

Yukon-Kuskokwim Health Corporation

Financial Statements and Supplementary Information

Years Ended September 30, 2019 and 2018

WIPFLi^{LLP}
CPAs and Consultants

Yukon-Kuskokwim Health Corporation

Years Ended September 30, 2019 and 2018

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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, 2019 and 2018, 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 audits. We conducted our audits 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 financial position of Yukon-Kuskokwim Health Corporation, as of September 30, 2019 and 2018, and the 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 11 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 49 through 54 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 27, 2020, 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 27, 2020
Spokane, Washington

Yukon-Kuskokwim Health Corporation

Management's Discussion and Analysis

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, 2019 and 2018. 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, 2019 and 2018, financial statements are presented in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34. The September 30, 2017, financial statements are not presented in the accompanying financial statements. The condensed September 30, 2017, financial information is presented consistent with 2019 and 2018.

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 2019 and 2018. 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 2019 and 2018 and include 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 four net position categories: investment in permanent fund, general operations, restricted for debt service, 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):

| | 2019 | 2018 | 2017 | FY 19 % Increase (Decrease) | FY 18 % Increase (Decrease) |
|---|-------------------|-------------------|-------------------|-----------------------------------|-----------------------------------|
| Assets: | | | | | |
| Current assets | \$ 167,170 | \$ 127,584 | \$ 78,372 | 31 % | 63 % |
| Capital assets - Net | 347,785 | 289,985 | 210,686 | 20 % | 38 % |
| Other assets | 229,992 | 285,222 | 175,551 | (19)% | 62 % |
| Total assets | \$ 744,947 | \$ 702,791 | \$ 464,609 | 6 % | 51 % |
| Liabilities: | | | | | |
| Current liabilities | \$ 34,664 | \$ 51,936 | \$ 28,779 | (33)% | 80 % |
| Noncurrent liabilities | 278,510 | 273,693 | 110,140 | 2 % | 148 % |
| Total liabilities | 313,174 | 325,629 | 138,919 | (4)% | 134 % |
| Net position: | | | | | |
| Net investment in capital assets | 138,248 | 123,790 | 134,668 | 12 % | (8)% |
| Restricted | 34,208 | 43,753 | 31,403 | (22)% | 39 % |
| Investment in Permanent Fund | 101,272 | 96,991 | 91,629 | 4 % | 6 % |
| General operations | 158,045 | 112,628 | 67,990 | 40 % | 66 % |
| Total net position | 431,773 | 377,162 | 325,690 | 14 % | 16 % |
| Total liabilities and net position | \$ 744,947 | \$ 702,791 | \$ 464,609 | 6 % | 51 % |
| Current assets to total assets | 22 % | 18 % | 17 % | | |
| Capital assets - Net, to total assets | 47 % | 41 % | 45 % | | |
| Working capital (current assets less current liabilities) | \$ 132,506 | \$ 75,648 | \$ 49,593 | 75 % | 53 % |

Yukon-Kuskokwim Health Corporation

Management's Discussion and Analysis (Continued)

Statements of Net Position (Continued)

The Corporation's 2019 statements of net position show an increase of 14% in total net position, 31% increase in current assets, 33% decrease in current liabilities, and 75% 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 capital assets - net is due to an ongoing building construction project expected to be complete in 2021.
- The decrease in other assets is primarily due to a significant decrease in restricted proceeds from debt issuances as funds are expended on the construction project.
- The decrease in current liabilities is primarily due to decreased construction in progress in accounts payable.
- The increase in working capital can be attributed primarily to current assets increasing due to increased investments and to current liabilities decreasing considerably due to less construction in progress in accounts payable at year-end.

Yukon-Kuskokwim Health Corporation

Management's Discussion and Analysis (Continued)

Statements of Net Position (Continued)

The Corporation's 2018 statements of net position show an increase of 16% in total net position, 63% increase in current assets, 80% increase in current liabilities, and 53% 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 capital assets - net is due to an ongoing building construction project expected to be complete in 2021.
- The increase in other assets is primarily due to a significant increase in restricted proceeds from debt issuances, an increase in permanent fund investments, and income from the investment in LifeMed.
- The increase in current liabilities is primarily due to increased accounts payable for construction and equipment.
- The increase in noncurrent liabilities is primarily due to a new debt issuance in 2018.
- 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 present 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)

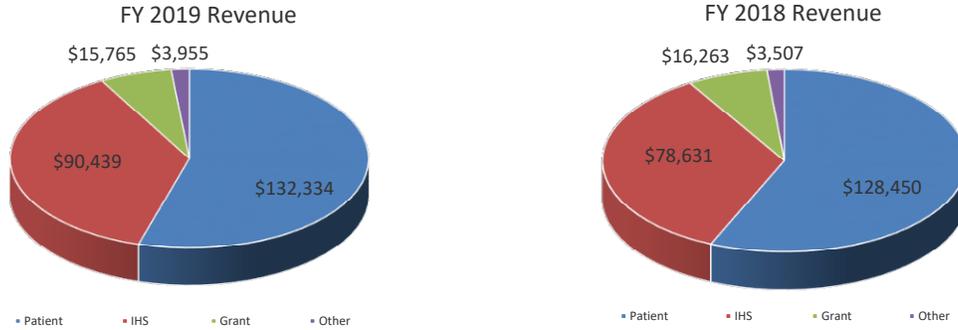
Statements of Revenues, Expenses, and Changes in Net Position (Continued)

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):

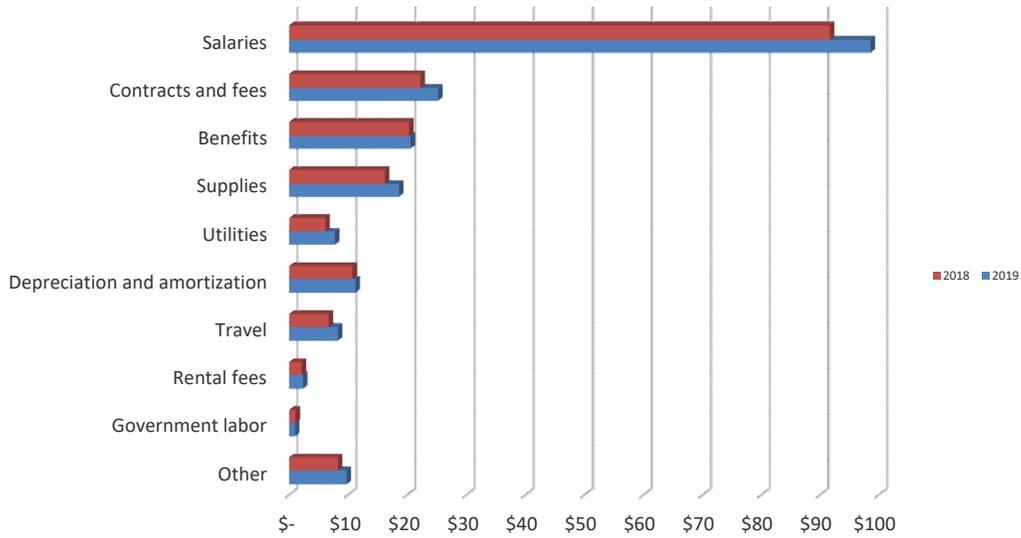
| | 2019 | 2018 | 2017 | FY 19 % Increase (Decrease) | FY 18 % Increase (Decrease) | % of total operating revenue 2019 |
|-------------------------------------|-------------------|-------------------|-------------------|-----------------------------------|-----------------------------------|--|
| Operating revenues: | | | | | | |
| Net patient service revenue | \$ 132,334 | \$ 128,450 | \$ 100,274 | 3 % | 28 % | 55 % |
| Funding agreement | 90,439 | 78,631 | 76,999 | 15 % | 2 % | 37 % |
| Operating grant revenue | 15,765 | 16,263 | 16,982 | (3)% | (4)% | 7 % |
| Other revenue | 3,955 | 3,507 | 3,523 | 13 % | - % | 2 % |
| Total operating revenues | 242,493 | 226,851 | 197,778 | 7 % | 15 % | 100 % |
| Operating expenses: | | | | | | |
| Salaries | 98,518 | 91,578 | 82,637 | 8 % | 11 % | 41 % |
| Benefits | 20,484 | 20,219 | 18,555 | 1 % | 9 % | 8 % |
| Contracts and fees | 25,154 | 22,157 | 20,012 | 14 % | 11 % | 10 % |
| Supplies | 18,514 | 16,139 | 14,514 | 15 % | 11 % | 8 % |
| Travel | 8,174 | 6,604 | 6,864 | 24 % | (4)% | 3 % |
| Utilities | 7,673 | 6,058 | 5,240 | 27 % | 16 % | 3 % |
| Depreciation and amortization | 11,140 | 10,636 | 10,621 | 5 % | 0 % | 5 % |
| Rental fees | 2,276 | 2,055 | 3,084 | 11 % | (33)% | 1 % |
| Government labor | 900 | 1,006 | 943 | (11)% | 7 % | 0 % |
| Other | 9,652 | 8,173 | 9,956 | 18 % | (18)% | 4 % |
| Total operating expenses | 202,485 | 184,625 | 172,426 | 10 % | 7 % | 84 % |
| Operating income | 40,008 | 42,226 | 25,352 | (5)% | 67 % | 16 % |
| Nonoperating revenues - Net | 11,996 | 9,010 | 13,579 | 33 % | (34)% | 5 % |
| Income before capital contributions | 52,004 | 51,236 | 38,931 | 1 % | 32 % | 21 % |
| Capital contributions | 2,607 | 236 | 149 | 1,005 % | 58 % | 1 % |
| Increase in net position | 54,611 | 51,472 | 39,080 | 6 % | 32 % | 23 % |
| Net position, beginning of year | 377,162 | 325,690 | 286,610 | 16 % | 14 % | 156 % |
| Net position, end of year | \$ 431,773 | \$ 377,162 | \$ 325,690 | 14 % | 16 % | 178 % |

Yukon-Kuskokwim Health Corporation Management's Discussion and Analysis (Continued)

A comparison of revenues by source for 2019 and 2018 follows (in thousands):



A comparison of expenses by natural class for 2019 and 2018 follows (millions):



Yukon-Kuskokwim Health Corporation

Management's Discussion and Analysis (Continued)

2019 Activity

The statements of revenues, expenses, and changes in net position reflect an overall increase in net position of 14%, or \$54,610,531, for 2019. Major factors contributing to these changes include:

Operating Revenues

- Net patient service revenue increased by \$3,883,372 in 2019, primarily due to increases in emergency room (ER), laboratory, and patient travel.
- Funding agreement revenue increased by \$11,807,247, or approximately 15%, in 2019.

Operating Expenses

Total operating expenses for 2019 increased by \$17,857,779. Contributing factors were as follows:

- Salaries increased by \$6,940,351, primarily due to a 3% increase in full-time equivalents (FTEs) during the year.
- Supplies increased by \$2,374,840, partly due to increases in medical-surgical and program supply expenses.
- Contracts and fees increased by \$2,997,371, primarily due to increased costs related to consulting and clinical engineering services.
- Other operating expenses increased by \$1,476,232, primarily due to the addition of computers and servers in 2019.

Nonoperating Revenues (Expenses)

Total nonoperating revenues (expenses) increased by \$2,985,270, primarily due to there being less financing fees and an increase in investment income.

Capital Contributions

Capital contributions increased by \$2,370,958 in 2019 over the prior year, primarily due to construction-related contributions.

Yukon-Kuskokwim Health Corporation

Management's Discussion and Analysis (Continued)

2018 Activity

The statements of revenues, expenses, and changes in net position reflect an overall increase in net position of 16%, or \$51,471,945, for 2018. Major factors contributing to these changes include:

Operating Revenues

- Net patient service revenue increased by \$28,176,827 in 2018, primarily due to increases in ER, inpatient, and skilled nursing facility gross revenues, and a decrease in contractual allowances due to improved collections on Medicaid claims.
- Funding agreement revenue increased by \$1,632,356, or approximately 2%, in 2018.

Operating Expenses

Total operating expenses for 2018 increased by \$12,202,342. Contributing factors were as follows:

- Salaries increased by \$8,940,836, primarily due to a 13% increase in FTEs during the year.
- Supplies increased by \$1,625,054, partly due to increases in lab and pharmaceutical supply expenses.
- Contracts and fees increased by \$2,145,069, primarily due to increased costs related to recruiting and outsourced billing.
- Other operating expenses decreased by \$1,779,470, primarily due to a reduction in the amount of relocation expense recognized in 2018.

Nonoperating Revenues (Expenses)

Total nonoperating revenues (expenses) decreased by \$4,568,623, primarily due to there being no nonrecurring revenues related to contract support cost settlements in 2018.

Capital Contributions

Capital contributions received remained relatively stable in 2018, increasing by \$87,006 over the prior year.

Yukon-Kuskokwim Health Corporation

Management's Discussion and Analysis (Continued)

Capital and Debt Activity

There was an increase in capital assets - net in fiscal year 2019 of \$57,799,554 and an increase of \$79,299,316 in fiscal year 2018. At September 30, 2019 and 2018, total long-term debt outstanding was \$278,672,692 and \$273,692,705, 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, 2019 and 2018

| | 2019 | 2018 |
|--|-----------------------|-----------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 19,454,707 | \$ 10,151,669 |
| Receivables: | | |
| Funding agencies | 4,238,953 | 2,958,828 |
| Patients - Net | 20,857,756 | 22,031,276 |
| Employee advances and relocation costs | 2,247,418 | 1,305,001 |
| Other | 21,700 | 78 |
| Investments | 113,101,163 | 85,184,827 |
| Prepaid expenses | 3,493,340 | 2,373,899 |
| Inventory | 3,600,424 | 3,454,652 |
| Current portion of student loans receivable | 154,743 | 123,400 |
| Total current assets | 167,170,204 | 127,583,630 |
| Noncurrent investments and other assets: | | |
| Student loans receivable, less current portion | 415,471 | 413,837 |
| Employee home loans receivable, less current portion | 19,819 | 20,699 |
| Investment in Permanent Fund | 101,272,407 | 96,990,886 |
| Investment in LifeMed | 21,174,881 | 16,568,310 |
| Amounts restricted under bond indenture | 107,109,372 | 171,228,272 |
| Total noncurrent investments and other assets | 229,991,950 | 285,222,004 |
| Capital assets: | | |
| Nondepreciable capital assets | 245,008,059 | 180,701,847 |
| Depreciable capital assets - Net | 102,776,864 | 109,283,522 |
| Total capital assets - Net | 347,784,923 | 289,985,369 |
| TOTAL ASSETS | \$ 744,947,077 | \$ 702,791,003 |

Yukon-Kuskokwim Health Corporation

Statements of Net Position (Continued)

September 30, 2019 and 2018

| | 2019 | 2018 |
|---|-----------------------|-----------------------|
| Current liabilities: | | |
| Current portion of long-term debt | \$ 162,832 | \$ - |
| Accounts payable and accrued expenses | 12,566,611 | 15,877,496 |
| Accounts payable - Construction and equipment | 3,765,792 | 19,977,422 |
| Accrued salaries, leave, and benefits | 10,869,517 | 10,880,655 |
| Estimated third-party payor settlements | 1,288,181 | 1,288,181 |
| Unearned revenue | 6,011,203 | 3,911,994 |
| Total current liabilities | 34,664,136 | 51,935,748 |
| Long-term debt | 278,509,860 | 273,692,705 |
| Total liabilities | 313,173,996 | 325,628,453 |
| Net position: | | |
| Net investment in capital assets | 138,248,337 | 123,790,715 |
| Restricted for debt service | 34,207,474 | 43,752,799 |
| Unrestricted: | | |
| Investment in Permanent Fund | 101,272,407 | 96,990,886 |
| General operations | 158,044,863 | 112,628,150 |
| Total net position | 431,773,081 | 377,162,550 |
| TOTAL LIABILITIES AND NET POSITION | \$ 744,947,077 | \$ 702,791,003 |

See accompanying notes to financial statements.

Yukon-Kuskokwim Health Corporation

Statements of Revenues, Expenses, and Changes in Net Position

Years Ended September 30, 2019 and 2018

| | 2019 | 2018 |
|---|-----------------------|-----------------------|
| Operating revenues: | | |
| Net patient service revenue | \$ 132,333,784 | \$ 128,450,412 |
| Funding agreement | 90,438,549 | 78,631,302 |
| Operating grant revenue | 15,765,390 | 16,263,423 |
| Other revenue | 3,954,878 | 3,507,283 |
| Total operating revenues | 242,492,601 | 226,852,420 |
| Operating expenses: | | |
| Salaries | 98,518,210 | 91,577,859 |
| Benefits | 20,484,243 | 20,218,825 |
| Contracts and fees | 25,154,096 | 22,156,725 |
| Supplies | 18,514,119 | 16,139,279 |
| Utilities | 7,672,630 | 6,058,224 |
| Travel | 8,174,456 | 6,603,800 |
| Rental fees | 2,275,760 | 2,054,727 |
| Furniture and equipment | 2,924,732 | 1,742,485 |
| Government labor | 899,634 | 1,006,267 |
| Freight and postage | 1,769,652 | 1,506,626 |
| Dues and subscriptions | 826,832 | 866,094 |
| Insurance | 1,240,518 | 1,296,985 |
| Repairs and maintenance | 984,756 | 1,092,907 |
| Education, advertising, and licensing | 967,602 | 1,010,315 |
| Relocation | 32,781 | - |
| Depreciation and amortization | 11,140,094 | 10,635,989 |
| Other | 904,388 | 659,617 |
| Total operating expenses | 202,484,503 | 184,626,724 |
| Operating income | 40,008,098 | 42,225,696 |
| Nonoperating revenues (expenses): | | |
| Equity in gain of LifeMed | 4,606,571 | 4,170,647 |
| Investment income | 7,726,975 | 6,262,224 |
| Financing fees | (27,051) | (1,275,698) |
| Interest expense | (310,753) | (146,701) |
| Total nonoperating revenues (expenses) | 11,995,742 | 9,010,472 |
| Income before capital contributions, excess of revenues over expenses | 52,003,840 | 51,236,168 |
| Capital contributions | 2,606,691 | 235,733 |
| Increase in net position | 54,610,531 | 51,471,901 |
| Net position, beginning of year | 377,162,550 | 325,690,649 |
| Net position, end of year | \$ 431,773,081 | \$ 377,162,550 |

See accompanying notes to financial statements.

Yukon-Kuskokwim Health Corporation

Statements of Cash Flows

Years Ended September 30, 2019 and 2018

| | 2019 | 2018 |
|---|----------------|---------------|
| Cash flows from operating activities: | | |
| Receipts from grants, contracts, and compacts | \$ 107,023,023 | \$ 98,226,437 |
| Receipts from programs, patients, and third-party billings | 133,507,304 | 122,507,835 |
| Other receipts | 2,990,839 | 2,529,738 |
| Payments to vendors | (76,918,054) | (59,486,552) |
| Payments for salaries and benefits | (119,013,591) | (110,962,102) |
| Net cash provided by operating activities | 47,589,521 | 52,815,356 |
| Cash flows from capital and related financing activities: | | |
| Purchase of capital assets | (76,293,240) | (65,379,041) |
| Principal paid on capital debt | (125,689) | - |
| Proceeds from issuance of capital debt | 6,750,000 | 163,782,665 |
| Capital contributions | 2,606,691 | 235,733 |
| Financing fees paid | (27,051) | (60,909) |
| Interest paid on capital debt | (10,813,115) | (7,384,594) |
| Net cash provided by (used in) capital and related financing activities | (77,902,404) | 91,193,854 |
| Cash flows from investing activities: | | |
| Proceeds from sale of investments | 283,357,760 | 483,627,702 |
| Purchase of investments | (247,930,170) | (632,749,390) |
| Proceeds from interest and dividends, net of broker fees | 4,553,807 | 745,744 |
| Loans granted over (under) principal payments received | (32,097) | 9,096 |
| Net cash provided by (used in) investing activities | 39,949,300 | (148,366,848) |
| Net increase (decrease) in cash and cash equivalents | 9,636,417 | (4,357,638) |
| Cash and cash equivalents at beginning of year | 13,205,295 | 17,562,933 |
| Cash and cash equivalents at end of year | \$ 22,841,712 | \$ 13,205,295 |

Yukon-Kuskokwim Health Corporation

Statements of Cash Flows (Continued)

Years Ended September 30, 2019 and 2018

| | 2019 | 2018 |
|---|----------------------|----------------------|
| Reconciliation of operating income to net cash provided by operating activities: | | |
| Operating income | \$ 40,008,098 | \$ 42,225,696 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation and amortization | 11,140,094 | 10,635,989 |
| Provision for bad debts | 1,132,758 | 1,737,423 |
| Changes in operating assets and liabilities: | | |
| Receivables: | | |
| Funding agencies | (1,280,125) | 2,360,698 |
| Patients - Net | 40,762 | (7,680,000) |
| Other | (964,039) | (977,538) |
| Prepaid expenses | (1,119,441) | 325,854 |
| Inventory | (145,772) | (207,052) |
| Accounts payable and accrued expenses | (3,310,885) | 2,588,689 |
| Accrued salaries, leave, and benefits | (11,138) | 834,582 |
| Unearned revenue | 2,099,209 | 971,015 |
| Net cash provided by operating activities | \$ 47,589,521 | \$ 52,815,356 |
| Reconciliation of cash and cash equivalents to the statements of net position: | | |
| Cash and cash equivalents | \$ 19,454,707 | \$ 10,151,669 |
| Amounts restricted under bond indenture: | | |
| Revenue fund | 3,317,301 | 3,053,626 |
| Concentration account | 69,704 | - |
| Total cash and cash equivalents | \$ 22,841,712 | \$ 13,205,295 |
| Noncash capital and financing activities: | | |
| Accounts payable - Construction and equipment | \$ 3,765,792 | \$ 19,977,422 |
| Accrued interest included in accounts payable | 4,306,327 | 4,306,327 |
| Capitalized amortization of bond premiums | 1,644,324 | 1,444,362 |
| Supplemental cash flow information: | | |
| Capitalized interest paid | \$ 10,502,362 | \$ 7,237,893 |
| Financing fees funded with issuance of long-term debt | - | 1,214,787 |

See accompanying notes to financial statements.

Yukon-Kuskokwim Health Corporation

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies

In accordance with the guidance established by the American Institute of Certified Public Accountants' (AICPA) 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 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 healthcare delivery system for 58 federally recognized tribes in southwest Alaska. The system includes 43 community clinics, five subregional 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 healthcare 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 cosigner of the Alaska Tribal Health Compact, a consortium that secures federal funding agreements with the federal government to provide healthcare 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.

The Corporation considers critical accounting estimates to be those which require more significant judgments and include the valuation of patient accounts receivable, including contractual allowances and the allowance for doubtful accounts.

Yukon-Kuskokwim Health Corporation

Notes to Financial Statements

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 payor 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

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 uncollectible accounts, which reflect management's 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 uncollectible 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 uncollectible accounts.

In evaluating the collectibility 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 uncollectible 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 uncollectible 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 uncollectible accounts.

Inventories

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

Yukon-Kuskokwim Health Corporation

Notes to Financial Statements

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.

Investment in Joint Venture

The investments in affiliated companies are accounted for under the equity method. The Corporation would recognize a loss when there is a loss in value in the equity method investment that 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 that 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 assets 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 under the straight-line method 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

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 on 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 in the year of issuance.

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

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, IHS Compact (the "IHS Compact") which provides for direct care including primary care, acute care, ancillary, and other healthcare services. The IHS Compact is not an insurance program. In general, all persons of Native American descent who belong to Native American communities are eligible for direct care at the Corporation.

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

Other Grants and Operating Revenue

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

Yukon-Kuskokwim Health Corporation

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Net Patient Service Revenue

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

Yukon-Kuskokwim Health Corporation

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Income Taxes

The Corporation is exempt from income taxes as a nonprofit corporation under Section 501(c)(3) of the Internal Revenue Code. The Corporation is an affiliate government unit as described by Revenue Procedure 95-48, 1995-2 C.B. 418, and is not required to file annual information return Form 990, Return of Organization Exempt From Income Tax.

Advertising Costs

Advertising costs are expensed as incurred.

Employee Retention Bonuses

Amounts earned under the employee retention bonus program are expensed when employees reach their anniversary date and the amount becomes payable.

Subsequent Events

Subsequent events have been evaluated through February 27, 2020, which is the date the financial statements were available to be issued.

New Accounting Policies

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This statement addresses accounting and financial reporting for liabilities associated with the legal obligation to perform future asset retirement obligations (AROs), which are legally enforceable liabilities associated with the retirement of tangible capital assets. The statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs, requiring recognition when the liability is both incurred and reasonably estimable. The guidance of this statement was effective for the Corporation's year ended September 30, 2019. The statement had an immaterial effect on the Corporation's financial statements for the year ended September 30, 2019.

Yukon-Kuskokwim Health Corporation

Notes to Financial Statements

Note 2: Deposits and Investments

Custodial Credit Risk - Cash and Cash Equivalents

At September 30, 2019 and 2018, bank balances were \$22,246,458 and \$15,145,006, 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, 2019:

| | Fair Value | Cost |
|----------------------------------|-----------------------|-----------------------|
| Money market funds | \$ 44,918,682 | \$ 44,918,656 |
| Commercial paper | 10,951,104 | 10,923,795 |
| Fixed income: | | |
| Government and corporate bonds | 132,154,338 | 130,908,862 |
| Other | 16,116,705 | 16,090,799 |
| Equities: | | |
| Domestic equities | 57,654,320 | 57,321,199 |
| International equities | 29,339,623 | 29,132,215 |
| Real estate and specialty assets | 319,359 | 319,359 |
| Alternative investments | 11,683,614 | 11,693,075 |
| Asset allocation investments | 7,336,474 | 7,365,000 |
| Accrued income on investments | 603,718 | 183,587 |
| Totals | \$ 311,077,937 | \$ 308,856,547 |

Yukon-Kuskokwim Health Corporation

Notes to Financial Statements

Note 2: Deposits and Investments (Continued)

Investments (Continued)

Investments consisted of the following at September 30, 2018:

| | Fair Value | Cost |
|----------------------------------|-----------------------|-----------------------|
| Money market funds | \$ 56,732,796 | \$ 56,732,796 |
| Commercial paper | 26,530,774 | 26,363,139 |
| Fixed Income: | | |
| Corporate bonds | 43,125,260 | 43,438,524 |
| Government bonds obligations | 141,195,316 | 141,478,028 |
| Domestic mutual funds | 2,809,165 | 2,840,300 |
| International mutual funds | 3,635,758 | 3,870,545 |
| Mortgage-backed securities | 393,576 | 397,953 |
| Other | 1,565,249 | 1,605,055 |
| Equities: | | |
| Domestic mutual funds | 17,342,723 | 11,477,795 |
| International mutual funds | 5,635,494 | 6,283,131 |
| Domestic equities | 18,269,779 | 14,136,673 |
| International equities | 6,103,915 | 5,749,140 |
| Other | 109,006 | 106,448 |
| Real estate and specialty assets | 18,849,622 | 18,991,977 |
| Accrued income on investments | 1,032,056 | - |
| Totals | \$ 343,330,489 | \$ 333,471,504 |

Maturities

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

| <i>Bond Maturity</i> | 2019 | 2018 |
|----------------------|-----------------------|-----------------------|
| Less than 1 year | \$ 62,282,665 | \$ 101,847,632 |
| 1-2 years | 24,135,399 | 66,927,240 |
| 3-5 years | 32,752,609 | 17,462,014 |
| 6-10 years | 11,109,362 | 2,149,933 |
| Over 20 years | 1,255,867 | 800,000 |
| Undisclosed | 16,735,141 | 1,578,680 |
| Totals | \$ 148,271,043 | \$ 190,765,499 |

Yukon-Kuskokwim Health Corporation

Notes to Financial Statements

Note 2: Deposits and Investments (Continued)

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

| | 2019 | 2018 |
|---------------------------------------|---------------------|---------------------|
| Decrease in fair value of investments | \$ (8,060,315) | \$ (520,299) |
| Net realized gains | 11,233,483 | 4,612,306 |
| Broker fees | (598,652) | (497,167) |
| Interest and dividends | 5,152,459 | 2,667,384 |
| Totals | \$ 7,726,975 | \$ 6,262,224 |

Credit Risk

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

| <i>Quality Rating</i> | 2019 | 2018 |
|-----------------------|-----------------------|-----------------------|
| AAA | \$ 42,175,589 | \$ 132,279,426 |
| AA | 47,576,063 | 18,799,935 |
| A | 24,124,977 | 21,922,777 |
| BAA | - | 11,225,582 |
| BBB | 16,097,568 | 72,676 |
| BB | 201,192 | - |
| Not rated | 18,095,654 | 20,180 |
| Totals | \$ 148,271,043 | \$ 184,320,576 |

Custodial Credit Risk - Investments

At September 30, 2019 and 2018, significantly all of the Corporation's investments were held with five 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

Note 2: Deposits and Investments (Continued)

Interest Rate Risk

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

- Maximizing earnings of the Corporation's funds invested in high-quality, low-risk securities.
- Investing 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 \$101,272,407 and \$96,990,886 at September 30, 2019 and 2018, respectively. These investments are not restricted, as defined by GASB; however, it is the intent of the Corporation to maintain the corpus of the fund intact in perpetuity.

Yukon-Kuskokwim Health Corporation

Notes to Financial Statements

Note 3: 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 general obligation bond proceeds from the Alaska Municipal Bond Bank Authority (AMBBA) related to the 2017A Series obligation (the "AMBBA Loan") and the Alaska Industrial Development and Export Authority (AIDEA) Loan Anticipation Revenue Notes, Series 2017 (the "AIDEA Loan") covenants require that as long as any of the loans 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, AIDEA Loan, and resultant Master Trust Indenture, the Corporation is required to deposit net revenue into this fund upon receipt for the purposes of paying the current portion of applicable 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 that 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. Principal and interest amounts for debt service on the applicable loans are expected to require approximately 8% of net revenues annually. There were no principal payments required on the applicable loans during the year ended September 30, 2019. Interest payments required on the applicable loans were \$10,502,362, and net revenues as defined in the agreement were \$136,288,662 for the year ended June 30, 2019.

Project Funds - The project funds were established with a trustee in association with the issuance of the AMBBA Loan and AIDEA Loan to complete a new clinic and various hospital remodeling projects, and to purchase equipment for the new facility. Accounts payable for construction and equipment reported in the statements of net position will be funded primarily through the Project Fund.

Capitalized Interest Accounts - The Capitalized Interest Accounts were established to provide for the payment of all or a portion of the interest accrued on the AMBBA Loan and AIDEA Loan during construction. Any amount remaining is to be paid to the Project Fund upon completion. The Capitalized Interest Accounts were funded with proceeds from the AMBBA Loan and AIDEA Loan. Accrued interest included in accounts payable reported in the statements of net position will be funded through the Capitalized Interest Accounts.

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 bond holder.

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.

Yukon-Kuskokwim Health Corporation

Notes to Financial Statements

Note 3: Amounts Restricted Under Bond Indenture (Continued)

As of September 30, 2019, the Corporation's amounts restricted under bond indenture were as follows:

| | Cash and Cash Equivalents | Investments | Interest Receivable | Due From Other Governments | Total |
|--------------------------------|------------------------------|----------------------|------------------------|----------------------------------|-----------------------|
| Revenue Fund | \$ 3,317,301 | \$ - | \$ - | \$ - | \$ 3,317,301 |
| Project Funds | 31,176,975 | 41,544,716 | 180,207 | - | 72,901,898 |
| Capitalized Interest Accounts | 14,116,413 | - | 8,204 | - | 14,124,617 |
| Reserve Account | - | 7,260,520 | - | 6,993,150 | 14,253,670 |
| Concentration account | 69,704 | - | - | - | 69,704 |
| Principal and Interest Account | - | 2,442,182 | - | - | 2,442,182 |
| Totals | \$ 48,680,393 | \$ 51,247,418 | \$ 188,411 | \$ 6,993,150 | \$ 107,109,372 |

As of September 30, 2018, the Corporation's amounts restricted under bond indenture were as follows:

| | Cash and Cash Equivalents | Investments | Interest Receivable | Due From Other Governments | Total |
|--------------------------------|------------------------------|----------------------|------------------------|----------------------------------|-----------------------|
| Revenue Fund | \$ 3,053,626 | \$ - | \$ - | \$ - | \$ 3,053,626 |
| Project Funds | 38,358,113 | 88,787,580 | 329,780 | - | 127,475,473 |
| Capitalized Interest Accounts | 24,170,822 | - | 14,351 | - | 24,185,173 |
| Reserve Account | - | 7,103,689 | - | 6,993,150 | 14,096,839 |
| Principal and Interest Account | - | 2,417,161 | - | - | 2,417,161 |
| Totals | \$ 65,582,561 | \$ 98,308,430 | \$ 344,131 | \$ 6,993,150 | \$ 171,228,272 |

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

Yukon-Kuskokwim Health Corporation

Notes to Financial Statements

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 U.S. 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.

Alternative investments: The fair value of certain alternative investments is based on the NAV per share as a practical expedient.

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

Yukon-Kuskokwim Health Corporation

Notes to Financial Statements

Note 4: Fair Value Measurements (Continued)

The Corporation's investments by level within the fair value hierarchy were as follows at September 30, 2019:

| | Level 1 | Level 2 | Level 3 | Total Assets at Fair Value |
|---|-----------------------|-----------------------|-------------|-------------------------------|
| Money market funds | \$ 602,276 | \$ 44,316,406 | \$ - | \$ 44,918,682 |
| Commercial paper | - | 10,951,104 | - | 10,951,104 |
| Fixed income: | | | | |
| Government and corporate bonds | 90,609,622 | 41,544,716 | - | 132,154,338 |
| Other | 16,116,705 | - | - | 16,116,705 |
| Equities: | | | | |
| Domestic equities | 47,365,131 | 10,289,189 | - | 57,654,320 |
| International equities | 23,655,267 | 5,684,356 | - | 29,339,623 |
| Real estate and specialty assets | 319,359 | - | - | 319,359 |
| Alternative investments | 263,075 | - | - | 263,075 |
| Asset allocation investments | 7,336,474 | - | - | 7,336,474 |
| Total investments measured at fair value | \$ 186,267,909 | \$ 112,785,771 | \$ - | \$ 299,053,680 |
| Alternative investments measured using NAV - | | | | |
| Hedge funds | | | | 11,420,539 |
| Accrued interest income on investments | | | | 603,718 |
| Total investments | | | | \$ 311,077,937 |

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 were as follows at September 30, 2018:

| | Level 1 | Level 2 | Level 3 | Total Assets at Fair Value |
|---|-----------------------|-----------------------|-------------------|-------------------------------|
| Money market funds | \$ 11,213,785 | \$ 45,519,011 | \$ - | \$ 56,732,796 |
| Commercial paper | - | 26,530,774 | - | 26,530,774 |
| Fixed income: | | | | |
| Corporate bonds | - | 43,125,260 | - | 43,125,260 |
| Government bond obligations | 51,608,341 | 89,586,975 | - | 141,195,316 |
| Domestic mutual funds | 2,009,165 | 800,000 | - | 2,809,165 |
| International mutual funds | 3,635,758 | - | - | 3,635,758 |
| Mortgage-backed securities | - | 393,576 | - | 393,576 |
| Other | - | 1,565,249 | - | 1,565,249 |
| Equities: | | | | |
| Domestic mutual funds | 17,342,723 | - | - | 17,342,723 |
| International mutual funds | 5,635,494 | - | - | 5,635,494 |
| Domestic equities | 18,269,779 | - | - | 18,269,779 |
| International equities | - | 6,103,915 | - | 6,103,915 |
| Other | 151,084 | (42,078) | - | 109,006 |
| Real estate and specialty assets | 17,929,949 | 150,546 | 769,127 | 18,849,622 |
| Total investments measured at fair value | \$ 127,796,078 | \$ 213,733,228 | \$ 769,127 | \$ 342,298,433 |
| Accrued interest income on investments | | | | <u>1,032,056</u> |
| Total investments | | | | <u><u>\$ 343,330,489</u></u> |

Yukon-Kuskokwim Health Corporation

Notes to Financial Statements

Note 4: Fair Value Measurements (Continued)

Information regarding the Corporation's investments in entities that calculate NAV per share or its equivalent at September 30, 2019, was as follows:

| | Type | Investment Strategy | Fair Value | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
|-------------------------------------|----------------|---------------------------|----------------------|----------------------|---|--------------------------|
| Hedge Fund Managers (Strategic) LTD | Hedge fund | Multi-strategy | \$ 8,514,239 | N/A | Quarterly after 12-month holding period | 91 days |
| Aptitude Partners LTD | Hedge fund | Multi-strategy, long-term | 2,826,300 | N/A | Quarterly, 1/12 of a subscription | 65 days |
| Vintage VIII Offshore SCSP | Private equity | Multi-strategy, long-term | 80,000 | \$ 3,120,000 | Upon fund liquidation | N/A |
| Private Equity Managers LP | Private equity | Multi-strategy, long-term | - | 2,000,000 | Upon fund liquidation | N/A |
| Totals | | | \$ 11,420,539 | \$ 5,120,000 | | |

Investments in entities that calculate NAV per share or its equivalent were insignificant to the financial statements taken as a whole at September 30, 2018.

Yukon-Kuskokwim Health Corporation

Notes to Financial Statements

Note 5: Patient Accounts Receivable

Patient accounts receivable consisted of the following at September 30:

| | 2019 | 2018 |
|--|---------------|---------------|
| Hospital and clinics patient accounts receivable: | | |
| Medicare | \$ 5,080,661 | \$ 5,266,497 |
| Medicaid | 16,558,284 | 19,056,188 |
| Other third-party payors | 5,733,062 | 6,282,643 |
| Noncoverage | 4,780,119 | 2,699,616 |
| Total hospital and clinics patient accounts receivable | 32,152,126 | 33,304,944 |
| Other patient accounts receivable: | | |
| Pharmacy | 463,266 | 468,226 |
| Dental | 891,436 | 716,108 |
| Other | 2,963,224 | 1,436,684 |
| Total other patient accounts receivable | 4,317,926 | 2,621,018 |
| Total patient accounts receivable | 36,470,052 | 35,925,962 |
| Less: | | |
| Contractual allowances | 14,968,414 | 13,300,631 |
| Allowance for doubtful accounts | 643,882 | 594,055 |
| Patient accounts receivable - Net | \$ 20,857,756 | \$ 22,031,276 |

Yukon-Kuskokwim Health Corporation

Notes to Financial Statements

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 healthcare 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 healthcare 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 healthcare providers has increased. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of fines and penalties, as well as repayments for patient services previously billed. 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 healthcare 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, 2019, the Corporation had 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 and ground transport. LMA has five site locations that it maintains and originates flights from. The sites are located in Anchorage, Bethel, Soldotna, Fairbanks, and Wolf Lake, Alaska.

LMA's 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 was as follows:

| | 2019 | 2018 |
|--|----------------------|----------------------|
| Assets: | | |
| Current assets | \$ 45,072,448 | \$ 34,970,366 |
| Capital assets - Net | 4,345,938 | 4,716,582 |
| Total assets | \$ 49,418,386 | \$ 39,686,948 |
| Liabilities and equity: | | |
| Current liabilities | \$ 2,925,396 | \$ 2,710,496 |
| Long-term liabilities | 3,804,883 | 3,501,486 |
| Member equity | 42,688,107 | 33,474,966 |
| Total liabilities and equity | \$ 49,418,386 | \$ 39,686,948 |
| Equity allocable to the Corporation | \$ 21,174,881 | \$ 16,568,310 |

The gain allocable to the Corporation as of September 30, 2019 and 2018, was \$4,606,571 and \$4,170,647, respectively.

Yukon-Kuskokwim Health Corporation

Notes to Financial Statements

Note 8: Capital Assets

Capital assets balances and activity for the year ended September 30, 2019, was as follows:

| | Beginning Balance | Additions | Retirements and Transfers | Ending Balance |
|--|-----------------------|----------------------|------------------------------|-----------------------|
| Depreciable capital assets: | | | | |
| Buildings and leasehold improvements | \$ 160,289,437 | \$ 33,922 | \$ 1,884,159 | \$ 162,207,518 |
| Furnishings and equipment | 57,204,266 | 2,715,355 | - | 59,919,621 |
| Total depreciable capital assets | 217,493,703 | 2,749,277 | 1,884,159 | 222,127,139 |
| Less - Accumulated depreciation and amortization | 108,210,181 | 11,140,094 | - | 119,350,275 |
| Depreciable capital assets - Net | 109,283,522 | (8,390,817) | 1,884,159 | 102,776,864 |
| Nondepreciable capital assets: | | | | |
| Artwork | 140,503 | - | - | 140,503 |
| Land | 16,670,489 | 27,239 | - | 16,697,728 |
| Construction in progress | 163,890,855 | 66,163,132 | (1,884,159) | 228,169,828 |
| Total nondepreciable capital assets | 180,701,847 | 66,190,371 | (1,884,159) | 245,008,059 |
| Capital assets - Net | \$ 289,985,369 | \$ 57,799,554 | \$ - | \$ 347,784,923 |

Construction in progress at September 30, 2019, was primarily costs related to a new hospital building project and housing construction. The estimated cost of the hospital building project and housing construction is approximately \$340,000,000 in total, including land, buildings, and equipment, with an approximate cost of \$95,900,000 to complete as of September 30, 2019. The project is anticipated to be completed in August 2020.

Yukon-Kuskokwim Health Corporation

Notes to Financial Statements

Note 8: Capital Assets (Continued)

Capital assets balances and activity for the year ended September 30, 2018, was as follows:

| | Beginning Balance | Additions | Retirements and Transfers | Ending Balance |
|--|-----------------------|----------------------|------------------------------|-----------------------|
| Depreciable capital assets: | | | | |
| Buildings and leasehold improvements | \$ 146,471,715 | \$ 222,474 | \$ 13,595,248 | \$ 160,289,437 |
| Furnishings and equipment | 55,793,513 | 1,410,753 | - | 57,204,266 |
| Total depreciable capital assets | 202,265,228 | 1,633,227 | 13,595,248 | 217,493,703 |
| Less - Accumulated depreciation and amortization | 97,574,192 | 10,635,989 | - | 108,210,181 |
| Depreciable capital assets - Net | 104,691,036 | (9,002,762) | 13,595,248 | 109,283,522 |
| Nondepreciable capital assets: | | | | |
| Artwork | 140,503 | - | - | 140,503 |
| Land | 16,638,153 | 32,336 | - | 16,670,489 |
| Construction in progress | 89,216,361 | 88,269,742 | (13,595,248) | 163,890,855 |
| Total nondepreciable capital assets | 105,995,017 | 88,302,078 | (13,595,248) | 180,701,847 |
| Capital assets - Net | \$ 210,686,053 | \$ 79,299,316 | \$ - | \$ 289,985,369 |

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

| | 2019 | 2018 |
|---------------------------------|-----------------------|-----------------------|
| Capital assets - Net | \$ 347,784,923 | \$ 289,985,369 |
| Project Fund | 72,901,898 | 127,475,473 |
| Less: | | |
| Long-term debt | 278,672,692 | 273,692,705 |
| Accounts payable - Construction | 3,765,792 | 19,977,422 |
| Totals | \$ 138,248,337 | \$ 123,790,715 |

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 is capitalized for financial reporting purposes and recorded as contributed capital in the period acquired. Capital contributions received in 2019 and 2018 were \$2,606,691 and \$235,733, respectively.

Yukon-Kuskokwim Health Corporation

Notes to Financial Statements

Note 9: Long-Term Debt

Long-term debt activity for the year ended September 30, 2019, was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Amount Due Within One Year |
|-----------------------------|-----------------------|---------------------|-----------------------|-----------------------|----------------------------------|
| AIDEA Loan (1) | \$ 161,975,000 | \$ - | \$ - | \$ 161,975,000 | \$ - |
| AMBBA Loan (2) | 100,715,000 | - | - | 100,715,000 | - |
| FNBA loan (3) | - | 6,750,000 | (125,689) | 6,624,311 | 162,832 |
| Subtotals | 262,690,000 | 6,750,000 | (125,689) | 269,314,311 | 162,832 |
| AMBBA Loan premium | 8,827,871 | - | (597,528) | 8,230,343 | - |
| AIDEA Loan premium | 2,174,834 | - | (1,046,796) | 1,128,038 | - |
| Total long-term debt | \$ 273,692,705 | \$ 6,750,000 | \$ (1,770,013) | \$ 278,672,692 | \$ 162,832 |

Long-term debt activity for the year ended September 30, 2018, was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Amount Due Within One Year |
|-----------------------------|-----------------------|-----------------------|-----------------------|-----------------------|----------------------------------|
| AIDEA Loan (1) | \$ - | \$ 161,975,000 | \$ - | \$ 161,975,000 | \$ - |
| AMBBA Loan (2) | 100,715,000 | - | - | 100,715,000 | - |
| Subtotals | 100,715,000 | 161,975,000 | - | 262,690,000 | - |
| AMBBA Loan premium | 9,424,613 | - | (596,742) | 8,827,871 | - |
| AIDEA Loan premium | - | 3,022,454 | (847,620) | 2,174,834 | - |
| Total long-term debt | \$ 110,139,613 | \$ 164,997,454 | \$ (1,444,362) | \$ 273,692,705 | \$ - |

Yukon-Kuskokwim Health Corporation

Notes to Financial Statements

Note 9: Long-Term Debt (Continued)

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

(1) *AIDEA Loan* - The Corporation entered into a long-term debt agreement dated December 27, 2017, with AIDEA in the amount of \$161,975,000, with an original premium of \$3,022,454, to provide interim financing for the new building project (Note 8). Proceeds were used to establish a project fund and capitalized interest account and pay costs of issuance. Interest-only payments at 3.5% are due semiannually on each June 1 and December 1, commencing on 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.

(2) The AMBBA Loan represents the proceeds loaned to the Corporation, 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.

(3) *Commercial R.E. Loan* - The Corporation entered into a long-term debt agreement dated September 15, 2017, with First National Bank Alaska, in the original amount of \$6,750,000 due in monthly installments of \$36,762, including interest at 4.25%, maturing in August 2043. Proceeds were used to establish construction/term financing for a 54-unit housing project in Bethel, Alaska. The Corporation did not draw on this loan until fiscal year 2019.

Yukon-Kuskokwim Health Corporation

Notes to Financial Statements

Note 9: Long-Term Debt (Continued)

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

| | Principal | Interest | Total |
|---------------|-----------------------|-----------------------|-----------------------|
| 2020 | \$ 162,832 | \$ 10,780,675 | \$ 10,943,507 |
| 2021 | 162,144,887 | 7,939,058 | 170,083,945 |
| 2022 | 2,332,247 | 5,064,810 | 7,397,057 |
| 2023 | 2,404,927 | 4,980,406 | 7,385,333 |
| 2024 | 2,502,939 | 4,870,243 | 7,373,182 |
| 2025-2029 | 14,397,566 | 22,438,469 | 36,836,035 |
| 2030-2034 | 17,816,848 | 19,024,819 | 36,841,667 |
| 2035-2039 | 21,662,381 | 15,058,880 | 36,721,261 |
| 2040-2044 | 27,029,684 | 8,974,604 | 36,004,288 |
| 2045-2049 | 18,860,000 | 1,592,800 | 20,452,800 |
| Totals | \$ 269,314,311 | \$ 100,724,764 | \$ 370,039,075 |

The AIDEA Loan and conduit revenue loan agreements contain various restrictive covenants including those relating to limitations on incurring additional debt, debt service coverage, days cash on hand, and other covenants.

Interest

A summary of interest cost and investment income was as follows for the years ended September 30:

| | Total | Capitalized Interest | Capitalized Amortization of Bond Premiums | Reported as Nonoperating Revenues (Expenses) |
|-------------------|---------------|-------------------------|--|---|
| 2019: | | | | |
| Interest cost | \$ 12,457,439 | \$ (10,502,362) | \$ (1,644,324) | \$ 310,753 |
| Investment income | 10,782,832 | (3,055,857) | - | 7,726,975 |
| 2018: | | | | |
| Interest cost | 9,790,251 | (8,199,188) | (1,444,362) | 146,701 |
| Investment income | 8,693,958 | (2,431,734) | - | 6,262,224 |

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:

| | 2019 | 2018 |
|-------------------------------|----------------|----------------|
| Gross patient service revenue | \$ 227,108,237 | \$ 209,951,075 |
| Less: | | |
| Contractual allowances | 90,193,364 | 78,306,992 |
| Provision for bad debts | 1,132,758 | 1,737,423 |
| Charity care | 3,448,331 | 1,456,248 |
| Total adjustments | 94,774,453 | 81,500,663 |
| Net patient service revenue | \$ 132,333,784 | \$ 128,450,412 |

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:

| | 2019 | 2018 |
|--------------------------|-------|-------|
| Medicare | 11 % | 11 % |
| Medicaid | 60 % | 57 % |
| Other third-party payors | 29 % | 32 % |
| Totals | 100 % | 100 % |

Yukon-Kuskokwim Health Corporation

Notes to Financial Statements

Note 11: Charity Care

The Corporation provides healthcare 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, healthcare 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 amount of charges foregone for services and supplies furnished under the Corporation's charity care policy aggregated to \$3,448,331 and \$1,456,248 for the years ended September 30, 2019 and 2018, respectively.

Note 12: Functional Expenses

The Corporation provides general healthcare 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:

| | 2019 | 2018 |
|----------------------------|-----------------------|-----------------------|
| Healthcare services | \$ 151,807,238 | \$ 136,667,181 |
| General and administrative | 50,988,018 | 48,106,244 |
| Totals | \$ 202,795,256 | \$ 184,773,425 |

Yukon-Kuskokwim Health Corporation

Notes to Financial Statements

Note 13: 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), and this coverage 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 that arise in programs funded by the IHS, 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 Compact. No provision for liability, if any, is included in the accompanying financial statements.

Yukon-Kuskokwim Health Corporation

Notes to Financial Statements

Note 13: Commitments and Contingencies (Continued)

Healthcare Reform

As a result of recently enacted federal healthcare reform legislation, substantial changes are anticipated in the United States' healthcare system. Such legislation includes numerous provisions affecting the delivery of healthcare services, the financing of healthcare costs, reimbursement of healthcare providers, and the legal obligations of health insurers, providers, and employers. The federal healthcare reform legislation does not affect the financial statements for the years ended September 30, 2019 and 2018.

Employee Retention Bonus Program

The Corporation has an employee retention bonus program. The program was designed to improve employee retention for positions that are difficult 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 |
|-------|----------------------|
| 2020 | \$ 5,354,289 |
| 2021 | 6,425,146 |
| Total | \$ 11,779,435 |

Yukon-Kuskokwim Health Corporation

Notes to Financial Statements

Note 13: 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, 2019 and 2018, was \$996,718 and \$774,922, 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 \$832,186 and \$862,943 for 2019 and 2018, respectively, under these leases.

Minimum future payments under noncancellable service and operating leases consisted of the following at September 30, 2019:

| | Amounts |
|-------|--------------|
| 2020 | \$ 1,934,740 |
| 2021 | 1,126,526 |
| 2022 | 808,781 |
| Total | \$ 3,870,047 |

Note 14: Pension Plans

The Corporation has a defined contribution plan that 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 2019 and 2018. Employee contributions to the Plan were \$3,955,202 and \$3,642,901 for the years ended September 30, 2019 and 2018, respectively. The Corporation recognized pension plan expenses of \$4,712,837 and \$4,774,288 for the years ended September 30, 2019 and 2018, respectively.

Note 15: Reclassifications

Certain reclassifications have been made to the 2018 financial statements to conform to the 2019 classifications.

Supplementary Information

Yukon-Kuskokwim Health Corporation
Combining Statement of Net Position

September 30, 2019

| | General Account | Indian Health Service | State of Alaska Program | Federal Program | Other Programs | Reclassifications | Total |
|--|-----------------------|--------------------------|----------------------------|---------------------|-------------------|---------------------|-----------------------|
| Current assets: | | | | | | | |
| Cash and cash equivalents | \$ 12,418,594 | \$ 7,036,113 | \$ - | \$ - | \$ - | \$ - | \$ 19,454,707 |
| Receivables: | | | | | | | |
| Funding agencies | - | 1,351,325 | 399,088 | 2,347,041 | 141,499 | - | 4,238,953 |
| Patients - Net | (19,612) | 19,589,187 | - | - | - | 1,288,181 | 20,857,756 |
| Employee advances and relocation costs | 2,247,418 | - | - | - | - | - | 2,247,418 |
| Other | 21,700 | - | - | - | - | - | 21,700 |
| Investments | 113,101,163 | - | - | - | - | - | 113,101,163 |
| Prepaid expenses | 3,493,340 | - | - | - | - | - | 3,493,340 |
| Inventory | 3,600,385 | 39 | - | - | - | - | 3,600,424 |
| Current portion of student loans receivable | 154,743 | - | - | - | - | - | 154,743 |
| Due (to) from other funds | (316,246,399) | 312,577,660 | (133,330) | 3,068,644 | 733,425 | - | - |
| Total current assets | (181,228,668) | 340,554,324 | 265,758 | 5,415,685 | 874,924 | 1,288,181 | 167,170,204 |
| Noncurrent investments and other assets: | | | | | | | |
| Student loans receivable, less current portion | 415,471 | - | - | - | - | - | 415,471 |
| Employee home loans receivable, less current portion | 19,819 | - | - | - | - | - | 19,819 |
| Investment in Permanent Fund | 101,272,407 | - | - | - | - | - | 101,272,407 |
| Investment in LifeMed | 21,174,881 | - | - | - | - | - | 21,174,881 |
| Amounts restricted under bond indenture | 107,109,372 | - | - | - | - | - | 107,109,372 |
| Total noncurrent investments and other assets | 229,991,950 | - | - | - | - | - | 229,991,950 |
| Capital assets: | | | | | | | |
| Nondepreciable capital assets | 240,465,150 | 4,536,942 | - | 5,967 | - | - | 245,008,059 |
| Depreciable capital assets - Net | 102,776,864 | - | - | - | - | - | 102,776,864 |
| Total capital assets - Net | 343,242,014 | 4,536,942 | - | 5,967 | - | - | 347,784,923 |
| TOTAL ASSETS | \$ 392,005,296 | \$ 345,091,266 | \$ 265,758 | \$ 5,421,652 | \$ 874,924 | \$ 1,288,181 | \$ 744,947,077 |

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

September 30, 2019

| | General Account | Indian Health Service | State of Alaska Program | Federal Program | Other Programs | Reclassifications | Total |
|---|-----------------------|--------------------------|----------------------------|---------------------|-------------------|---------------------|-----------------------|
| Current liabilities: | | | | | | | |
| Current portion of long-term debt | \$ 162,832 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 162,832 |
| Accounts payable and accrued expenses | 10,759,199 | 1,615,581 | 18,452 | 155,415 | 17,964 | - | 12,566,611 |
| Accounts payable - Construction and equipment | 3,765,792 | - | - | - | - | - | 3,765,792 |
| Accrued salaries, leave, and benefits | 10,869,517 | - | - | - | - | - | 10,869,517 |
| Estimated third-party payor settlements | - | - | - | - | - | 1,288,181 | 1,288,181 |
| Unearned revenue | 78,939 | - | 52,573 | 5,270,587 | 609,104 | - | 6,011,203 |
| Total current liabilities | 25,636,279 | 1,615,581 | 71,025 | 5,426,002 | 627,068 | 1,288,181 | 34,664,136 |
| Long-term debt, less current portion | 278,509,860 | - | - | - | - | - | 278,509,860 |
| Total liabilities | 304,146,139 | 1,615,581 | 71,025 | 5,426,002 | 627,068 | 1,288,181 | 313,173,996 |
| Net position: | | | | | | | |
| Net investment in capital assets | 133,705,428 | 4,536,942 | - | 5,967 | - | - | 138,248,337 |
| Restricted for debt service | 34,207,474 | - | - | - | - | - | 34,207,474 |
| Unrestricted: | | | | | | | |
| Investment in Permanent Fund | 101,272,407 | - | - | - | - | - | 101,272,407 |
| General operations | (181,326,152) | 338,938,743 | 194,733 | (10,317) | 247,856 | - | 158,044,863 |
| Total net position | 87,859,157 | 343,475,685 | 194,733 | (4,350) | 247,856 | - | 431,773,081 |
| TOTAL LIABILITIES AND NET POSITION | \$ 392,005,296 | \$ 345,091,266 | \$ 265,758 | \$ 5,421,652 | \$ 874,924 | \$ 1,288,181 | \$ 744,947,077 |

See Independent Auditor's Report.

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

Year Ended September 30, 2019

| | General Account | Indian Health Service | State of Alaska Program | Federal Program | Other Programs | Reclassifications | Total |
|--|--------------------|--------------------------|----------------------------|-------------------|------------------|--------------------|--------------------|
| Operating revenues: | | | | | | | |
| Net patient service revenue | \$ (33,549) | \$ 132,367,333 | \$ - | \$ - | \$ - | \$ - | \$ 132,333,784 |
| Funding agreement | - | 90,438,549 | - | - | - | - | 90,438,549 |
| Operating grant revenue | - | - | 5,171,053 | 12,837,668 | 363,360 | (2,606,691) | 15,765,390 |
| Intracompany | 695,179 | 1,002,483 | - | - | - | (1,697,662) | - |
| Other revenue | 2,814,044 | 1,140,834 | - | - | - | - | 3,954,878 |
| Total operating revenues | 3,475,674 | 224,949,199 | 5,171,053 | 12,837,668 | 363,360 | (4,304,353) | 242,492,601 |
| Operating expenses: | | | | | | | |
| Salaries | 19,723,258 | 70,997,969 | 2,724,229 | 5,276,015 | 200,137 | (403,398) | 98,518,210 |
| Benefits | 4,409,008 | 14,468,067 | 567,479 | 1,096,815 | 43,723 | (100,849) | 20,484,243 |
| Contracts and fees | 10,110,994 | 14,401,478 | 194,639 | 1,521,592 | 55,984 | (1,130,591) | 25,154,096 |
| Supplies | 1,629,217 | 16,863,423 | 182,971 | 579,737 | 64,079 | (805,308) | 18,514,119 |
| Utilities | 6,297,611 | 1,209,366 | 163,559 | 2,185 | - | (91) | 7,672,630 |
| Travel | 778,236 | 6,594,552 | 181,915 | 925,585 | 37,166 | (342,998) | 8,174,456 |
| Rental fees | 897,048 | 2,003,110 | 22,450 | 23,430 | - | (670,278) | 2,275,760 |
| Furniture and equipment | 1,065,907 | 1,353,408 | 17,156 | 913,251 | 100,787 | (525,777) | 2,924,732 |
| Government labor | - | 899,634 | - | - | - | - | 899,634 |
| Freight and postage | 474,233 | 1,206,519 | 2,781 | 182,152 | 8,618 | (104,651) | 1,769,652 |
| Dues and subscriptions | 682,856 | 137,450 | 176 | 6,277 | 73 | - | 826,832 |
| Insurance | 1,235,955 | 4,563 | - | - | - | - | 1,240,518 |
| Repairs and maintenance | 285,751 | 529,568 | 49,112 | 209,411 | 107,798 | (196,884) | 984,756 |
| Education, advertising, and licensing | 230,992 | 608,734 | 11,146 | 114,025 | 2,705 | - | 967,602 |
| Relocation | 10,881 | 40,424 | 195 | 4,397 | - | (23,116) | 32,781 |
| Depreciation and amortization | 11,140,094 | - | - | - | - | - | 11,140,094 |
| Other | 538,514 | 152,064 | 18,309 | 145,518 | 50,395 | (412) | 904,388 |
| Total direct operating expenses | 59,510,555 | 131,470,329 | 4,136,117 | 11,000,390 | 671,465 | (4,304,353) | 202,484,503 |
| Allocation of indirect expenses | (49,404,558) | 46,505,542 | 1,034,942 | 1,838,245 | 25,829 | - | - |
| Total operating expenses | 10,105,997 | 177,975,871 | 5,171,059 | 12,838,635 | 697,294 | (4,304,353) | 202,484,503 |
| Operating income (loss) (carried forward) | (6,630,323) | 46,973,328 | (6) | (967) | (333,934) | - | 40,008,098 |

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

Year Ended September 30, 2019

| | General Account | Indian Health Service | State of Alaska Program | Federal Program | Other Programs | Reclassifications | Total |
|---|-----------------|--------------------------|----------------------------|-----------------|----------------|-------------------|----------------|
| Operating income (loss) (brought forward) | \$ (6,630,323) | \$ 46,973,328 | \$ (6) | \$ (967) | \$ (333,934) | \$ - | \$ 40,008,098 |
| Nonoperating revenues (expenses): | | | | | | | |
| Equity in gain of LifeMed | - | - | - | - | - | 4,606,571 | 4,606,571 |
| Investment income | 12,333,546 | - | - | - | - | (4,606,571) | 7,726,975 |
| Financing fees | (27,051) | - | - | - | - | - | (27,051) |
| Interest expense | (310,753) | - | - | - | - | - | (310,753) |
| Total nonoperating revenues | 11,995,742 | - | - | - | - | - | 11,995,742 |
| Income before capital contributions, excess of revenues over expenses | 5,365,419 | 46,973,328 | (6) | (967) | (333,934) | - | 52,003,840 |
| Capital contributions | 2,606,691 | - | - | - | - | - | 2,606,691 |
| Increase (decrease) in net position | 7,972,110 | 46,973,328 | (6) | (967) | (333,934) | - | 54,610,531 |
| Net position, beginning of year | 79,887,047 | 296,502,357 | 194,739 | (3,383) | 581,790 | - | 377,162,550 |
| Net position, end of year | \$ 87,859,157 | \$ 343,475,685 | \$ 194,733 | \$ (4,350) | \$ 247,856 | \$ - | \$ 431,773,081 |
| Expenses related to hospital operations | \$ 19,936,592 | \$ 91,562,763 | \$ 4,948 | \$ 287,336 | \$ 295,547 | | |
| Expenses related to nonhospital operations | 39,573,963 | 39,907,566 | 4,131,169 | 10,713,054 | 375,918 | | |
| Total direct operating expenses | \$ 59,510,555 | \$ 131,470,329 | \$ 4,136,117 | \$ 11,000,390 | \$ 671,465 | | |

See Independent Auditor's Report.

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

Year Ended September 30, 2019

| | |
|---------------------------------------|--------------|
| Operating revenues: | |
| Patient service revenue | \$ 7,782,586 |
| Less - Contractual allowances | 756,164 |
| <hr/> | |
| Net patient service revenue | 7,026,422 |
| Other revenue | (9,361) |
| <hr/> | |
| Total operating revenues | 7,017,061 |
| <hr/> | |
| Operating expenses: | |
| Salaries | 2,779,012 |
| Benefits | 570,540 |
| Contracts and fees | 933,857 |
| Supplies | 184,672 |
| Utilities | 256,935 |
| Travel | 37,708 |
| Rental fees | 70,686 |
| Furniture and equipment | 73,323 |
| Freight and postage | 49,377 |
| Dues and subscriptions | 4,450 |
| Repairs and maintenance | 224,492 |
| Education, advertising, and licensing | 2,365 |
| Depreciation and amortization | 542,081 |
| Relocation | (5,031) |
| Allocation of indirect expenses | 1,840,788 |
| <hr/> | |
| Total operating expenses | 7,565,255 |
| <hr/> | |
| Decrease in net position | \$ (548,194) |

See Independent Auditor's Report.

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

Year Ended September 30, 2019

Capital assets being depreciated:

| | |
|--------------------------------------|---------------|
| Buildings and leasehold improvements | \$ 16,182,187 |
| Furnishings and equipment | 405,975 |

| | |
|--|------------|
| Total capital assets being depreciated | 16,588,162 |
| Less - Accumulated depreciation | 3,095,162 |

Capital assets being depreciated - Net 13,493,000

Capital assets not being depreciated:

| | |
|---------|---------|
| Artwork | 5,500 |
| Land | 700,882 |

Total capital assets not being depreciated 706,382

Capital assets - Net \$ 14,199,382

See Independent Auditor's Report.