

# Yukon-Kuskokwim Health Corporation

Financial Statements and Supplementary Information

Years Ended September 30, 2017 and 2016

**WIPFLI**<sup>LLP</sup>  
CPAs and Consultants

# Yukon-Kuskokwim Health Corporation

Years Ended September 30, 2017 and 2016

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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 years ended September 30, 2017 and 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, 2017 and 2016, and the respective changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

## Required Supplementary Information

Accounting principles generally accepted in the United States require that the management's discussion and analysis information on pages 3 through 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, 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 45 through 50 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 7, 2018, 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 solely 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 effectiveness of the Corporation's 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 7, 2018  
Spokane, Washington

# Yukon-Kuskokwim Health Corporation

## Management's Discussion and Analysis

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### 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, 2017 and 2016. 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, 2017 and 2016 financial statements are presented in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34. The September 30, 2015 financial statements are not presented in the accompanying financial statements. The condensed September 30, 2015 financial information is presented consistent with 2017 and 2016.

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 2017 and 2016. 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 2017 and 2016 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, and net investment in capital assets.

# Yukon-Kuskokwim Health Corporation

## Management's Discussion and Analysis (Continued)

### 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):

	2017	2016	2015	FY 17 % Increase (Decrease)	FY 16 % Increase (Decrease)
<b>Assets:</b>					
Current assets	\$ 78,372	\$ 77,284	\$ 56,022	1 %	38 %
Capital assets - Net	210,686	150,741	107,952	40 %	40 %
Other assets	175,551	94,685	87,507	85 %	8 %
<b>Total assets</b>	<b>\$ 464,609</b>	<b>\$ 322,710</b>	<b>\$ 251,481</b>	<b>44 %</b>	<b>28 %</b>
<b>Liabilities:</b>					
Current liabilities	\$ 28,779	\$ 29,199	\$ 23,461	(1)%	24 %
Noncurrent liabilities	110,140	6,901	7,846	1,496 %	(12)%
<b>Total liabilities</b>	<b>138,919</b>	<b>36,100</b>	<b>31,307</b>	<b>285 %</b>	<b>15 %</b>
<b>Net position:</b>					
Net investment in capital assets	134,668	137,083	99,301	(2)%	38 %
Restricted	31,403	-	-	100 %	0 %
Investment in Permanent Fund	91,629	84,634	79,998	8 %	6 %
General operations	67,990	64,893	40,875	5 %	59 %
<b>Total net position</b>	<b>325,690</b>	<b>286,610</b>	<b>220,174</b>	<b>14 %</b>	<b>30 %</b>
<b>Total liabilities and net position</b>	<b>\$ 464,609</b>	<b>\$ 322,710</b>	<b>\$ 251,481</b>	<b>44 %</b>	<b>28 %</b>
Current assets to total assets	17 %	24 %	22 %		
Capital assets - Net, to total assets	45 %	47 %	43 %		
Working capital (current assets less current liabilities)	\$ 49,593	\$ 48,085	\$ 32,561	3 %	48 %

# Yukon-Kuskokwim Health Corporation

## Management's Discussion and Analysis (Continued)

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### Statements of Net Position (Continued)

The Corporation's 2017 statements of net position show an increase of 14% in total net position, 1% increase in current assets, 1% decrease in current liabilities, and 3% increase in working capital. A more detailed analysis of the reasons for these changes follows:

- Current assets remained relatively stable as increases in cash and cash equivalents and net patient accounts receivable were offset by decreases in funding agency receivables and current investments.
- Current liabilities also remained relatively stable as increases in accounts payable and accruals were offset by decreases in the current portion of long-term debt and unearned revenue.
- Working capital remained relatively stable as both current assets and current liabilities did not change significantly from the prior year.

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 increase in current assets was primarily due to an increase in current investments.

### 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)

### Statements of Revenues, 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):

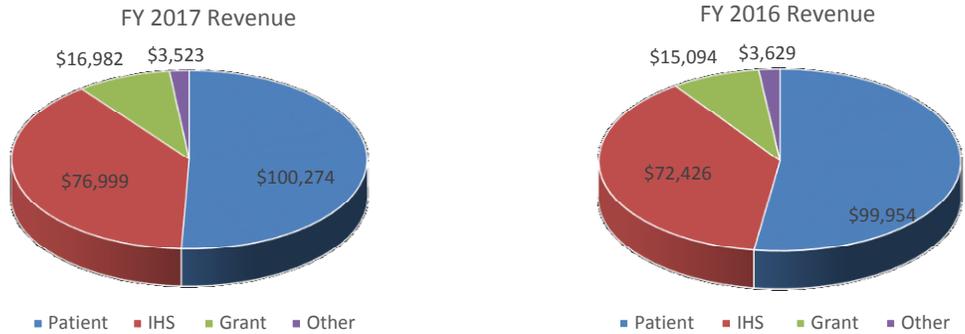
	2017	2016	2015	FY 17 % Increase (Decrease)	FY 16 % Increase (Decrease)	% of total operating revenue 2017
<b>Operating revenues:</b>						
Net patient service revenue	\$ 100,274	\$ 99,954	\$ 86,306	0 %	16 %	51 %
Funding agreement	76,999	76,287	73,673	1 %	4 %	39 %
Operating grant revenue	16,982	15,094	19,486	13 %	(23)%	9 %
Other revenue	3,523	3,629	4,287	(3)%	(15)%	2 %
<b>Total operating revenues</b>	<b>197,778</b>	<b>194,964</b>	<b>183,752</b>	<b>1 %</b>	<b>6 %</b>	<b>100 %</b>
<b>Operating expenses:</b>						
Salaries	82,637	74,703	69,242	11 %	8 %	42 %
Benefits	18,555	18,010	17,321	3 %	4 %	9 %
Contracts and fees	20,012	18,241	17,852	10 %	2 %	10 %
Supplies	14,514	14,059	14,378	3 %	(2)%	7 %
Travel	6,864	7,111	6,875	(3)%	3 %	3 %
Utilities	5,240	5,943	8,662	(12)%	(31)%	3 %
Depreciation and amortization	10,621	9,263	7,762	15 %	19 %	5 %
Rental fees	3,084	3,219	3,112	(4)%	3 %	2 %
Government labor	943	1,121	1,843	(16)%	(39)%	0 %
Other	9,956	8,179	9,346	22 %	(12)%	5 %
<b>Total operating expenses</b>	<b>172,426</b>	<b>159,849</b>	<b>156,393</b>	<b>8 %</b>	<b>2 %</b>	<b>87 %</b>
<b>Operating income</b>	<b>25,352</b>	<b>35,115</b>	<b>27,359</b>			
<b>Nonoperating revenue (expense) -</b>						
<b>Net</b>	<b>13,579</b>	<b>6,256</b>	<b>(2,580)</b>	<b>117 %</b>	<b>(342)%</b>	<b>7 %</b>
<b>Income before capital contributions</b>	<b>38,931</b>	<b>41,371</b>	<b>24,779</b>			
<b>Capital contributions</b>	<b>149</b>	<b>25,065</b>	<b>3,084</b>	<b>(99)%</b>	<b>713 %</b>	<b>0 %</b>
<b>Increase in net position</b>	<b>39,080</b>	<b>66,436</b>	<b>27,863</b>			
<b>Net position, beginning of year</b>	<b>286,610</b>	<b>220,174</b>	<b>192,311</b>			
<b>Net position, end of year</b>	<b>\$ 325,690</b>	<b>\$ 286,610</b>	<b>\$ 220,174</b>	<b>14 %</b>	<b>30 %</b>	<b>165 %</b>

# Yukon-Kuskokwim Health Corporation

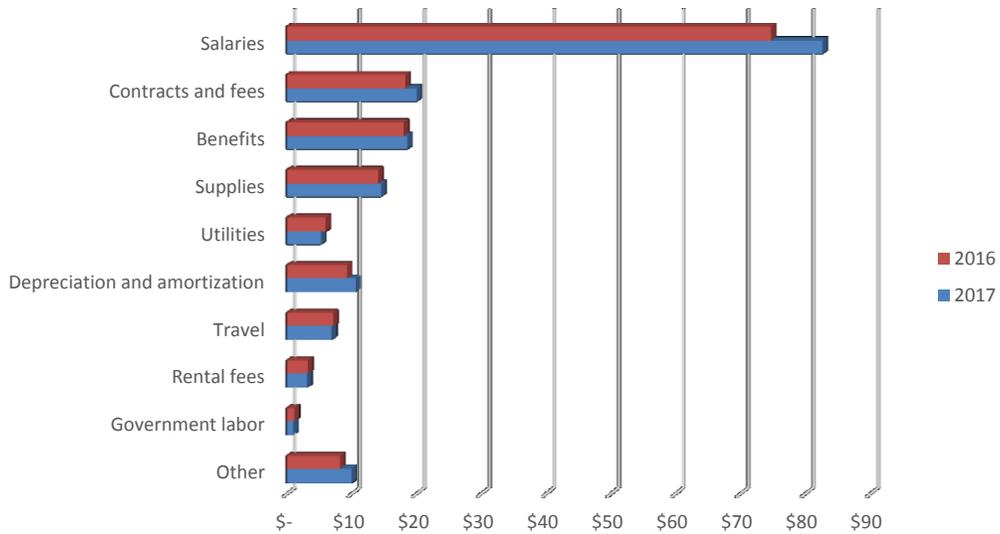
## Management's Discussion and Analysis (Continued)

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A comparison of revenues by source for 2017 and 2016 follows (in thousands):



A comparison of expenses by natural class for 2017 and 2016 follows (millions):



# Yukon-Kuskokwim Health Corporation

## Management's Discussion and Analysis (Continued)

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### 2017 Activity

The statements of revenues, expenses, and changes in net position reflects an overall increase in net position of 14%, or \$39,080,588 for 2017. Major factors contributing to these changes include:

#### Operating Revenues

- Net patient service revenue increased by \$319,393 in 2017.
- Funding agreement revenue increased by \$711,627 in 2017.

#### Nonoperating revenue (expense)

Total nonoperating revenue (expense) increased by \$7,323,210, primarily due to increases in investment income and nonrecurring revenue related to a contract support cost settlement.

#### Operating expenses

Total operating expenses for 2017 increased by \$12,574,755. Contributing factors were as follows:

- Salaries increased by \$7,934,226 primarily due to increases in provider and nurse compensation, increased dentist full-time equivalents (FTEs), diabetes and WIC technician FTEs, additional medical support technician FTEs, increased travel technician and prior authorization positions, a corporate wide salary increase for eligible employees, and an increase in bonuses paid for hard to fill positions.
- Contracts and fees increased by \$1,770,634 primarily due to a new agreement for clinical engineering services and RN TDY staffing costs.
- Relocation increased by \$905,229 due to filling hard to fill positions eligible for relocation including outpatient clinical, outpatient nursing, inpatient clinical, inpatient nursing, dental, laboratory, pharmacy, skilled nursing facility, SRC providers, ER nursing, and the CHAP training center.
- Depreciation and amortization increased by \$1,357,506 due to \$17,612,086 in depreciable capital assets being placed into service during the year.

#### Capital Contributions

Capital contributions received in 2017 decreased by \$24,915,908 because in the prior year the Corporation received significant contributions for the new building project, including a transfer of building and land to the Corporation from IHS.

# Yukon-Kuskokwim Health Corporation

## Management's Discussion and Analysis (Continued)

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### 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.

#### 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.

### Capital and Debt Activity

There was an increase in capital assets - net in fiscal year 2017 of \$59,945,340 and an increase of \$42,788,381 in fiscal year 2016. At September 30, 2017 and 2016, total long-term debt outstanding was \$110,139,613 and \$7,749,174, 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, 2017 and 2016

	2017	2016
Current assets:		
Cash and cash equivalents	\$ 14,705,078	\$ 10,203,544
Receivables:		
Funding agencies	5,319,526	9,356,532
Patients - Net	16,088,699	10,649,635
Employee advances and relocation costs	316,153	349,588
Other	11,381	6,186
Investments	35,894,529	41,097,634
Prepaid expenses	2,699,753	2,705,176
Inventory	3,247,600	2,762,682
Current portion of employee home loans receivable	-	23,788
Current portion of student loans receivable	88,960	129,463
<b>Total current assets</b>	<b>78,371,679</b>	<b>77,284,228</b>
Noncurrent investments and other assets:		
Student loans receivable, less current portion	456,453	178,815
Employee home loans receivable, less current portion	21,619	-
Investment in Permanent Fund	91,629,468	84,633,607
Investment in LifeMed	12,397,663	9,841,156
Amounts restricted under bond indenture	71,046,055	-
Investment in YK Technologies	-	31,218
<b>Total noncurrent investments and other assets</b>	<b>175,551,258</b>	<b>94,684,796</b>
Capital assets:		
Nondepreciable capital assets	105,995,017	53,058,231
Depreciable capital assets - Net	104,691,036	97,682,482
<b>Total capital assets - Net</b>	<b>210,686,053</b>	<b>150,740,713</b>
<b>TOTAL ASSETS</b>	<b>\$ 464,608,990</b>	<b>\$ 322,709,737</b>

# Yukon-Kuskokwim Health Corporation

## Statements of Net Position (Continued)

September 30, 2017 and 2016

	2017	2016
Current liabilities:		
Current portion of long-term debt	\$ -	\$ 848,624
Accounts payable and accrued expenses	8,982,480	7,802,264
Accounts payable - Construction and equipment	5,521,015	5,908,918
Accrued salaries, leave, and benefits	10,046,073	9,576,129
Estimated third-party payor settlements	1,288,181	1,288,181
Unearned revenue	2,940,979	3,775,010
<b>Total current liabilities</b>	<b>28,778,728</b>	<b>29,199,126</b>
Long-term debt, less current portion	110,139,613	6,900,550
<b>Total liabilities</b>	<b>138,918,341</b>	<b>36,099,676</b>
Net position:		
Net investment in capital assets	134,668,314	137,082,621
Restricted for debt service	31,403,166	-
Unrestricted:		
Investment in Permanent Fund	91,629,468	84,633,607
General operations	67,989,701	64,893,833
<b>Total net position</b>	<b>325,690,649</b>	<b>286,610,061</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 464,608,990</b>	<b>\$ 322,709,737</b>

See accompanying notes to financial statements.

# Yukon-Kuskokwim Health Corporation

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

Years Ended September 30, 2017 and 2016

	2017	2016
<b>Operating revenues:</b>		
Net patient service revenue	\$ 100,273,585	\$ 99,954,192
Funding agreement	76,998,946	76,287,319
Operating grant revenue	16,981,727	15,093,937
Other revenue	3,522,890	3,629,475
<b>Total operating revenues</b>	<b>197,777,148</b>	<b>194,964,923</b>
<b>Operating expenses:</b>		
Salaries	82,637,024	74,702,798
Benefits	18,554,731	18,010,103
Contracts and fees	20,011,656	18,241,022
Supplies	14,514,225	14,058,574
Utilities	5,240,303	5,943,271
Travel	6,863,636	7,111,484
Rental fees	3,084,370	3,219,282
Furniture and equipment	1,389,877	1,316,991
Government labor	943,420	1,121,458
Freight and postage	1,431,957	1,421,407
Dues and subscriptions	1,119,464	879,611
Insurance	1,216,451	1,237,045
Repairs and maintenance	934,602	1,129,506
Education, advertising, and licensing	1,878,882	1,329,865
Relocation	1,285,436	380,207
Depreciation and amortization	10,620,519	9,263,013
Other	697,829	483,990
<b>Total operating expenses</b>	<b>172,424,382</b>	<b>159,849,627</b>
<b>Operating income</b>	<b>25,352,766</b>	<b>35,115,296</b>
<b>Nonoperating revenue (expense):</b>		
Equity in gain of LifeMed	2,556,507	2,659,005
Equity in loss of YK Technologies	-	(23,076)
Investment income	7,121,907	4,815,720
Nonrecurring	5,361,782	-
Financing fees	(1,234,645)	(851,424)
Interest expense	(226,456)	(344,340)
<b>Total nonoperating revenue (expense)</b>	<b>13,579,095</b>	<b>6,255,885</b>
Income before capital contributions, excess of revenue over expenses	38,931,861	41,371,181
Capital contributions	148,727	25,064,635
Increase in net position	39,080,588	66,435,816
Net position, beginning of year	286,610,061	220,174,245
<b>Net position, end of year</b>	<b>\$ 325,690,649</b>	<b>\$ 286,610,061</b>

See accompanying notes to financial statements.

# Yukon-Kuskokwim Health Corporation

## Statements of Cash Flows

Years Ended September 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Receipts from grants, contracts, and compacts	\$ 97,183,647	\$ 87,500,875
Receipts from programs, patients, and third-party billings	94,834,521	102,566,054
Other receipts	3,551,130	4,094,739
Payments to vendors	(59,911,385)	(58,702,013)
Payments for salaries and benefits	(100,721,811)	(93,668,120)
Net cash provided by operating activities	34,936,102	41,791,535
Cash flows from noncapital financing activities -		
Nonrecurring nonoperating revenue	5,361,782	-
Cash flows from capital and related financing activities:		
Purchase of capital assets	(68,962,003)	(26,570,981)
Principal paid on capital debt	(7,749,174)	(902,185)
Proceeds from issuance of capital debt	109,911,875	-
Proceeds from sale of capital assets	-	9,347
Capital contributions	148,727	5,483,797
Financing fees paid	(693,253)	(851,424)
Net deposits to Revenue Fund	(2,857,855)	-
Interest paid on capital debt	(2,531,870)	(344,340)
Net cash provided by (used in) capital and related financing activities	27,266,447	(23,175,786)
Cash flows from investing activities:		
Proceeds from sale of investments	200,131,094	30,022,063
Purchase of investments	(264,549,101)	(63,786,450)
Proceeds from interest and dividends, net of broker fees	1,590,176	1,926,386
Loans granted over principal payments received	(234,966)	278,047
Net cash used in investing activities	(63,062,797)	(31,559,954)
Net increase (decrease) in cash and cash equivalents	4,501,534	(12,944,205)
Cash and cash equivalents at beginning of year	10,203,544	23,147,749
Cash and cash equivalents at end of year	\$ 14,705,078	\$ 10,203,544

# Yukon-Kuskokwim Health Corporation

## Statements of Cash Flows (Continued)

Years Ended September 30, 2017 and 2016

	2017	2016
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 25,352,766	\$ 35,115,296
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	10,620,519	9,263,013
Provision for bad debts	348,754	611,435
Changes in operating assets and liabilities:		
Receivables:		
Funding agencies	4,037,006	(3,019,010)
Patients - Net	(5,787,818)	712,246
Other	28,240	465,264
Prepaid expenses	5,423	(1,282,631)
Inventory	(484,918)	140,089
Accounts payable and accrued expenses	1,180,217	314,242
Accrued salaries, leave, and benefits	469,944	(955,219)
Estimated third-party payor settlements	-	1,288,181
Unearned revenue	(834,031)	(861,371)
Net cash provided by operating activities	\$ 34,936,102	\$ 41,791,535

### Noncash capital and financing activities:

Accounts payable - Construction and equipment	\$ 5,521,015	\$ 5,908,918
Financing fees funded with issuance of long-term debt	541,392	-
Noncash capital contributions	-	19,580,838

### Supplemental cash flow information:

Capitalized interest paid	\$ 2,305,414	\$ -
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See accompanying notes to financial statements.

# Yukon-Kuskokwim Health Corporation

## Notes to Financial Statements

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### 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.

### 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.

# Yukon-Kuskokwim Health Corporation

## Notes to Financial Statements

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### **Note 1: Summary of Significant Accounting Policies** (Continued)

#### **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, including changes in fair value of investments, is recorded as nonoperating revenue in the statements of revenues, expenses, and changes in net position.

#### **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. A three-tier hierarchy prioritizes the inputs used in measuring fair value. These tiers include Level 1, defined as quoted market prices in active markets for identical assets or liabilities; Level 2, defined as inputs other than quoted market prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs, therefore requiring an entity to develop its own assumptions. The asset's or liability's fair value measurement within the hierarchy is based on techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

#### **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.

# Yukon-Kuskokwim Health Corporation

## Notes to Financial Statements

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### **Note 1: Summary of Significant Accounting Policies** (Continued)

#### **Patient Accounts Receivable and Credit Policy** (Continued)

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 uncollectible 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.

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.

# Yukon-Kuskokwim Health Corporation

## Notes to Financial Statements

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### Note 1: Summary of Significant Accounting Policies (Continued)

#### 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.

#### Capital Assets

Capital assets are stated at historical cost if purchased or, if donated, at the acquisition value at the date of the donation. Expenditures which increase values, change capacities, or extend useful lives are capitalized. 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
Leasehold 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 system	7 years

The Corporation capitalizes interest cost net of any interest earned on temporary investments of the proceeds for construction projects funded by tax-exempt borrowings. Interest expense is also capitalized for projects financed with operating funds.

# Yukon-Kuskokwim Health Corporation

## Notes to Financial Statements

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### **Note 1: Summary of Significant Accounting Policies** (Continued)

#### **Capital Assets** (Continued)

Capital assets are reviewed for impairment when events or changes in circumstances suggest that the service utility of the capital asset may have significantly and unexpectedly declined. Capital assets are considered impaired if both the decline in service utility of the capital asset is large in magnitude and the event or change in circumstance is outside the normal life cycle of the capital asset. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage. The determination of the impairment loss is dependent upon the event or circumstance in which the impairment occurred. Impairment losses, if any, are recorded in the statements of revenues, expenses, and changes in net position.

#### **Accrued Leave**

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

#### **Long-Term Debt**

Premiums and discounts are deferred and amortized over the life of the debt using the straight-line method. Long-term debt is reported net of the applicable premium or discount. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as financing fees in the accompanying statements of revenues, expenses, and changes in net position.

#### **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 Corporation's policy to use externally restricted resources first.

# Yukon-Kuskokwim Health Corporation

## Notes to Financial Statements

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### **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

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### **Note 1: Summary of Significant Accounting Policies** (Continued)

#### **Net Patient Service Revenue**

Net patient service 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 revenues, 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 statement 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

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### **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 7, 2018, which is the date the financial statements were issued. Subsequent events are discussed in Note 17.

# Yukon-Kuskokwim Health Corporation

## Notes to Financial Statements

### Note 2: Deposits and Investments

#### Custodial Credit Risk - Cash and Cash Equivalents

At September 30, 2017 and 2016 the bank balances were \$19,224,795 and \$11,705,882, 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, 2017:

	Fair Value	Cost
Money market funds	\$ 36,478,485	\$ 36,478,172
Certificates of deposit	2,493,917	2,493,917
Commercial paper	6,971,407	6,971,407
Fixed income:		
Corporate bonds	22,461,407	22,550,864
Government bonds obligations	49,784,075	49,913,680
Domestic mutual funds	5,014,457	5,000,170
International mutual funds	2,072,444	1,954,888
Mortgage backed securities	830,283	827,932
Other	702,764	709,146
Equities:		
Domestic mutual funds	20,398,782	14,174,298
International mutual funds	5,887,141	5,157,455
Domestic equities	12,264,289	9,618,443
International equities	5,840,491	5,163,488
Other	(5,154)	276,202
Real estate and specialty assets	17,192,943	17,700,236
Accrued income on investments	331,316	-
<b>Totals</b>	<b>\$ 188,719,047</b>	<b>\$ 178,990,298</b>

# Yukon-Kuskokwim Health Corporation

## Notes to Financial Statements

### Note 2: Deposits and Investments (Continued)

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 bonds obligations	26,941,854	26,886,137
Domestic mutual funds	6,881,637	6,885,401
International mutuals 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	-
<b>Totals</b>	<b>\$ 125,731,241</b>	<b>\$ 122,227,054</b>

### Maturities

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

<i>Bond Maturity</i>	2017	2016
Less than 1 year	\$ 51,293,428	\$ 29,028,904
1-2 years	11,807,685	16,511,978
3-5 Years	14,216,322	15,265,636
6-10 years	1,488,406	1,387,567
Over 20 years	500,000	-
Undisclosed	26,542	95,771
<b>Totals</b>	<b>\$ 79,332,383</b>	<b>\$ 62,289,856</b>

# Yukon-Kuskokwim Health Corporation

## Notes to Financial Statements

### Note 2: Deposits and Investments (Continued)

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

	2017	2016
Increase in fair value of investments	\$ 6,287,661	\$ 3,776,657
Net realized losses	(738,746)	(988,324)
Broker fees	(413,360)	(387,988)
Interest and dividends	1,986,352	2,415,375
<b>Totals</b>	<b>\$ 7,121,907</b>	<b>\$ 4,815,720</b>

### Credit Risk

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

<i>Quality Rating</i>	2017	2016
AAA	\$ 48,939,770	\$ 25,080,103
AA	3,456,178	5,564,191
A	13,117,174	12,405,840
BAA	6,705,818	10,279,928
BBB	15,941	49,210
BB	-	17,392
B	-	21,250
Not rated	10,601	7,919
<b>Totals</b>	<b>\$ 72,245,482</b>	<b>\$ 53,425,833</b>

### Custodial Credit Risk - Investments

At September 30, 2017 and 2016 significantly all of the Corporation's investments were held with two financial institutions. 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

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### 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 \$91,629,468 and \$84,633,607 at September 30, 2017 and 2016, respectively. These investments are not restricted, as defined by the GASB; however, it is the intent of the Corporation to maintain the corpus of the fund intact in perpetuity.

### Note 3: Amounts Restricted Under Bond Indenture

Amounts restricted under bond indenture include cash, cash equivalents, investments, accrued income, and deposits held in escrow by trustees in accordance with financing agreements, assets designated by bond indenture for debt service, and debt service reserve funds. Amounts required to meet current liabilities are classified as current assets.

The Revenue Note from the Alaska Municipal Bond Bank Authority (AMBBA) related to the 2017A Series obligation ("AMBBA Loan") covenants require that as long as any of the bonds are outstanding and unpaid, the Corporation is to maintain the accounts and funds with a trustee as listed below:

*Revenue Fund* - In connection with the AMBBA Loan and the resultant Master Trust Indenture, the Corporation is required to deposit net revenue upon receipt into this fund for the purposes of paying the current portion of AMBBA Loan debt service in any given year. Net revenue as defined by the agreement includes all of the Corporation's net patient service revenue and other operating revenue, as are now in existence or as may be hereafter acquired and the proceeds thereof from all sources, excluding all proceeds paid or payable by all grants from the United States or the State of Alaska. Under the terms of the Master Trust Indenture this fund is held in an account in the custody and control of the Trustee. The Revenue Fund consists of individual accounts for the collection of revenues from various sources as well as a concentration account which aggregates these revenues before transferring them to the Principal and Interest Fund. Funds are transferred to the Corporation after the required transfers to the Principal and Interest Fund have occurred.

# Yukon-Kuskokwim Health Corporation

## Notes to Financial Statements

### Note 3: Amounts Restricted Under Bond Indenture (Continued)

*Project Fund* - The project fund was established with a trustee in association with the issuance of the AMBBA Loan in order to complete a new clinic, various hospital remodeling projects, and to purchase equipment for the new facility.

*Capitalized Interest Account* - The Capitalized Interest Account is established to provide for the payment of all or a portion of the interest accrued on the AMBBA Loan during construction. Any amount remaining is to be paid to the Project Fund upon completion. The Capitalized Interest Account was funded with proceeds from the AMBBA Loan.

*Reserve Account* - The Reserve Account is established as security for future payments. It was funded with the proceeds of the AMBBA Loan and is held by the Trustee in a designated bank account. The remaining portion was funded by the Corporation and is held in an escrow account with the Bondholder.

*Principal and Interest Fund* - The Principal and Interest Fund was established to accumulate revenues during the year in anticipation of semiannual interest and principal payments and is funded by transfers from the Revenue Fund.

As of September 30, 2017, the Corporation's amounts restricted under bond indenture is classified as follows:

	Cash and Cash Equivalents	Investments	Interest Receivable	Due from Other Governments	Total
Revenue Fund	\$ 2,857,855	\$ -	\$ -	\$ -	\$ 2,857,855
Project Fund	13,457,526	26,150,783	34,580	-	39,642,889
Capitalized Interest Account	14,536,061	-	7,819	-	14,543,880
Reserve Account	-	7,007,801	-	6,993,150	14,000,951
Principal and Interest Account	-	480	-	-	480
<b>Totals</b>	<b>\$ 30,851,442</b>	<b>\$ 33,159,064</b>	<b>\$ 42,399</b>	<b>\$ 6,993,150</b>	<b>\$ 71,046,055</b>

Cash equivalents and interest receivable held in the Project Fund and Capitalized Interest Account are considered investments for the fair value measurements disclosure.

# Yukon-Kuskokwim Health Corporation

## Notes to Financial Statements

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### Note 4: 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. Level 3 investments are valued based on business appraisers' use valuations and appraisal methodologies which are evaluated by secondary market brokers.

*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.

These methods 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 4: Fair Value Measurements (Continued)

The Corporation's investments by level within the fair value hierarchy was as follows at September 30, 2017:

	Level 1	Level 2	Level 3	Total Assets at Fair Value
Money market funds	\$ 10,941,940	\$ 25,536,545	\$ -	\$ 36,478,485
Certificates of deposit	-	2,493,917	-	2,493,917
Commercial paper	-	6,971,407	-	6,971,407
Fixed income:				
Corporate bonds	-	22,461,407	-	22,461,407
Government bond obligations	17,789,288	31,994,787	-	49,784,075
Domestic mutual funds	4,514,457	500,000	-	5,014,457
International mutual funds	2,072,444	-	-	2,072,444
Mortgage-backed securities	-	830,283	-	830,283
Other	-	702,764	-	702,764
Equities:				
Domestic mutual funds	20,398,783	-	-	20,398,783
International mutual funds	5,887,141	-	-	5,887,141
Domestic equities	12,264,289	-	-	12,264,289
International equities	-	5,840,491	-	5,840,491
Other	37,112	(42,266)	-	(5,154)
Real estate and specialty assets	16,129,966	56,835	1,006,142	17,192,943
<b>Total investments measured at fair value</b>	<b>\$ 90,035,420</b>	<b>\$ 97,346,170</b>	<b>\$ 1,006,142</b>	<b>\$ 188,387,732</b>
Accrued interest income on investments				<u>331,315</u>
<b>Total investments</b>				<u><u>\$ 188,719,047</u></u>

# Yukon-Kuskokwim Health Corporation

## Notes to Financial Statements

### Note 4: 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
<b>Total investments measured at fair value</b>	<b>\$ 76,483,903</b>	<b>\$ 47,967,639</b>	<b>\$ 979,644</b>	<b>\$ 125,431,186</b>
Accrued interest income on investments				300,055
<b>Total investments</b>				<b>\$ 125,731,241</b>

# Yukon-Kuskokwim Health Corporation

## Notes to Financial Statements

### Note 5: Patient Accounts Receivable

Patient accounts receivable consisted of the following at September 30:

	2017	2016
Hospital and clinics patient accounts receivable:		
Medicare	\$ 4,049,499	\$ 4,003,911
Medicaid	15,530,489	7,967,457
Other third-party payors	5,354,613	4,665,752
Noncoverage	3,101,931	1,836,228
Total hospital and clinics patients accounts receivable	28,036,532	18,473,348
Other patient accounts receivable:		
Pharmacy	471,517	419,535
Dental	730,442	859,049
Other	628,042	732,486
Total other patient accounts receivable	1,830,001	2,011,070
Total patient accounts receivable	29,866,533	20,484,418
Less:		
Contractual allowances	13,443,140	9,569,131
Allowance for doubtful accounts	334,694	265,652
Patient accounts receivable - Net	\$ 16,088,699	\$ 10,649,635

The Corporation did not change its charity care policy or uninsured discount policies during the year ended September 30, 2017. 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

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### **Note 6: 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.

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, 2017, the Corporation has not been notified by the RAC or MIC of any potential significant reimbursement adjustments.

# Yukon-Kuskokwim Health Corporation

## Notes to Financial Statements

### Note 7: 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 medical transport services, both air transport and ground transport. 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.

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

	2017	2016
<b>Assets:</b>		
Current assets	\$ 26,089,047	\$ 19,628,647
Capital assets - Net	4,531,666	4,612,197
<b>Total assets</b>	<b>\$ 30,620,713</b>	<b>\$ 24,240,844</b>
<b>Liabilities and equity:</b>		
Current liabilities	\$ 2,754,884	\$ 2,477,103
Long-term liabilities	2,732,156	1,743,083
Member equity	25,133,673	20,020,658
<b>Total liabilities and equity</b>	<b>\$ 30,620,713</b>	<b>\$ 24,240,844</b>
<b>Equity allocable to the Corporation</b>	<b>\$ 12,397,663</b>	<b>\$ 9,841,156</b>

The gain allocable to the Corporation as of September 30, 2017 and 2016, was \$2,556,507 and \$2,659,005, 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, 2017 and 2016, was \$0 and \$23,076, respectively.

# Yukon-Kuskokwim Health Corporation

## Notes to Financial Statements

### Note 8: Capital Assets

Capital assets balances and activity for the year ended September 30, 2017, was as follows:

	Beginning Balance	Additions	Retirements and Transfers	Ending Balance
Depreciable capital assets:				
Buildings and leasehold improvements	\$ 132,405,416	\$ 1,074,584	\$ 12,991,715	\$ 146,471,715
Furnishings and equipment	52,247,726	2,287,458	1,258,329	55,793,513
<b>Total depreciable capital assets</b>	<b>184,653,142</b>	<b>3,362,042</b>	<b>14,250,044</b>	<b>202,265,228</b>
Less - Accumulated depreciation and amortization	86,970,660	10,620,519	(16,987)	97,574,192
<b>Depreciable capital assets - Net</b>	<b>97,682,482</b>	<b>(7,258,477)</b>	<b>14,267,031</b>	<b>104,691,036</b>
Nondepreciable capital assets:				
Artwork	112,783	27,720	-	140,503
Land	14,641,472	1,996,681	-	16,638,153
Construction in progress	38,303,976	65,179,416	(14,267,031)	89,216,361
<b>Total nondepreciable capital assets</b>	<b>53,058,231</b>	<b>67,203,817</b>	<b>(14,267,031)</b>	<b>105,995,017</b>
<b>Capital assets - Net</b>	<b>\$ 150,740,713</b>	<b>\$ 59,945,340</b>	<b>\$ -</b>	<b>\$ 210,686,053</b>

Construction in progress at September 30, 2017, 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 8: Capital Assets (Continued)

Capital assets balances and 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
<b>Total depreciable capital assets</b>	<b>169,931,696</b>	<b>14,721,446</b>	<b>-</b>	<b>184,653,142</b>
Less - Accumulated depreciation and amortization	77,707,647	9,263,013	-	86,970,660
<b>Depreciable capital assets - Net</b>	<b>92,224,049</b>	<b>5,458,433</b>	<b>-</b>	<b>97,682,482</b>
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
<b>Total nondepreciable capital assets</b>	<b>15,728,283</b>	<b>37,339,291</b>	<b>(9,343)</b>	<b>53,058,231</b>
<b>Capital assets - Net</b>	<b>\$ 107,952,332</b>	<b>\$ 42,797,724</b>	<b>\$ (9,343)</b>	<b>\$ 150,740,713</b>

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

	2017	2016
Capital assets - Net	\$ 210,686,053	\$ 150,740,713
Project Fund	39,642,889	-
Less:		
Long-term debt	110,139,613	7,749,174
Accounts payable - Construction	5,521,015	5,908,918
<b>Totals</b>	<b>\$ 134,668,314</b>	<b>\$ 137,082,621</b>

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 2017 and 2016 were \$148,727 and \$25,064,635, respectively.

# Yukon-Kuskokwim Health Corporation

## Notes to Financial Statements

### Note 8: Capital Assets (Continued)

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 9: Long-Term Debt

Long-term debt activity for the year ended September 30, 2017, were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount due within 1 year
Bond payable (1)	\$ 7,685,526	\$ -	\$ (7,685,526)	\$ -	\$ -
Note payable (2)	63,648	-	(63,648)	-	-
Conduit revenue loan payable (3)	-	100,715,000	-	100,715,000	-
Subtotal	7,749,174	100,715,000	(7,749,174)	100,715,000	-
AMBBA Loan Premium	-	9,738,267	(313,654)	9,424,613	-
<b>Total long-term debt</b>	<b>\$ 7,749,174</b>	<b>\$ 110,453,267</b>	<b>\$ (8,062,828)</b>	<b>\$ 110,139,613</b>	<b>\$ -</b>

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
Bond payable (1)	\$ 8,439,141	\$ -	\$ (753,615)	\$ 7,685,526	\$ 784,976
Note payable (2)	212,218	-	(148,570)	63,648	63,648
<b>Total long-term debt</b>	<b>\$ 8,651,359</b>	<b>\$ -</b>	<b>\$ (902,185)</b>	<b>\$ 7,749,174</b>	<b>\$ 848,624</b>

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

(1) 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. The bond payable was paid in full in 2017.

(2) Note payable due in monthly installments of \$12,839, including interest at 3.75%, secured by real property, and maturing in March 2017. The note payable was paid in full in 2017.

# Yukon-Kuskokwim Health Corporation

## Notes to Financial Statements

### Note 9: Long-Term Debt (Continued)

(3) The Alaska Municipal Bond Bank Authority (AMBBA) loaned the Corporation the proceeds, including the issuance premium, of a March 2017 general obligation bond. The loan is payable in annual installments ranging from \$2,155,000 to \$6,625,000, beginning in October 2021 and continuing until maturity in October 2046. Interest payments ranging from 3.0% to 5.5% are due semiannually each October and April, beginning in October 2017 and continuing until maturity. The Corporation has pledged its revenues as security for the loan.

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

	Principal	Interest	Total
2018	\$ -	\$ 2,416,619	\$ 2,416,619
2019	-	4,833,238	4,833,238
2020	-	4,833,238	4,833,238
2021	-	4,833,238	4,833,238
2022	2,155,000	4,800,913	6,955,913
2023-2027	12,130,000	22,540,963	34,670,963
2028-2032	15,210,000	19,433,594	34,643,594
2033-2037	18,470,000	16,098,125	34,568,125
2038-2042	22,895,000	11,455,213	34,350,213
2043-2047	29,855,000	4,280,238	34,135,238
<b>Totals</b>	<b>\$ 100,715,000</b>	<b>\$ 95,525,379</b>	<b>\$ 196,240,379</b>

# Yukon-Kuskokwim Health Corporation

## Notes to Financial Statements

### Note 10: Net Patient Service Revenue

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

	2017	2016
Gross patient service revenue	\$ 195,782,197	\$ 185,699,103
Less:		
Contractual allowances	93,015,659	83,398,216
Provision for bad debts	348,754	611,435
Charity care	2,144,199	1,735,260
Total adjustments	95,508,612	85,744,911
Net patient service revenue	\$ 100,273,585	\$ 99,954,192

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:

	2017	2016
Medicare	12 %	12 %
Medicaid	53 %	49 %
Other third-party payors	35 %	39 %
Totals	100 %	100 %

# Yukon-Kuskokwim Health Corporation

## Notes to Financial Statements

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### Note 11: 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 \$1,209,352 and \$949,468 for the years ended September 30, 2017 and 2016, respectively.

### Note 12: Nonrecurring Nonoperating Revenue

The Corporation received a legal settlement in 2017 related to contract support costs for 2012-2013 in the amount of \$5,361,782. In accordance with the provisions of the settlement agreement, the payment is not to be counted as contract support cost recovery for any year, for any purpose, including indirect cost rate and/or shortfall calculations.

### Note 13: 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:

	2017	2016
Health care services	\$ 127,366,277	\$ 116,419,857
General and administrative	45,284,561	43,774,110
Totals	\$ 172,650,838	\$ 160,193,967

# Yukon-Kuskokwim Health Corporation

## Notes to Financial Statements

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### **Note 14: 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.

# Yukon-Kuskokwim Health Corporation

## Notes to Financial Statements

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### Note 14: Commitments and Contingencies (Continued)

#### 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, 2017 and 2016.

#### 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, the bonuses are not considered to be earned until the anniversary date.

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

	Retention Amounts
2018	\$ 2,591,447
2019	2,980,164
Total	\$ 5,571,611

# Yukon-Kuskokwim Health Corporation

## Notes to Financial Statements

### Note 14: 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, 2017 and 2016, was \$1,005,966 and \$1,057,968, 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 \$1,365,500 and \$1,575,170 for 2017 and 2016, respectively, under these leases.

Minimum future payments under noncancellable operating leases consisted of the following at September 30, 2017:

	Service Agreements
2018	\$ 1,882,770
2019	538,980
2020	160,181
Total	\$ 2,581,931

### Note 15: 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, worked more than 1,000 hours, 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 years 2017 and 2016. Employee contributions to the Plan were \$3,684,379 and \$3,678,955 for the years ended September 30, 2017 and 2016, respectively. The Corporation recognized pension plan expenses of \$4,000,385 and \$4,284,047 for the years ended September 30, 2017 and 2016, respectively.

# Yukon-Kuskokwim Health Corporation

## Notes to Financial Statements

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### **Note 16: Reclassifications**

Certain reclassifications have been made to the 2016 financial statements to conform to the 2017 classifications.

### **Note 17: Subsequent Event**

#### **Long-Term Debt**

*Alaska Industrial Development and Export Authority (AIDEA) Loan Anticipation Revenue Notes, Series 2017* (the "AIDEA Loan"): The Corporation entered into a long-term debt agreement dated December 1, 2017 with AIDEA in the amount of \$161,975,000 to fund the new building project (Note 8). Interest at 3.5% is payable semiannually on each June 1 and December 1, commencing June 1, 2018, until maturity on December 1, 2020. The Corporation anticipates the AIDEA Loan will be redeemed prior to maturity or paid at maturity from the proceeds of a direct loan (the "USDA Loan") from the Department of Agriculture, acting through the United States Department of Agriculture (USDA). The USDA has provided a commitment to provide financing for the project pursuant to a letter of conditions dated December 5, 2016.

## **Supplementary Information**

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**Yukon-Kuskokwim Health Corporation**  
**Combining Statements of Net Position**

September 30, 2017

	General Account	Indian Health Service	State of Alaska Program	Federal Program	Other Programs	Reclassifications	Total
Current assets:							
Cash and cash equivalents	\$ 8,672,465	\$ 6,032,613	\$ -	\$ -	\$ -	\$ -	\$ 14,705,078
Receivables:							
Funding agencies	-	1,664,725	508,260	2,980,422	166,119	-	5,319,526
Patients - Net	(29,133)	14,829,651	-	-	-	1,288,181	16,088,699
Employee advances and relocation costs	316,153	-	-	-	-	-	316,153
Other	11,381	-	-	-	-	-	11,381
Investments	35,894,529	-	-	-	-	-	35,894,529
Prepaid expenses	2,699,753	-	-	-	-	-	2,699,753
Inventory	3,247,600	-	-	-	-	-	3,247,600
Current portion of employee home loans receivable	-	-	-	-	-	-	-
Current portion of student loans receivable	88,960	-	-	-	-	-	88,960
Due (to) from other funds	(225,822,895)	225,579,479	449,649	(1,030,970)	824,737	-	-
<b>Total current assets</b>	<b>(174,921,187)</b>	<b>248,106,468</b>	<b>957,909</b>	<b>1,949,452</b>	<b>990,856</b>	<b>1,288,181</b>	<b>78,371,679</b>
Noncurrent investments and other assets:							
Student loans receivable, less current portion	456,453	-	-	-	-	-	456,453
Employee home loans receivable, less current portion	21,619	-	-	-	-	-	21,619
Investment in Permanent Fund	91,629,468	-	-	-	-	-	91,629,468
Investment in LifeMed	12,397,663	-	-	-	-	-	12,397,663
Amounts restricted under bond indenture	71,046,055	-	-	-	-	-	71,046,055
<b>Total noncurrent investments and other assets</b>	<b>175,551,258</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>175,551,258</b>
Capital assets:							
Nondepreciable capital assets	104,300,511	1,685,567	-	-	8,939	-	105,995,017
Depreciable capital assets - Net	104,691,036	-	-	-	-	-	104,691,036
<b>Total capital assets - Net</b>	<b>208,991,547</b>	<b>1,685,567</b>	<b>-</b>	<b>-</b>	<b>8,939</b>	<b>-</b>	<b>210,686,053</b>
<b>TOTAL ASSETS</b>	<b>\$ 209,621,618</b>	<b>\$ 249,792,035</b>	<b>\$ 957,909</b>	<b>\$ 1,949,452</b>	<b>\$ 999,795</b>	<b>\$ 1,288,181</b>	<b>\$ 464,608,990</b>

**Yukon-Kuskokwim Health Corporation**  
**Combining Statements of Net Position (Continued)**

September 30, 2017

	General Account	Indian Health Service	State of Alaska Program	Federal Program	Other Programs	Reclassifications	Total
Current liabilities:							
Accounts payable and accrued expenses	\$ 7,911,765	\$ 903,366	\$ 19,193	\$ 122,774	\$ 25,382	\$ -	\$ 8,982,480
Accounts payable - Construction and equipment	5,521,015	-	-	-	-	-	5,521,015
Accrued salaries, leave, and benefits	10,046,019	54	-	-	-	-	10,046,073
Estimated third-party payor settlements	-	-	-	-	-	1,288,181	1,288,181
Unearned revenue	20,199	-	743,983	1,831,414	345,383	-	2,940,979
<b>Total current liabilities</b>	<b>23,498,998</b>	<b>903,420</b>	<b>763,176</b>	<b>1,954,188</b>	<b>370,765</b>	<b>1,288,181</b>	<b>28,778,728</b>
Long-term debt, less current portion	110,139,613	-	-	-	-	-	110,139,613
<b>Total liabilities</b>	<b>133,638,611</b>	<b>903,420</b>	<b>763,176</b>	<b>1,954,188</b>	<b>370,765</b>	<b>1,288,181</b>	<b>138,918,341</b>
Net position:							
Net investment in capital assets	132,973,808	1,685,567	-	-	8,939	-	134,668,314
Restricted for debt service	31,403,166	-	-	-	-	-	31,403,166
Unrestricted:							
Investment in Permanent Fund	91,629,468	-	-	-	-	-	91,629,468
General operations	(180,023,435)	247,203,048	194,733	(4,736)	620,091	-	67,989,701
<b>Total net position</b>	<b>75,983,007</b>	<b>248,888,615</b>	<b>194,733</b>	<b>(4,736)</b>	<b>629,030</b>	<b>-</b>	<b>325,690,649</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 209,621,618</b>	<b>\$ 249,792,035</b>	<b>\$ 957,909</b>	<b>\$ 1,949,452</b>	<b>\$ 999,795</b>	<b>\$ 1,288,181</b>	<b>\$ 464,608,990</b>

See accompanying notes to financial statements.

**Yukon-Kuskokwim Health Corporation**  
**Combining Statements of Revenues, Expenses and Changes in Net Position**

Year Ended September 30, 2017

	General Account	Indian Health Service	State of Alaska Program	Federal Program	Other Programs	Reclassifications	Total
<b>Operating revenues:</b>							
Net patient service revenue	\$ (411)	\$ 100,273,996	\$ -	\$ -	\$ -	\$ -	\$ 100,273,585
Funding agreement	-	76,998,946	-	-	-	-	76,998,946
Operating grant revenue	-	-	6,071,466	10,691,488	367,501	(148,728)	16,981,727
Intracompany	707,045	722,585	-	-	-	(1,429,630)	-
Other revenue	2,569,123	1,007,946	-	8,960	(38,550)	(24,589)	3,522,890
<b>Total operating revenues</b>	<b>3,275,757</b>	<b>179,003,473</b>	<b>6,071,466</b>	<b>10,700,448</b>	<b>328,951</b>	<b>(1,602,947)</b>	<b>197,777,148</b>
<b>Operating expenses:</b>							
Salaries	18,283,085	56,380,878	3,077,466	4,701,888	196,076	(2,369)	82,637,024
Benefits	4,405,331	12,387,810	676,635	1,042,994	42,482	(521)	18,554,731
Contracts and fees	7,993,203	11,022,756	166,045	872,613	33,078	(76,039)	20,011,656
Supplies	1,393,324	13,157,068	187,461	400,667	59,778	(684,073)	14,514,225
Utilities	4,548,060	506,271	178,512	7,460	-	-	5,240,303
Travel	739,674	4,921,979	287,874	958,372	21,538	(65,801)	6,863,636
Rental fees	1,159,964	2,529,545	17,381	8,760	-	(631,280)	3,084,370
Furniture and equipment	588,917	408,905	7,767	403,606	48,724	(68,042)	1,389,877
Government labor	-	943,420	-	-	-	-	943,420
Freight and postage	429,572	967,925	5,051	36,097	13	(6,701)	1,431,957
Dues and subscriptions	907,381	203,552	(42)	8,391	182	-	1,119,464
Insurance	1,216,451	-	-	-	-	-	1,216,451
Repairs and maintenance	(125,358)	981,644	69,799	8,636	-	(119)	934,602
Education, advertising, and licensing	685,442	985,078	81,507	118,927	9,484	(1,556)	1,878,882
Relocation	106,776	1,205,044	-	39,288	-	(65,672)	1,285,436
Depreciation and amortization	10,620,519	-	-	-	-	-	10,620,519
Other	1,712,982	92,902	15,872	112,091	(599)	(1,235,419)	697,829
<b>Total direct operating expenses</b>	<b>54,665,323</b>	<b>106,694,777</b>	<b>4,771,328</b>	<b>8,719,790</b>	<b>410,756</b>	<b>(2,837,592)</b>	<b>172,424,382</b>
Allocation of indirect expenses	(45,608,796)	42,342,944	1,300,138	1,971,672	(5,958)	-	-
<b>Total operating expenses</b>	<b>9,056,527</b>	<b>149,037,721</b>	<b>6,071,466</b>	<b>10,691,462</b>	<b>404,798</b>	<b>(2,837,592)</b>	<b>172,424,382</b>
<b>Operating income (loss) (carried forward)</b>	<b>(5,780,770)</b>	<b>29,965,752</b>	<b>-</b>	<b>8,986</b>	<b>(75,847)</b>	<b>1,234,645</b>	<b>25,352,766</b>

**Yukon-Kuskokwim Health Corporation**  
**Combining Statements of Revenues, Expenses and Changes in Net Position (Continued)**

Year Ended September 30, 2017

	General Account	Indian Health Service	State of Alaska Program	Federal Program	Other Programs	Reclassifications	Total
Operating income (loss) (brought forward)	\$ (5,780,770)	\$ 29,965,752	\$ -	\$ 8,986	\$ (75,847)	\$ 1,234,645	\$ 25,352,766
Nonoperating revenue (expense):							
Equity in gain of LifeMed	-	-	-	-	-	2,556,507	2,556,507
Investment income	9,678,414	-	-	-	-	(2,556,507)	7,121,907
Non-recurring	5,361,782	-	-	-	-	-	5,361,782
Financing fees	-	-	-	-	-	(1,234,645)	(1,234,645)
Interest expense	(226,456)	-	-	-	-	-	(226,456)
Total nonoperating revenue	14,813,740	-	-	-	-	(1,234,645)	13,579,095
Income before capital contributions, excess of revenue over expenses	9,032,970	29,965,752	-	8,986	(75,847)	-	38,931,861
Capital contributions	148,727	-	-	-	-	-	148,727
Increase (decrease) in net position	9,181,697	29,965,752	-	8,986	(75,847)	-	39,080,588
Net position, beginning of year	66,801,310	218,922,863	194,733	(13,722)	704,877	-	286,610,061
Net position, end of year	\$ 75,983,007	\$ 248,888,615	\$ 194,733	\$ (4,736)	\$ 629,030	\$ -	\$ 325,690,649
Expenses related to hospital operations	\$ 15,521,012	\$ 76,002,161	\$ -	\$ 54,305	\$ (8,092)		
Expenses related to nonhospital operations	39,144,311	30,692,616	4,771,328	8,665,485	418,848		
Total direct operating expenses	\$ 54,665,323	\$ 106,694,777	\$ 4,771,328	\$ 8,719,790	\$ 410,756		

See accompanying notes to financial statements.

**Yukon-Kuskokwim Health Corporation**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Skilled Nursing Facility**

*Year Ended September 30, 2017*

Operating revenues:	
Patient service revenue	\$ 5,704,920
Less - Contractual allowances	2,303,177
Net patient service revenue	3,401,743
Other revenue	5,688
Total operating revenues	3,407,431
Operating expenses:	
Salaries	2,616,541
Benefits	575,293
Contracts and fees	371,039
Supplies	244,532
Utilities	177,608
Travel	35,951
Rental fees	17,388
Furniture and equipment	3,066
Freight and postage	48,434
Dues and subscriptions	6,305
Repairs and maintenance	77,834
Education, advertising, and licensing	7,762
Depreciation and amortization	541,210
Relocation	64,399
Allocation of indirect expenses	1,722,024
Total operating expenses	6,509,386
Decrease in net position	\$ (3,101,955)

**Yukon-Kuskokwim Health Corporation**  
**Schedule of Capital Assets**  
**Skilled Nursing Facility**

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*Year Ended September 30, 2017*

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Capital assets being depreciated:

Buildings and leasehold improvements	\$ 16,182,186
Furnishings and equipment	399,164

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Total capital assets being depreciated	16,581,350
Less - Accumulated depreciation	2,010,981

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Capital assets being depreciated - Net 14,570,369

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Capital assets not being depreciated:

Artwork	5,500
Land	700,882

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Total capital assets not being depreciated 706,382

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Capital assets - Net \$ 15,276,751

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