursed for cost-reimbursable items at interim rates, with final settlements determined after audit of the related annual cost reports by the respective Medicare and Medicaid fiscal intermediaries. Estimated provisions to approximate the final expected settlements after review by the intermediaries are included in the accompanying financial statements.

Compliance

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include but are not necessarily limited to matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and billing regulations. Government activity with respect to investigations and allegations concerning possible violations of such regulations by health care providers has increased. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of fines and penalties, as well as repayments for patient services previously billed. Management believes the Corporation is in compliance with applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

Yukon-Kuskokwim Health Corporation

Notes to Financial Statements

Note 5: Reimbursement Arrangements with Third Party Payors (Continued)

Compliance (Continued)

The Centers for Medicare and Medicaid Services (CMS) uses recovery audit contractors (RAC) as part of its efforts to ensure accurate payments. RACs search for potentially inaccurate Medicare payments that might have been made to health care providers and that were not detected through existing CMS program integrity efforts. Once the RAC identifies a claim it believes is inaccurate, it makes a deduction from or addition to the provider's Medicare reimbursement in an amount estimated to equal the overpayment or underpayment. Certain states have also hired Medicaid Integrity Contractors (MIC) to perform audits similar to RACs. The Corporation will have the ability to appeal adjustments before final settlement of the claim is made. As of September 30, 2016, the Corporation has not been notified by the RAC or MIC of any potential significant reimbursement adjustments.

Note 6: Investment in Joint Ventures

Investment in LifeMed

LifeMed of Alaska LLC (LMA) was established on April 25, 2008, under an agreement between Providence Health System - Alaska ("Providence") and the Corporation. It is the successor to each of the members separate air ambulance operations. LMA provides both air and ground medical transport services. LMA has five site locations that they maintain and originate flights from. The sites are located in Anchorage, Bethel, Soldotna, Fairbanks, and Wolf Lake, Alaska.

LMA gains (losses) are allocated equally to each member adjusted for depreciation of the respective property and equipment that each member contributed.

Yukon-Kuskokwim Health Corporation

Notes to Financial Statements

Note 6: Investment in Joint Ventures (Continued)

Investment in LifeMed (Continued)

Summarized financial information for LMA at September 30 is as follows:

	2016	2015
Assets:		
Current assets	\$ 19,628,647	\$ 14,658,490
Capital assets - Net	4,612,197	4,828,691
Other assets	-	54,246
Total assets	\$ 24,240,844	\$ 19,541,427
Liabilities and equity:		
Current liabilities	\$ 2,477,103	\$ 4,838,780
Long-term liabilities	1,743,083	-
Member equity	20,020,658	14,702,647
Total liabilities and equity	\$ 24,240,844	\$ 19,541,427
Equity allocable to the Corporation	\$ 9,841,156	\$ 7,182,151

The gain (loss) allocable to the Corporation as of September 30, 2016 and 2015, was \$2,659,005 and (\$1,036,963), respectively.

Investment in YK Technologies

The Corporation's investment in YK Technologies is immaterial and summarized financial statement information has not been presented. The loss allocable to the Corporation as of September 30, 2016 and 2015, was \$23,076 and \$0, respectively.

Yukon-Kuskokwim Health Corporation

Notes to Financial Statements

Note 7: Capital Assets

Capital assets activity for the year ended September 30, 2016, was as follows:

	Beginning Balance	Additions	Retirements and Transfers	Ending Balance
Depreciable capital assets:				
Buildings and leasehold improvements	\$ 119,623,938	\$ 12,781,478	\$ -	\$ 132,405,416
Furnishings and equipment	50,307,758	1,939,968	-	52,247,726
Total depreciable capital assets	169,931,696	14,721,446	-	184,653,142
Less: Accumulated depreciation and amortization				
	77,707,647	9,263,013	-	86,970,660
Depreciable capital assets - Net	92,224,049	5,458,433	-	97,682,482
Nondepreciable capital assets:				
Artwork	112,783	-	-	112,783
Land	3,832,806	10,808,666	-	14,641,472
Construction in progress	11,782,694	26,530,625	(9,343)	38,303,976
Total nondepreciable capital assets	15,728,283	37,339,291	(9,343)	53,058,231
Capital assets - Net	\$ 107,952,332	\$ 42,797,724	\$ (9,343)	\$ 150,740,713

Construction in progress at September 30, 2016, is primarily costs related to a new hospital building project and housing construction. The estimated cost of the project and housing construction is approximately \$330,000,000, including land, buildings, and equipment. The project is anticipated to be completed in 2021.

Yukon-Kuskokwim Health Corporation

Notes to Financial Statements

Note 7: Capital Assets (Continued)

Capital assets activity for the year ended September 30, 2015, was as follows:

	Beginning Balance	Additions	Retirements and Transfers	Ending Balance
Depreciable capital assets:				
Buildings and leasehold improvements	\$ 105,255,347	\$ 1,808,676	\$ 12,559,915	\$ 119,623,938
Furnishings and equipment	48,613,743	1,505,596	188,419	50,307,758
Total depreciable capital assets	153,869,090	3,314,272	12,748,334	169,931,696
Less: Accumulated depreciation and amortization				
	70,011,289	7,761,798	(65,440)	77,707,647
Depreciable capital assets - Net	83,857,801	(4,447,526)	12,813,774	92,224,049
Nondepreciable capital assets:				
Artwork	120,583	5,500	(13,300)	112,783
Land	3,832,806	-	-	3,832,806
Construction in progress	20,315,874	4,282,418	(12,815,598)	11,782,694
Total nondepreciable capital assets	24,269,263	4,287,918	(12,828,898)	15,728,283
Capital assets - Net	\$ 108,127,064	\$ (159,608)	\$ (15,124)	\$ 107,952,332

The Corporation's net investment in capital assets include the following at September 30:

	2016	2015
Capital assets - Net	\$ 150,740,713	\$ 107,952,332
Less:		
Long-term debt	7,749,174	8,651,359
Accounts payable - Construction and equipment	5,908,918	-
Totals	\$ 137,082,621	\$ 99,300,973

Yukon-Kuskokwim Health Corporation

Notes to Financial Statements

Note 7: Capital Assets (Continued)

Generally, title to buildings, furnishings, and equipment acquired with proceeds from contracts or grants vests with the Corporation. Such capital is expensed for grant reporting purposes, but capitalized for financial reporting purposes and recorded as contributed capital in the period acquired. Capital contributions received in 2016 and 2015 were \$25,064,635 and \$3,084,092, respectively.

Prior to 2016, the land, buildings, and improvements used in the operation of the Yukon-Kuskokwim Delta Regional Hospital were the property of IHS and not included in capital assets. IHS granted the land, building, and improvements to the Corporation during the year ended September 30, 2016.

Note 8: Long-Term Debt

Long-term debt activity for the year ended September 30, 2016, were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount due within 1 year
Loan #4	\$ 8,439,141	\$ -	\$ (753,615)	\$ 7,685,526	\$ 784,976
Loan #8	212,218	-	(148,570)	63,648	63,648
Total long-term debt	\$ 8,651,359	\$ -	\$ (902,185)	\$ 7,749,174	\$ 848,624

Long-term debt activity for the year ended September 30, 2015, were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount due within 1 year
Loan #4	\$ 8,860,640	\$ -	\$ (421,499)	\$ 8,439,141	\$ 703,616
Loan #8	355,598	-	(143,380)	212,218	101,999
Loan #9	41,829	-	(41,829)	-	-
Total long-term debt	\$ 9,258,067	\$ -	\$ (606,708)	\$ 8,651,359	\$ 805,615

Yukon-Kuskokwim Health Corporation

Notes to Financial Statements

Note 8: Long-Term Debt (Continued)

The terms and due dates of the Corporation's long-term debt are as follows:

Loan #4: Bond payable dated January 2015, payable in monthly installments of \$89,619, including interest at 3.91%, secured by building and land, and maturing in February 2025.

Loan #8: Note payable due in monthly installments of \$12,839, including interest at 3.75%, secured by real property, and maturing in March 2017.

Loan #9: Note payable due in monthly installments of \$4,356, including interest at 3.25%, secured by real property. This note was fully paid in 2015.

The City of Emmonak and the City of St. Mary's (the "Cities") each issued revenue bonds totaling \$18,000,000 for the construction of an office building and equipment located in the City of Bethel and two sub-regional clinics and equipment located in the City of Emmonak and the City of St. Mary's. The Cities sold the revenue bonds to the Wells Fargo Bank. The Corporation is obligated to pay principal and interest on the revenue bonds when due and, therefore, recorded the outstanding debt reflected in Loan #4. These loans were refinanced through the City of Marshall for \$8,857,000 during the year ended September 30, 2015.

Maturities for long-term debt are as follows for the years ended September 30:

	Total Principal	Interest	Total Debt Service
2017	\$ 848,624	\$ 291,058	\$ 1,139,682
2018	816,668	258,772	1,075,440
2019	849,637	225,803	1,075,440
2020	883,398	192,040	1,075,438
2021	919,602	155,834	1,075,436
Thereafter	3,431,245	243,224	3,674,469
Total long-term debt	\$ 7,749,174	\$ 1,366,731	\$ 9,115,905

Yukon-Kuskokwim Health Corporation

Notes to Financial Statements

Note 9: Net Patient Service Revenue

Net patient service revenue consisted of the following for the years ended September 30:

	2016	2015
Gross patient service revenue	\$ 185,699,103	\$ 159,188,372
Less:		
Contractual allowances	83,398,216	69,851,877
Provision for bad debts	611,435	1,198,642
Charity care	1,735,260	1,831,957
Total adjustments	85,744,911	72,882,476
Net patient service revenue	\$ 99,954,192	\$ 86,305,896

Gross patient service revenue and contractual allowances include amounts for services provided to qualifying patients under the IHS Compact. In accordance with the IHS Compact, the Corporation does not bill or pursue collections for services provided to qualifying patients. Accordingly, amounts included in gross patient service revenue covered under the IHS Compact are fully offset within contractual allowances.

The Corporation's percentage of gross patient service revenue by payor was as follows for the years ended September 30:

	2016	2015
Medicare	12%	11%
Medicaid	49%	47%
Other third-party payors	39%	40%
Self pay	0%	2%
Totals	100%	100%

Yukon-Kuskokwim Health Corporation

Notes to Financial Statements

Note 10: Charity Care

The Corporation provides health care services and other financial support through various programs that are designed, among other matters, to enhance the health of the community including the health of low-income patients. Consistent with the mission of the Corporation, health care is provided to patients regardless of their ability to pay, including providing services to those persons who cannot afford health insurance because of inadequate resources.

Patients who meet certain criteria for charity care, generally based on federal poverty guidelines, are provided care based on criteria defined in the Corporation's charity care policy. The Corporation maintains records to identify and monitor the level of charity care it provides. The estimated cost of providing care to patients under the Corporation's charity care policy, calculated by multiplying the ratio of cost to gross charges by the gross charity care charges, aggregated \$949,468 and \$1,134,813 for the years ended September 30, 2016 and 2015, respectively.

Note 11: Functional Expenses

The Corporation provides general health care services to residents within its geographic location. Expenses, including interest expense, related to providing these services consisted of the following for the years ended September 30:

	2016	2015
Health care services	\$ 116,419,857	\$ 112,115,314
Management and administration	43,774,110	44,700,082
Total expenses	\$ 160,193,967	\$ 156,815,396

Yukon-Kuskokwim Health Corporation

Notes to Financial Statements

Note 12: Commitments and Contingencies

Grant and Contract Expenditures

Expenditures reimbursed under grants and contracts are subject to audits by governmental agencies or their representatives. Amounts reflected in the financial statements as expenditures in prior periods have generally not been audited by the funding agencies. Accordingly, adjustments of amounts received under grants and contracts could result if the grants and contracts are audited by such agencies.

Litigation

The Corporation is a party to various claims and legal actions arising from the ordinary course of business. In the opinion of management, the outcome of these actions will not have a material adverse effect on the financial statements of the Corporation.

Malpractice

The Corporation is covered under Federal Tort Claim Act (FTCA), coverage which is extended to contractors, grantees and recipients of cooperative agreements under Public Law 93-638, the Indian Self-Determination and Education Assistance Act. Losses from asserted claims, which arise in programs funded by the Indian Health Service, are the responsibility of the Federal Government under the FTCA. It is uncertain whether the FTCA coverage extends to programs/services provided by the Corporation that are not specifically addressed under the Indian Health Service compact. No provision for liability, if any, is included in the accompanying financial statements.

Pension Plans

The Corporation has a defined contribution plan which covers all of its eligible full-time benefited employees called the Yukon-Kuskokwim Health Corporation Retirement Plan (the "Plan"). The Plan is administered by OneAmerica Financial Partners, Inc. Plan investments are participant directed. Plan terms are established and amended under the authority of the Corporation.

Employees who have completed one year of employment and attained the age of 18 are generally eligible to participate in the Plan. The Plan provides for discretionary employer contributions based on a percentage of employee compensation. In addition, the Corporation may make a matching contribution equal to a discretionary percentage of the employee's elective contribution to the 403(b) plan. The Corporation's management elected a discretionary contribution of 6% and a matching contribution of 2% for calendar year 2016, and a discretionary contribution of 4% and a matching contribution of 2% for calendar year 2015. Employee contributions to the Plan were \$3,678,955 and \$3,075,052 for the years ended September 30, 2016 and 2015, respectively. The Corporation recognized pension plan expenses of \$4,284,047 and \$2,345,865 for the years ended September 30, 2016 and 2015, respectively.

Yukon-Kuskokwim Health Corporation

Notes to Financial Statements

Note 12: Commitments and Contingencies (Continued)

Pension Plans (Continued)

All participating employees are 20% vested after one year of service, with graduated increases until vesting reaches 100% after five years of service. Nonvested portions of participant accounts are generally forfeited upon termination of Plan participation. Forfeited amounts are first used to pay Plan administrative expenses, then used to reduce the current-period contribution of the employer.

The Corporation has accrued a liability for pension contributions of \$3,075,000 and \$2,775,000 as of September 30, 2016 and 2015, respectively.

Health Care Reform

As a result of recently enacted federal health care reform legislation, substantial changes are anticipated in the United States' health care system. Such legislation includes numerous provisions affecting the delivery of health care services, the financing of health care costs, reimbursement of health care providers, and the legal obligations of health insurers, providers, and employers. These provisions are currently slated to take effect at specified times over approximately the next decade. The federal health care reform legislation does not affect the financial statements for the years ended September 30, 2016 and 2015.

Employee Retention Bonus Program

The Corporation has an employee retention bonus program. The program was designed to improve employee retention for difficult positions to fill. Amounts owed under the program are paid to the employees upon their anniversary date. If an employee terminates employment any unpaid retention bonus is forfeited; therefore, they are not included in the accompanying financials as the amount to be ultimately paid is not able to be estimated.

Potential amounts to be paid through the employee retention bonus program are as follows for the years ended September 30:

	Retention amounts
2017	\$ 2,591,447
2018	2,980,164
Total	\$ 5,571,611

Yukon-Kuskokwim Health Corporation

Notes to Financial Statements

Note 12: Commitments and Contingencies (Continued)

Service and Operating Lease Agreements

The Corporation has noncancellable service agreements for equipment with remaining terms from one to three years. Rental expense for the service agreements during the years ended September 30, 2016 and 2015, was \$1,057,968 and \$928,633, respectively. The Corporation also leases 40 health clinics from the villages in the Yukon-Kuskokwim Delta. The leases are for one year with options to renew annually for an additional four years. Annual rent was \$1,575,170 and \$1,459,316 for 2016 and 2015, respectively, under these leases.

Minimum future payments under noncancellable operating leases consisted of the following at September 30, 2016:

	Amount
2017	\$ 2,483,994
2018	615,940
2019	538,980
2020	120,136
Total	\$ 3,759,050

Note 13: Reclassifications

Certain reclassifications have been made to the 2015 financial statements to conform to the 2016 classifications.

Supplementary Information

Yukon-Kuskokwim Health Corporation

Combining Statements of Net Position

September 30, 2016

	General Account	Indian Health Service	State of Alaska Program	Federal Program	Other Programs	Reclassifications	Total
Current assets:							
Cash and cash equivalents	\$ 5,873,104	\$ 4,330,440	\$ -	\$ -	\$ -	\$ -	\$ 10,203,544
Receivables:							
Funding agencies	-	5,091,066	272,906	3,764,832	227,728	-	9,356,532
Patients - Net	(7,040)	9,368,494	-	-	-	1,288,181	10,649,635
Employee advances and relocation costs	349,588	-	-	-	-	-	349,588
Other	287	-	5,899	-	-	-	6,186
Investments	41,097,634	-	-	-	-	-	41,097,634
Prepaid expenses	2,705,176	-	-	-	-	-	2,705,176
Inventory	2,762,682	-	-	-	-	-	2,762,682
Current portion of employee home loans receivable	23,788	-	-	-	-	-	23,788
Current portion of student loans receivable	129,463	-	-	-	-	-	129,463
Due (to) from other funds	(201,194,692)	200,496,161	425,862	(528,565)	801,234	-	-
Total current assets	(148,260,010)	219,286,161	704,667	3,236,267	1,028,962	1,288,181	77,284,228
Noncurrent investments and other assets:							
Student loans receivable, less current portion	178,815	-	-	-	-	-	178,815
Investment in Permanent Fund	84,633,607	-	-	-	-	-	84,633,607
Investment in LifeMed	9,841,156	-	-	-	-	-	9,841,156
Investment in YK Technologies	31,218	-	-	-	-	-	31,218
Total noncurrent investments and other assets	94,684,796	-	-	-	-	-	94,684,796
Capital assets:							
Nondepreciable capital assets	53,058,231	-	-	-	-	-	53,058,231
Depreciable capital assets - Net	96,990,925	691,557	-	-	-	-	97,682,482
Total capital assets - Net	150,049,156	691,557	-	-	-	-	150,740,713
TOTAL ASSETS	\$ 96,473,942	\$ 219,977,718	\$ 704,667	\$ 3,236,267	\$ 1,028,962	\$ 1,288,181	\$ 322,709,737

Yukon-Kuskokwim Health Corporation

Combining Statements of Net Position (Continued)

September 30, 2016

	General Account	Indian Health Service	State of Alaska Program	Federal Program	Other Programs	Reclassifications	Total
Current liabilities:							
Current portion of long-term debt	\$ 848,624	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 848,624
Accounts payable and accrued expenses	6,438,466	1,033,881	111,531	159,689	58,697	-	7,802,264
Accounts payable - Construction and equipment	5,908,918	-	-	-	-	-	5,908,918
Accrued salaries, leave, and benefits	9,576,074	55	-	-	-	-	9,576,129
Estimated third-party payor settlements	-	-	-	-	-	1,288,181	1,288,181
Unearned revenue	-	20,919	398,403	3,090,300	265,388	-	3,775,010
Total current liabilities	22,772,082	1,054,855	509,934	3,249,989	324,085	1,288,181	29,199,126
Long-term debt, less current portion	6,900,550	-	-	-	-	-	6,900,550
Total liabilities	29,672,632	1,054,855	509,934	3,249,989	324,085	1,288,181	36,099,676
Net position:							
Net investment in capital assets	136,391,064	691,557	-	-	-	-	137,082,621
Unrestricted:							
Investment in Permanent Fund	84,633,607	-	-	-	-	-	84,633,607
General operations	(154,223,361)	218,231,306	194,733	(13,722)	704,877	-	64,893,833
Total net position	66,801,310	218,922,863	194,733	(13,722)	704,877	-	286,610,061
TOTAL LIABILITIES AND NET POSITION	\$ 96,473,942	\$ 219,977,718	\$ 704,667	\$ 3,236,267	\$ 1,028,962	\$ 1,288,181	\$ 322,709,737

Yukon-Kuskokwim Health Corporation

Combining Statements of Revenues, Expenses, and Changes in Net Position

Year Ended September 30, 2016

	General Account	Indian Health Service	State of Alaska Program	Federal Program	Other Programs	Reclassifications	Total
Operating revenues:							
Net patient service revenue	\$ 714,128	\$ 99,240,064	\$ -	\$ -	\$ -	\$ -	\$ 99,954,192
Funding agreement	-	76,287,319	-	-	-	-	76,287,319
Operating grant revenue	-	-	10,906,998	9,316,105	461,950	(5,591,116)	15,093,937
Intracompany	633,875	755,050	-	-	-	(1,388,925)	-
Other revenue	2,348,390	1,156,242	-	6,340	148,098	(29,595)	3,629,475
Total operating revenues	3,696,393	177,438,675	10,906,998	9,322,445	610,048	(7,009,636)	194,964,923
Operating expenses:							
Salaries	16,257,279	51,360,103	5,083,742	3,870,924	167,609	(2,036,859)	74,702,798
Benefits	4,267,395	12,208,546	1,195,506	910,299	39,415	(611,058)	18,010,103
Contracts and fees	9,274,897	8,526,326	1,189,789	831,197	-	(1,581,187)	18,241,022
Supplies	975,923	12,992,948	273,412	490,292	8,908	(682,909)	14,058,574
Utilities	5,184,837	565,170	334,465	10,637	6,519	(158,357)	5,943,271
Travel	812,286	5,208,149	321,153	909,949	22,651	(162,704)	7,111,484
Rental fees	1,303,787	2,537,816	42,350	4,500	13,102	(682,273)	3,219,282
Furniture and equipment	721,245	279,863	877,847	245,232	118,707	(925,903)	1,316,991
Government labor	86,153	963,707	-	71,598	-	-	1,121,458
Freight and postage	393,048	1,012,826	110,744	19,311	-	(114,522)	1,421,407
Dues and subscriptions	723,014	152,171	2,618	1,808	-	-	879,611
Insurance	1,237,045	-	-	-	-	-	1,237,045
Repairs and maintenance	252,953	805,994	62,892	18,673	15,721	(26,727)	1,129,506
Education, advertising, and licensing	725,342	478,611	87,715	38,925	4,773	(5,501)	1,329,865
Relocation	68,542	294,141	-	34,564	-	(17,040)	380,207
Depreciation and amortization	9,264,091	-	-	(1,078)	-	-	9,263,013
Other	1,047,325	28,481	11,624	252,580	-	(856,020)	483,990
Total direct operating expenses	52,595,162	97,414,852	9,593,857	7,709,411	397,405	(7,861,060)	159,849,627
Allocation of indirect expenses	(40,946,742)	37,962,335	1,313,141	1,606,720	64,546	-	-
Total operating expenses	11,648,420	135,377,187	10,906,998	9,316,131	461,951	(7,861,060)	159,849,627
Operating income (loss) (carried forward)	(7,952,027)	42,061,488	-	6,314	148,097	851,424	35,115,296

Yukon-Kuskokwim Health Corporation

Combining Statements of Revenues, Expenses, and Changes in Net Position (Continued)

Year Ended September 30, 2016

	General Account	Indian Health Service	State of Alaska Program	Federal Program	Other Programs	Reclassifications	Total
Operating income (loss) (brought forward)	\$ (7,952,027)	\$ 42,061,488	\$ -	\$ 6,314	\$ 148,097	\$ 851,424	\$ 35,115,296
Nonoperating revenue (expense):							
Equity in gain of LifeMed	-	-	-	-	-	2,659,005	2,659,005
Equity in loss of YK Technologies	-	-	-	-	-	(23,076)	(23,076)
Investment income	7,451,649	-	-	-	-	(2,635,929)	4,815,720
Financing fees	-	-	-	-	-	(851,424)	(851,424)
Interest expense	(344,340)	-	-	-	-	-	(344,340)
Total nonoperating revenue	7,107,309	-	-	-	-	(851,424)	6,255,885
Income before capital contributions, excess of revenue over expenses	(844,718)	42,061,488	-	6,314	148,097	-	41,371,181
Capital contributions	25,064,635	-	-	-	-	-	25,064,635
Increase in net position	24,219,917	42,061,488	-	6,314	148,097	-	66,435,816
Net position, beginning of year	42,581,393	176,861,375	194,733	(20,036)	556,780	-	220,174,245
Net position, end of year	\$ 66,801,310	\$ 218,922,863	\$ 194,733	\$ (13,722)	\$ 704,877	\$ -	\$ 286,610,061
Expenses related to hospital operations	\$ 15,590,125	\$ 67,487,079	\$ -	\$ 92,773	\$ 48,982		
Expenses related to nonhospital operations	37,005,037	29,927,773	9,593,857	7,616,638	348,423		
Total direct operating expenses	\$ 52,595,162	\$ 97,414,852	\$ 9,593,857	\$ 7,709,411	\$ 397,405		

Yukon-Kuskokwim Health Corporation

Statement of Revenues, Expenses, and Changes in Net Position - Skilled Nursing Facility

Year Ended September 30, 2016

	2016
Operating revenues:	
Patient service revenue	\$ 6,121,431
Less: Contractual allowances	105,700
Net patient service revenue	6,015,731
Other revenue	9,232
Total operating revenues	6,024,963
Operating expenses:	
Salaries	2,353,846
Benefits	553,538
Contracts and fees	112,415
Supplies	237,966
Utilities	295,883
Travel	29,440
Rental fees	13,915
Furniture and equipment	23,649
Freight and postage	45,627
Dues and subscriptions	5,787
Repairs and maintenance	74,156
Education, advertising, and licensing	1,994
Depreciation and amortization	544,117
Allocation of indirect expenses	1,566,061
Total operating expenses	5,858,394
Operating income, income before capital contributions	166,569
Capital contributions	121,602
Increase in net position	\$ 288,171

Yukon-Kuskokwim Health Corporation

Schedule of Capital Assets - Skilled Nursing Facility

September 30, 2016

	2016
Capital assets being depreciated:	
Buildings and leasehold improvements	\$ 16,174,415
Furnishings and equipment	391,364
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Total capital assets being depreciated	16,565,779
Less: Accumulated depreciation	(1,469,771)
<hr/>	
Capital assets being depreciated - Net	15,096,008
<hr/>	
Capital assets not being depreciated:	
Artwork	5,500
Land	700,882
<hr/>	
Total capital assets not being depreciated	706,382
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Capital assets - Net	\$ 15,802,390
