AGENDA
COMMUNITY HEALTH SERVICES BOARD
Cordova Center – Community Room A&B
November 10, 2016 at 7:00PM
REGULAR MEETING

AT CCMC, WE BELIEVE THAT HEALTHY PEOPLE CREATE A HEALTHY COMMUNITY.

Health Service Board

President:
Tim Joyce Term expires 03/17
Vice-President:
Josh Hallquist Term expires 03/18
Secretary:
James Wiese Term expires 03/19
Board members:
James Burton Term expires 03/19
Tom Bailer Term expires 03/17
Robert Beedle Term expires 03/18
David Allison Term expires 03/19

CCMC CEO/Administrator
Scot Mitchell

OPENING

1. Call to Order
2. Roll Call –Tim Joyce, David Allison, James Burton, Tom Bailer, Josh Hallquist, Robert Beedle and James Wiese.
3. Establishment of a Quorum

A. APPROVAL OF AGENDA

B. CONFLICT OF INTEREST

C. COMMUNICATIONS BY AND PETITIONS FROM VISITORS

1. Audience Comments (limited to 3 minutes per speaker).
   Speaker must give name and agenda item to which they are addressing.
2. Guest Speaker

D. APPROVAL OF CONSENT CALENDAR

E. APPROVAL OF MINUTES

1. September 8, 2016 Regular Meeting Minutes Pages 2-4
2. September 13, 2016 Special Meeting Minutes Pages 5-6
3. October 13, 2016 Regular Meeting Minutes Pages 7-9

F. REPORTS OF OFFICER and ADVISORS

1. President's Report –
2. Administrator's Report – November CEO Report Attached Pages 10-12
3. Finance Report – August & September Financials Attached Pages 13-22
4. QHR Report – Ken Ward, Associate Vice President

G. CORRESPONDENCE

H. ACTION ITEMS

1. 2015 Audit Financial Statement Approval Pages 23-64
2. Amended 2017 CCMC Budget Pages 65-66

I. DISCUSSION ITEMS

1. HSB Governance Model Pages 67-70

J. AUDIENCE PARTICIPATION (limited to 3 minutes per speaker)

Members of the public are given the opportunity to comment on matters which are within the subject matter jurisdiction of the Board and are appropriate for discussion in an open session.

K. BOARD MEMBERS COMMENTS

L. EXECUTIVE SESSION

M. ADJOURNMENT

*Executive Session: Subjects that may be considered in executive session are: 1) Matters, immediate knowledge of which would clearly have an adverse effect upon the finances of the public entity; 2) Subjects that tend to prejudice the reputation and character of any person, provided that the person may request a public discussion; 3) Matters which by law, municipal charter, or ordinance are required to be confidential; 4) Matters involving consideration of governmental records that by law are not subject to public disclosure; 5) Direction to an attorney or labor negotiator regarding the handling of specific legal matters or labor negotiations.

Minutes
Community Health Services Board
Cordova Center – Community Rooms A & B
September 8, 2016 at 7:00pm
Regular Meeting

I. CALL TO ORDER AND ROLL CALL –

David Allison called the HSB regular meeting to order at 7:00pm. Board members present: **David Allison, Tom Bailer, Josh Hallquist and James Wiese.**
Robert Beedle, James Burton, and Tim Joyce were absent.
A quorum was established. 4 members present; 3 members absent.
CCMC staff present: Scot Mitchell, CEO; Stephen Sundby, Lee Bennett, Interim CFO; and Randy Apodaca, Rehab Services.

II. APPROVAL OF AGENDA

M/ Bailer S/ Hallquist "move to approve the agenda."
Vote on motion: 4 yeas, 0 nays, 3 absent.
Motion was approved.

III. CONFLICT OF INTEREST ~ None

IV. COMMUNICATIONS BY AND PETITIONS FROM VISITORS

1. **Audience Participation** ~ None
2. **Guest Speaker** ~ None

Tim Joyce arrived at 7:06pm

V. APPROVAL OF CONSENT CALENDAR ~ None

VI. APPROVAL OF MINUTES

1. **Minutes from the July 14, 2016 Regular HSB Meeting**
2. **Minutes from the August 11, 2016 Regular HSB Meeting**

M/ Bailer S/ Wiese "move to approve the minutes from the July 14, 2016 meeting and the August 11, 2016 meeting as presented."
Vote on motion: 5 yeas, 0 nays, 2 absent.
Motion was approved.

VII. REPORTS OF OFFICERS and ADVISORS ~ None

President's Report ~ Nothing to report at this time.
Administrator's Report ~ **Scot Mitchell** reported that his written report is in the packet. I just returned from the annual ASHNHA Conference in Soldotna. This was my first meeting with the Hospital Association, there was over 160 people in attendance. I'd like to tell you briefly about what the association's priorities are for the upcoming year. Some of the items that they're focusing on are Healthcare reform, and how it impacts payment issues. An interesting thing that was discussed is called Tribal Claiming, all of the tribal health entities in Alaska have come together to form a contracting entity rather than each village contracting independently. Other priorities are workforce recruitment and retention, quality inpatient safety, behavioral health is another issue that they're looking at as well.

We did receive a certificate from the Hospital Association for starting our Quality Improvement program up again. One of our Conditions of Participation is that our Governing body has to oversee our Quality Programs.
We have signed on three permanent Nurse's, and we have an interview set up for next week with a CFO candidate.
Tim Joyce asked what we have in the way of cross training in the hospital in the event that someone is out.
Scot replied that in most departments we have people who are cross trained and can step in and help.

Finance Report ~ Lee Bennett went over the June Financial information provided in the packet. Highlights were that the Total Operating Revenue was $860,253. This was $20,138 above budget. For the month of June the hospital generated a net loss of $28,473 and on a year to date basis has a net loss of $425,332. There are a couple of capital items that have come up are the Lab Blood Bank and the freezer door. A bit of good news is that we have received the tentative settle from the cost report that is $236,000. Along with that, the retried it back and that provided us with another $128,000.

Medical Director's Report ~ Nothing to report at this time.
Sound Alternatives Report ~ Nothing to report at this time.
Nursing Report ~ There will be some turnover in the Nursing Department, Mary Rios has decided to leave the beginning of October. We have contacted Dolly Dryer and she will be coming in to fill the role as the Interim DON. Also, LTC Coordinator Cyndi Casey's contract is coming up and she will be leaving as well, though we don't intend on filling that role as Dolly has done them both in the past.
Quorum Report ~ Ron Vigus reported that they have been doing some work regarding the revenue cycle and the cost report. A CFO Candidate will be coming to Cordova for an interview. We're still working with Materials Management with our GPO.

VIII. CORRESPONDENCE ~ None
IX. ACTION ITEMS ~ None

X. DISCUSSION ITEMS

1. Requested HSB Policy update

2. Tim Joyce Draft Policy

Allison prefaced by stating that there were two versions of the requested communication policy with CCMC staff, those are both in the packet for discussion.
Bailer responded that the simple policy submitted by Mr. Joyce seemed adequate. That he had to read the one done by the attorneys several times and there are a lot of duties for the HSB Secretary.
Joyce stated that he had to read the one submitted by the attorneys a couple times as well, and that in there's there are a lot of duties for the HSB Secretary and any of those not followed would be a grievance.
Allison commented that he thinks that the draft should be reviewed by someone.
Wiese asked Scot who is his designee when he is not at CCMC.
Scot responded that currently Stephen Sundby is covering for him when he is not in the facility. So he would be the representative or designee or whomever he would designate at that time.
Bailer commented that in reading further he is trying to figure out a way to be able to ask the Executive Assistant questions about the packet or the next meeting and still be following the policy.
Scot responded that the way he interprets it that Faith is like the Board representative for making sure that the meeting notices get posted, Agendas, packet and meetings are done. In my

eyes, I don't have a problem with you guys working directly with her on those types of things because that is part of her role to work with the HSB on those things.
Joyce interjected that that is something that can definitely be put into the draft.

Board concurred that Scot Mitchell will include language to the DRAFT Policy to include as an exemption, interactions with the Executive Assistant in regards to the HSB Meetings.

HSB Governance Structure
Scot reported that the attorneys had sent a draft and Mike Hicks the Acting City Manager and I will be meeting with them on Monday to go over the document and changes that need to be made.

The board discussed this further and this item will be coming back for discussion

XI. AUDIENCE PARTICIPATION ~ None

XII. BOARD MEMBERS COMMENTS
Joyce ~ I appreciate the reports that you're putting in the packets and I am looking forward to seeing some emails more often than once a month if you could do that. Also I would like a Special Meeting on Tuesday at 12pm, I think we should establish an election cycle for elections and if we have time we should do elections.
Hallquist ~ Thank you, Lee and your staff for all of your hard work.
Wiese ~ Nothing to add.
Bailer ~ Yes, Thank you.
Allison ~ Nothing to add

XIX. ADJOURNMENT –
M/ Bailer S/ Hallquist "I Move to adjourn the meeting."
Allison declared the meeting adjourned at 8:15pm.

Prepared by: Faith Wheeler-Jeppson

Minutes
Community Health Services Board
Cordova Center – Community Rooms A & B
September 13, 2016 at 12:00pm
Special Meeting

A. CALL TO ORDER AND ROLL CALL –

B. **David Allison** called the HSB special meeting to order at 7:00pm. Board members present: **David Allison, Tom Bailer, Tim Joyce, Josh Hallquist, Robert Beedle and James Wiese. James Burton was absent.**
A quorum was established. 6 members present; 1 member absent.
CCMC staff present: Scot Mitchell, CEO; and Lee Bennett, Interim CFO

C. APPROVAL OF AGENDA
M/ Hallquist S/ Bailer "move to approve the agenda."
Vote on motion: 6 yeas, 0 nays, 1 absent.
Motion was approved.

D. CONFLICT OF INTEREST ~ None

E. COMMUNICATIONS BY AND PETITIONS FROM VISITORS
1. **Audience Participation** ~ None
2. **Guest Speaker** ~ None

F. CORRESPONDENCE ~ None

G. DISCUSSION ITEMS ~ None

H. ACTION ITEMS

1. Establish an Election Cycle for the HSB
M/ Joyce S/ Bailer "motion to move the election cycle for HSB Officers to September."

Vote on motion: 6 yeas, 0 nays, 1 absent.
Motion was approved.

2. Election of Officers
M/ Bailer S/ Hallquist "move to elect Tim Joyce as President"
Vote on motion: 6 yeas, 0 nays, 1 absent.
Motion was approved.

M/ Bailer "move to elect Josh Hallquist as Vice President"
Vote on motion: 5 yeas, 1 nays, 1 absent.
Motion was approved.

M/ Bailer "move to elect James Wiese as Secretary"
Vote on motion: 6 yeas, 0 nays, 1 absent.
Motion was approved.

I. NEW BUSINESS

J. BOARD MEMBERS COMMENTS
Joyce ~ I agree with Dave on the governance model. There are so many conflicts between the bylaws and the code right now.
Hallquist ~ Nothing

Wiese ~ Nothing

Bailer ~ Maybe we could take 2 or three policies at a time per meeting.

Allison ~ We were hoping that the governance model was going to be further along, maybe we can get that up to speed. I think we're better off spending our time on the governance model than we are on the Bylaws since the Bylaws are going to change anyway.

Beedle ~ Thanks. We have a budget item for the hospital. What does the community get in return for subsidizing the hospital?

K. ADJOURNMENT –

M/ **S**/ "I Move to adjourn the meeting."

Joyce declared the meeting adjourned at 12:27pm.

Prepared by: Faith Wheeler-Jeppson

Minutes
Community Health Services Board
Cordova Center – Community Rooms A & B
October 13, 2016 at 7:00pm
Regular Meeting

A. CALL TO ORDER AND ROLL CALL –

Tim Joyce called the HSB regular meeting to order at 7:00pm. Board members present: **Tim Joyce, James Burton, Tom Bailer, and Robert Beedle.**
James Wiese, David Allison, and Josh Hallquist were absent.
A quorum was established. 4 members present; 3 members absent.
CCMC staff present: Scot Mitchell, CEO; Lee Holter, CFO; and Randy Apodaca, Rehab Services.

B. APPROVAL OF AGENDA
M/ Bailer S/ Burton "move to approve the agenda."
Vote on motion: 4 yeas, 0 nays, 3 absent.
Motion was approved.

C. CONFLICT OF INTEREST
Bailer stated that he has a rental contract with hospital, James **Burton** also offered that he rents to the hospital. Tim **Joyce** stated that there is no conflict of interest.

D. COMMUNICATIONS BY AND PETITIONS FROM VISITORS
1. **Audience Participation** ~ None
2. **Guest Speaker** ~ None

E. APPROVAL OF CONSENT CALENDAR ~ None

F. APPROVAL OF MINUTES ~ None

G. REPORTS OF OFFICERS and ADVISORS ~ None
President's Report ~ Nothing to report other than we will have a budget and governance model that we will be talking about.
Administrator's Report ~ **Scot Mitchell** the majority of what I had to discuss this evening is in my written report. I'm looking at moving the report to a different approach, instead of giving you the operational updates like we have been doing we're looking at more strategic and long term visionary discussions that we need from the board.
Finance Report ~ **Lee Bennett** reviewed the July Financials with the Board, Bennett reported that we didn't receive any grant monies in July, there wasn't anything exceptional but bad debt was up higher than normal. You will see that the August financials look better than July's. The facility has been consistently receiving grant monies for the Behavioral Health side, seniors and The Ride programs, those have been ongoing for years. I think that there are other opportunities out there for grants that I think would help the organization as well and that's one of the things that Administration is looking into.
Medical Director's Report ~ **Dr. Blackadar** reviewed the graphics provided to the board in the packet. Clinic visits are up, ER visits I do not anticipate changing, our Admits are up and Transfers are down. Dr. Sanders and I are very interested in the hospital doing well financially also, not necessarily making money, but not losing money. We're both thinking of ways that we can help that, on the cost side and on the revenue side.
Lee Holter reported on the August Financials that were provided as a lay down at the meeting. Holter pointed out cash was up at the end of august, but the following day was a payroll day so that pulled the total back down. We actually have a positive bottom line. In kind contributions are

up due to the CT scanner. So next month this will be in your board packet and I will be happy to answer any questions after you've had time to review it.

Quorum Report ~ Ken Ward, QHR Associate Vice President reported that he is happy that Lee Holter is here on site now. Now that the team is in place there we will continue to be here to support them. Starting next week I will be setting up a phone call with Lee Holter and QHR's folks here in Nashville to discuss the cost report process and we'll schedule a contractual bed debt review. Lastly, I am planning to visit the hospital in November.

H. CORRESPONDENCE ~ None

I. ACTION ITEMS

1. QI Quarterly Report.

M/ Bailer / Burton "Move to approve the QI Quarterly Report."
Vote on motion: 4 yeas, 0 nays, 3 absent.
Motion was approved.

2. Update Authorized Check Signers for CCMC.

M/ Beedle / Bailer "Move to approve the Resolution of the Cordova Community Health Services Board of the Cordova Community Medical Center designating the representatives authorized for signing check, non-check payroll tax payment, and cash Transfers for Cordova Community Medical Center."
Vote on motion: 4 yeas, 0 nays, 3 absent.
Motion was approved.

3. Approval of Board Interaction with Hospital Staff Policy.

M/ Burton / Bailer "Move to approve the Board Interaction with Hospital Staff Policy."
Vote on motion: 4 yeas, 0 nays, 3 absent.
Motion was approved.

4. Approval of Reporting of Suspected Crimes under the Federal Elder Justice Act Policy.

M/ Bailer / Burton "Move to approve the Reporting of Suspected Crimes under the Federal Elder Justice Act Policy."
Vote on motion: 4 yeas, 0 nays, 3 absent.
Motion was approved.

5. Approval of Abuse Prevention Recognition Reporting Policy.

M/ Bailer / Burton "Move to approve the Abuse Prevention Recognition Reporting Policy."
Vote on motion: 4 yeas, 0 nays, 3 absent.
Motion was approved.

6. Recredentialing and Privileging of Dr. Susan Beesley.

M/ Bailer / Burton "Move to approve the Recredentialing and Privileging of Dr. Susan Beesley."
Vote on motion: 4 yeas, 0 nays, 3 absent.
Motion was approved.

7. Recredentialing and Privileging of Dr. Charles Blackadar.

M/ Bailer / Burton "Move to approve the Recredentialing and Privileging of Dr. Charles Blackadar."
Vote on motion: 4 yeas, 0 nays, 3 absent.
Motion was approved.

8. Approval of the 2017 CCMC Budget

M/ Bailer / Burton "Recommend to send the 2017 CCMC Budget to City Council."
Vote on motion: 4 yeas, 0 nays, 3 absent.
Motion was approved.

J. DISCUSSION ITEMS

1. Proposed Governance Structure for HSB

The board went through the proposed Governance Structure and discussed the contents at length. Some items that stood out to the board were, the ex-officio members, appointment versus elected and whether some members of the Council should remain on the HSB.

The Chair asked the CEO to go back and make a few changes to the proposed Governance Structure and we will look at it again at the next meeting.

K. AUDIENCE PARTICIPATION ~ None

L. BOARD MEMBERS COMMENTS

Joyce ~ I appreciate the reports that you're putting in the packets and I am looking forward to seeing some emails more often than once a month if you could do that. Also I would like a Special Meeting on Tuesday at 12pm, I think we should establish an election cycle for elections and if we have time we should do elections.
Hallquist ~ Thank you, Lee and your staff for all of your hard work.
Wiese ~ Nothing to add.
Bailer ~ Yes, Thank you.
Allison ~ Nothing to add

M. ADJOURNMENT –

M/ Beedle S/ Bailer "I Move to adjourn the meeting."
Joyce declared the meeting adjourned at 9:45pm.

Prepared by: Faith Wheeler-Jeppson

Cordova Community
MEDICAL CENTER
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CEO Report to the HSB
November 10, 2016 Meeting
Scot Mitchell, CEO

The Big Picture

As I write this report, we are only a few days away from the most contentious Presidential election in our lifetimes. Hopefully we will know very soon who the next President will be and what some of their priorities will be, especially where it impacts the healthcare delivery system. The federal government is the largest payor of healthcare services in the United States, and they hold the keys to the future of our industry. Here are some areas that we will need to watch closely and see what, if anything, the incoming administration will address.

- The federal regulatory structure for healthcare adds enormous cost and complexity to very small CAHs like CCMC. There is currently no alternative model that allows small, frontier communities to maintain a hospital with low volumes of inpatients. There is a great need to develop an appropriate payment system along with corresponding quality metrics that are designed with frontier CAHs in mind.
- The long-term solvency of the Medicare program will have to be addressed by the next President and Congress. CMS has stated that Medicare costs will be reduced by more than $250 billion in 2016, and that they expect future payments to providers will mostly be based on quality and value of service. This has the potential to completely upend the way we provide healthcare services.
- Almost 13 million people signed up for the Affordable Care Act's marketplace policies in 2016. The premiums for 2017 are expected to increase on average 25%. While the ACA has decreased the number of uninsured people, there are still many without coverage. Many areas of the country will have fewer options to purchase health insurance next year. All of these changes can have a negative impact on how CCMC is paid for services moving forward.
- A recent report in *Health Affairs* found that every year physician practices spend 785 hours on average dealing with the reporting of quality measures. That amounts to more than 15 hours per week dealing with external quality measures. The cost for this averages just over $40,000 per physician per year. As mentioned above, CMS is pushing for more quality reporting and is expecting the majority of its future reimbursement will be based in part on these quality reports. All of these costs are being expended to try to get less reimbursement from the largest payor of healthcare in our country. For those practices in small frontier areas, this is just another piece of the rigid regulatory system we must deal with, just to provide services to our community.

Status Updates

- The surveys have been mailed out for our Community Health Needs Assessment. We are in the process of selecting a group of key community stakeholders to participate in key informant interviews as another part of the CHNA process. We still expect that the results will be compiled by mid-December, and then we will start working on the action plan to address issues uncovered in the process.
- We continue to experience many issues with our EHR system, Centriq. We have gone through several updates recently, which has resolved some issues, but also created others. It appears that one major cause of the problems was that the build of the system when it was installed last year was not accurate. In an effort to improve our performance in Centriq we are having two staff from Healthland come onsite to spend time with our staff next week working on addressing the many issues we are having. We are becoming more convinced that the current system will not be able to meet our ongoing needs, and are starting to look at the process of researching a new system.
- As mentioned in previous communication with the HSB, we have received our new interim rates from Medicare. The reduction in Part A hospital rates along with the very small increase in Medicare swing bed rates will have an overall negative impact on our contractual adjustments for 2017. Since this change is fairly significant, we will be presenting an amended 2017 operating budget for approval by the HSB at this meeting.
- We currently have a couple reviews and audits occurring at CCMC:
    - CMS is conducting a review of three physical therapy episodes from 2015, to look at why they were over the therapy cap limitations.
    - PERS will be onsite this week conducting an audit. They will look at a sample of our employee records to make sure we are in compliance with all PERS requirements.
    - The 2015 audited financial statements were completed and received this week. These will be included on the agenda for HSB approval at this meeting.
    - CMS notified us last week that due to the fact that CCMC did not submit quality data on claims submitted for patients seen by Dr. Blackadar in 2015, we will be penalized with a 2% reduction in payments for Dr. Blackadar's claims in 2017. CCMC has not submitted any PQRS data for any physician billing yet, and we are working diligently to correct that problem. This has required us to change several billing and accounting practices as well as additional training for our staff.
    - We must revalidate our CMS registration for the hospital and swing beds by the end of November. We must complete this or we will not be able to bill for Medicare services for the CAH and swing bed. This is a normal procedure that CMS requires every five years.
- The updated draft documentation for a possible change in the governance structure for CCMC has been sent to the HSB and is included on the agenda for another discussion at this meeting.
- We have been making significant strides in our efforts to increase the number of full time local staff. We now have full time local CEO, CFO and DON. We also have a full time laboratory manager and two new RNs, with another full time nurse expected to start in December.
- I recently met with Alan Lanning, City Manager, Cindy Appleton, City HR Manager and a representative from the TPA for the City and CCMC's health insurance program. We discussed several options to help reduce the cost of our health insurance as well as methods for improving the health status of our employees. I also requested and received specifics on the types of medical problems that lead to

claims for our employees. Not surprisingly, the largest cost for our health coverage is for prescription drugs, accounting for roughly 39% of the total payments made. No other single diagnosis resulted in claims being paid that were more than 4% of the total.

- QHR is conducting an analysis for our clinic to see if there is any benefit to look at converting our clinic into a Rural Health Clinic.
- As mentioned previously, I have been working on a new reporting format for our various operational statistics and financial indicators. Lee Holter, CFO and I have also started talking about ways to provide financial data in a more user friendly format, we will continue to work on this and will have something more useful for you in the near future.

New Activities

- Along with a couple other CCMC employees, I attended the Hale Borealis emergency preparedness conference in Anchorage last month. This was a good opportunity for us to learn from people involved in several recent large scale emergency events across North America. After seeing how others plan for and implement their emergency plans, I am still proud of what CCMC has already put in place. Even with the great work already done in emergency planning, we are still working to improve upon our ability to care for our community when the next disaster strikes.
- The new City Manager, Alan Lanning visited with me recently at the hospital. We discussed many issues specific to CCMC as well as the City. We conferred about the 2017 budget and the significant financial challenges that the City is faced with. I gave Alan a tour of the hospital and introduced him to the staff that was on duty. I look forward to working with Alan to improve Cordova!
- I held another "Lunch with the CEO" at the hospital recently. We had several key stakeholders from the community come in to listen to me explain some of the trends happening in healthcare and how CCMC is impacted by those trends. We also talked about how we are planning to continue improving CCMC in light of all the changes going on in healthcare. I invited James Wiese to this meeting and I will continue to invite an HSB member to each of these bi-monthly events so you can see some of the things we are doing.
- I am working on the components of the annual program evaluation that CAHs are required to do every year. This evaluation is a condition of participation in the CAH program. We are doing some of the required review areas through different mechanisms, so we will not have to conduct all of them at one time. We will have a meeting in the near future to go over all of these requirements. We will need an HSB member to sit in on these reviews, so I will be reaching out to the HSB soon to see who might be interested in participating.

Cordova Community Medical Center
Financial Narrative
August 2016

In August Hospital utilization was mixed with some areas up over July and some areas down. Overall billable services were down by 151 over July. It is noteworthy to mention there was virtually no swing bed utilization in August. With a decrease in utilization revenue for the month also decreased somewhat. For the Month of August the Hospital generated $781,882 in total patient revenue. This was $22,102 less than July but still $12,553 more than budget.

Deductions from revenue were $3,123. This was $235,478 less than July and $131,641 less than budget. Charity Care was $41,530 however I believe this is a misclassification and should really be in Bad Debt. Contractual Adjustments were a positive $20,605. This was $124,260 less than July and $114,990 less than budget. This was due to the receipt of the tentative settlement for the filed Medicare 2015 cost report and a lump sum payment for adjusting Medicare payment rates for fiscal year 2016. Bad Debts were a positive $17,801 but as stated above I believe should be $41,530 higher. This is still much less than July and still below budget due to how the bad debt allowance model works.

Cost recoveries were $614,085. This was considerably more than July and budget. Grants were up due to the receipt of monies for the Behavioral Health and Nutrition Transportation and Support grants. These monies were anticipated and bring year to date total much closer to budget. In-Kind Contributions were $321,113.4 which was also well above July and budget. This was mostly due to posting the payment by the City for the Hospital's CT scanner which had not been recorded previously. Other Revenue was a negative $10,053 due to reclassifying revenues from other to in-kind for appropriate accounting.

Due to the Medicare receipts, the grant receipts and the City in kind posting Total Operating Revenue – money we expect to receive – was $1,392,844. This was $687,586 above July and $552,730 above budget.

Total Expenses were $1,081,234. This was $74,137 above July and $239,287 above budget. Salaries and Wages were $9,344 below budget. Taxes and Benefits were above budget due to allocating costs that were in the liability account and accruing the August claims amount. Professional Services were $34,531 above budget due to playing catch up with a number of invoices from prior months and the continued need. This will decrease over the upcoming months as multiple positions have been filled with permanent staff, some starting in October and some in November. Minor Equipment and Supplies were both close to budget. Repairs and Maintenance were over budget by $22,513 due to equipment repairs in imaging, LTC van repair and the annual elevator maintenance contract. Rents and Leases continue to run above budget due to traveler usage. This should decrease over time as well as the need for travelers' decreases. Utilities continue to be over budget due to under budgeting the cost of internet/T1 lines and a reclassification of expenses. Travel and Training was above budget by $2,408 but is still under budget year to date. Insurances were below budget and have been running that way. Minimal recruitment and relocation expense this month but that will increase over the next few months as the newly hired staff begin their new lives here in Cordova. Depreciation continues to be over budget but more so this month due to adding the CT and portable ultrasound machines to the depreciation schedule and expensing the depreciation back to when these went into use. Also a small adjustment

was made to minor equipment depreciation expense to reconcile to the depreciation schedule. Other Expenses were under budget due to reallocating expenses to appropriate accounts.

For the month of August the Hospital generated a Net Income of $311,611 and on a year to date basis has reduced the Net Loss to $415,558.

On the Balance Sheet Cash looks pretty good however the next day was payroll and shortly thereafter many outstanding accounts payable were brought more current and as of this writing besides the one coming up this week there is only one PERS invoice outstanding. Accounts Receivable decreased by $336,146 and there is still plenty of room for improvement. Fixed Assets increased with the addition of the CT scanner. Accounts payable remained about the same and should decrease at the end of September. Other Liabilities increased with the receipt of City funding assistance for payroll.

Cordova Community Medical Center Statistics

2015	JAN-15	FEB-15	MAR-15	APR-15	MAY-15	JUN-15	JUL-15	AUG-15	SEP-15	OCT-15	NOV-15	DEC-15
Acute	2	3	7	8	16	3	10	2	11	6	7	2
Swing	31	3	55	60	60	62	18	45	12	10	19	0
Obs	4	5	8	3	4	5	8	6	26	37	36	35
LTC	310	280	308	287	307	300	274	273	388	309	300	310
Clinic	141	151	157	196	204	190	224	270	164	194	131	160
ER	23	46	49	40	104	73	104	97	47	56	37	39
BH	94	90	73	97	37	68	112	49	106	70	71	76
PT	224	197	280	347	321	224	319	345	216	170	296	269
OT	24	55	95	67	108	65	35	107	90	99	115	128
Lab	440	350	533	266	486	311	411	328	359	363	291	367
Xray	27	27	66	68	59	56	99	84	47	34	37	44
OP	8	5	2	4	1	12	4	2	15	12	20	3
Billable Services	1328	1212	1633	1443	1707	1369	1618	1608	1481	1360	1360	1433

2016	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16
Acute	16	15	18	22	26	20	11	10
Swing	10	40	32	37	24	46	25	0
Obs	113	111	135	65	171	68	174	129
LTC	310	290	310	297	310	298	292	310
Clinic	178	197	170	203	222	191	205	231
ER	52	45	52	52	59	79	85	74
BH	94	100	103	104	89	75	58	39
PT	319	344	349	401	326	396	291	324
OT	105	107	51	139	124	53	31	26
Lab	304	363	324	350	374	399	318	314
Xray	60	52	64	56	76	71	63	74
OP	4	2	5	2	8	6	2	3
Billable Services	1565	1666	1613	1728	1809	1702	1555	1404

Profit & Loss Statement

13:23

Application Code : GL

User Login Name:lbennett

Through August 2016

Description	Period Amount	Budget Amount	Period Variance	Year-To-Date Amount	Year-to-date Budget	Year-To-Date Variance
REVENUE						
Acute	59,113.83	30,838.75	28,275.08	495,305.06	246,710.00	248,595.06
Swing Bed	3,954.00	92,045.17	-88,091.17	580,554.82	736,361.36	-155,806.54
Long Term Care	361,200.14	346,378.16	14,821.98	2,819,505.19	2,771,025.28	48,479.91
Clinic	87,230.74	63,292.99	23,937.75	590,773.11	506,343.96	84,429.15
Outpatients-Other	244,208.60	188,519.91	55,688.69	1,694,162.79	1,508,159.32	186,003.47
Behavioral Health	26,175.00	48,254.34	-22,079.34	375,406.16	386,034.72	-10,628.56
Patient Services Total	781,882.31	769,329.32	12,552.99	6,555,707.13	6,154,634.64	401,072.49
DEDUCTIONS						
Charity	41,529.68	21,803.59	19,726.09	184,589.63	174,428.72	10,160.91
Contractual Adjustments	-20,605.25	94,385.00	-114,990.25	1,120,180.36	755,080.13	365,100.23
Bad Debt	-17,801.48	18,575.58	-36,377.06	288,018.88	148,604.64	139,414.24
Deductions Total	3,122.95	134,764.17	-131,641.22	1,592,788.87	1,078,113.49	514,675.38
COST RECOVERIES						
Grants	303,024.00	40,807.92	262,216.08	389,989.40	326,463.32	63,526.08
In-Kind Contributions	321,113.51	101,453.67	219,659.84	1,002,130.82	811,629.36	190,501.46
Other Revenue	-10,052.51	63,287.58	-73,340.09	625,524.35	506,300.64	119,223.71
Cost Recoveries Total	614,085.00	205,549.17	408,535.83	2,017,644.57	1,644,393.32	373,251.25
TOTAL REVENUES	1,392,844.36	840,114.32	552,730.04	6,980,562.83	6,720,914.47	259,648.36
EXPENSES						
Wages	285,094.56	294,438.56	-9,344.00	2,289,393.38	2,355,508.48	-66,115.10
Taxes & Benefits	281,387.19	201,959.51	79,427.68	1,455,792.53	1,615,689.04	-159,896.51
Professional Services	215,156.39	180,625.27	34,531.12	1,664,833.03	1,445,002.16	219,830.87
Minor Equipment	646.99	1,447.83	-800.84	26,119.18	11,582.64	14,536.54
Supplies	40,122.62	36,268.75	3,853.87	277,058.69	290,155.00	-13,096.31
Repairs & Maintenance	31,311.50	8,797.83	22,513.67	59,720.64	70,382.64	-10,662.00
Rents & Leases	16,920.51	10,196.99	6,723.52	122,225.01	81,575.92	40,649.09
Utilities	126,205.95	47,299.67	78,906.28	817,983.16	378,397.36	439,585.80
Travel & Training	6,749.71	4,340.93	2,408.78	31,821.78	34,727.44	-2,905.66
Insurances	14,354.57	17,220.74	-2,866.17	126,551.33	137,765.92	-11,214.59
Recruit & Relocate	508.75	7,838.34	-7,329.59	53,639.70	62,706.72	-9,067.02
Depreciation	67,620.82	22,360.92	45,259.90	365,226.56	178,887.36	186,339.20
Other Expenses	-4,845.75	9,151.09	-13,996.84	105,755.87	73,208.72	32,547.15
TOTAL EXPENSES	1,081,233.81	841,946.43	239,287.38	7,396,120.86	6,735,589.40	660,531.46
OPERATING INCOME	311,610.55	-1,832.11	313,442.66	-415,558.03	-14,674.93	-400,883.10
NET INCOME	311,610.55	-1,832.11	313,442.66	-415,558.03	-14,674.93	-400,883.10

Balance Sheet

13:25

Application Code : GL

User Login Name:lbennett

August 2016

Description	Year-To-Date Amount	Prior YTD Amount
ASSETS		
Cash & Cash Equivalents	795,335.72	155,035.65
Net Patient Receivables	867,912.89	1,146,106.90
Other Receivables	100,480.80	197,687.03
Fixed Assets	4,982,557.41	4,233,142.42
Prepaid Expenses	12,588.33	27,010.29
Inventory	181,186.77	280,408.04
TOTAL ASSETS	6,940,061.92	6,039,390.33
LIABILITIES		
Payables	931,103.19	2,558,027.51
Payroll Liabilities	606,534.97	460,372.66
Other Liabilities	3,184,252.19	145,996.11
TOTAL LIABILITIES	4,721,890.35	3,164,396.28
EQUITY/FUND BALANCE		
TOTAL FUND BALANCE	2,218,171.57	2,874,994.05
TOTAL LIABILITIES AND EQUITY	6,940,061.92	6,039,390.33

November 7, 2016

To the Board
Cordova Community Medical Center

RE: Preliminary September Report

This report is preliminary in that I do not have the September Financial Package complete at this time.

My first month has been a learning one and an interesting one. I am excited about the possibilities for Cordova Community Medical Center (CCMC) and the challenges I have learned about. There is great opportunity to work with staff in improving financial processes and outcomes.

I have found that we have significant issues in the Healthland Centriq Revenue Cycle system. We do have issues internally but those involve staff education and training, which we are taking steps to address. Those are solvable in the near term.

What gives me the most concern is those issues that the EHR system presents.

- Issues with the Doctors ordering module where they cannot see the ICD-10 codes which are required on the bill, but instead they see the SNOMED codes which were set up for the purpose of meaningful use under the HITECH Act that reimburses the hospitals for meeting various stages of the meaningful use act.
  The SNOMED codes and the ICD-10 codes are not cross linked in the system. So the Doctors see one thing and the Lab needs another (ICD-10), so there is a lot of back forth when the claim gets to Coding so the bill can be coded properly before it can be dropped.
  A lot of time the Doctors resort to a paper order in order to get understanding to the lab and X-ray techs, which defeats the purpose of having an integrated Medical Record system and meeting Meaningful use requirements.
- Labs ordered in the clinic do not register the patient in the hospital where the labs are preformed, requiring a second registration. Also labs ordered in the clinic do not get recorded statistically on the system for total department activity and work load activity.
- In the last update the ability to combine patient episodes was lost. E.G. a preregistration and an actual registration now cannot be combined for the actual procedure and be eliminated off the system.
- Recurring med orders for inpatients do not recur once the initial administration has be logged. The system drops the order. The only thing the Nurses have to go by is the doctors written notes in the chart. This also makes coding of the bill difficult and suspect if all charges are getting on the bill.
- A request for release of information, so that a patient can get the next level of care at another provider, does not print the complete chart, requiring staff to manually check and go into the system and print individual pages in order to get a complete chart to send on to the provider.
- Labs and Meds do not always drop on the claims, requiring additional checking by internal and external staff involved in coding and billing.

I could continue as there are numerous other issues. (I myself lost access to the General Ledger on last Thursday after an update was performed and could not get back on the system until Monday morning this week.)

We are working stringently with Healthland to address the issues we have, unfortunately there are several issues they know don't work and they are promising to have those fixed in the next release update, which is about 4 months away at this point.

On my reporting of financial reports in the future, I have included an AR Aging for September and the statistical report you will see with the monthly report. My monthly report will include a Chart of Days of Cash on hand at the end of each month, A Dashboard report showing key measurements against budget and prior periods the year before, and a report showing the payer mix percentage according to Financial class, (Medicare, Medicaid, commercial insurers, self-pay, etc.)

I trust I can have these reporting items in place at the December meeting and also we have made significant headway the issues we are dealing with on the Centriq system.

Respectfully.

Lee Holter
CFO
Cordova Community Medical Center

Cordova Community Medical Center Statistics

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	31	28	31	30	31	30	31	31	30	31	30	31		
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Cumulative Total	Monthly Average
Hosp Acute+SWB Avg. Census		29												
FY 2016	0.8	1.9	1.6	2.0	1.6	2.2	1.2	0.3	0.7					1.4
FY 2015	1.1	0.2	2.0	2.3	2.5	2.2	0.9	1.5	0.8	0.5	0.9	0.1		1.2
FY 2014														0.0
Acute Admits														
FY 2016	6	8	3	8	9	5	7	5	6				57	6.3
FY 2015													0	0
FY 2014													0	
Acute Patient Days														
FY 2016	16	15	18	22	26	20	11	10	18				156	17
FY 2015	2	3	7	8	16	3	10	2	11	6	7	2	77	6
FY 2014													0	0
SWB Admits														
FY 2016	2	2	0	2	1	3	1	0	1				12	1.3
FY 2015													0	0
FY 2014													0	
SWB Patient Days														
FY 2016	10	40	32	37	24	46	25	0	3				217	24
FY 2015	31	3	55	60	60	62	18	45	12	10	19	0	375	31
FY 2014													0	0
CCMC LTC Admits														
FY 2016	1	0	0	0	0	0	2	0	0				3	0
FY 2015	0	0	0	1	1	2	1	2	2	1	0	0	10	1
FY 2014													0	
CCMC LTD Resident Days														
FY 2016	310	290	310	297	310	298	292	310	300				2,717	302
FY 2015	310	280	308	287	307	300	274	273	388	309	300	310	3,646	304
FY 2014													0	0
CCMC LTC Avg. Census														
FY 2016	10.0	10.0	10.0	9.9	10.0	9.9	9.4	10.0	10.0					9.9
FY 2015	10.0	10.0	9.9	9.6	9.9	10.0	8.8	8.8	12.9	10.0	10.0	10.0		10
FY 2014	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0
ER Visits														
FY 2016	52	45	52	52	59	79	85	74	51				549	61
FY 2015	23	46	49	40	104	73	104	97	47	56	37	39	715	60
FY 2014													0	0

Cordova Community Medical Center Statistics

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	31 Jan	28 Feb	31 Mar	30 Apr	31 May	30 Jun	31 Jul	31 Aug	30 Sep	31 Oct	30 Nov	31 Dec	Cumulative	Monthly
Outpatient Registrations w/ER														
FY 2016									165				165	
FY 2015													0	0
FY 2014													0	0
PT Procedures														
FY 2016	319	344	349	401	326	396	291	324	489				3,239	360
FY 2015	224	197	280	347	321	224	319	345	216	170	296	269	3,208	267
FY 2014													0	0
OT Procedures														
FY 2016	105	107	51	139	124	53	31	26	36				672	75
FY 2015	24	55	95	67	108	65	35	107	90	99	115	128	988	82
FY 2014													0	0
Lab Tests														
FY 2016	304	363	324	350	374	399	318	314	319				3,065	341
FY 2015	440	350	533	266	486	311	411	328	359	363	291	367	4,505	375
FY 2014													0	0
X-Ray Procedures														
FY 2016	60	52	64	56	76	71	63	74	52				568	63
FY 2015	27	27	66	68	59	56	99	84	47	34	37	44	648	54
FY 2014													0	0
CT Procedures														
FY 2016									15				15	
FY 2015													0	0
FY 2014													0	0
CCMC Clinic Visits														
FY 2016	178	197	170	203	222	191	205	231	343				1,940	216
FY 2015	141	151	157	196	204	190	224	270	164	194	131	160	2,182	182
FY 2014													0	0
Behavioral Hlth Visits														
FY 2016	94	100	103	104	89	75	58	39	56				718	80
FY 2015	94	90	73	97	37	68	112	49	106	70	71	76	943	79
FY 2014													0	0

Cordova Community Medical Center
Gross AR Aging and Days in AR
September 2016

TOTAL

Gross A/R	0 - 30	31 - 60	61 - 90	91 - 120	121+	Totals		Sep Days In AR
Blue Cross	-	-	174	-	1,104	1,278		
Commercial	181,281	57,060	28,123	21,505	124,050	412,019		
Medicare	232,946	30,834	18,815	8,049	38,677	329,321		
Medicaid	29,754	5,235	13,487	35,686	64,081	148,242		
Other Govt payers	34,336	23,149	15,595	11,887	28,094	113,060		
Extended Pymt Terms	277	3	1,325	2,411	67,136	71,153		
Private Pay	42,785	53,007	29,542	44,064	176,037	345,435		
Long Term Care	258,946	23,716	(253,308)	201,840	166,647	397,840		
Work Comp	18,877	6,058	2,340	1,800	26,785	55,860		
Totals	799,201	199,062	(143,907)	327,242	692,611	1,874,209		58.6
						90,854	Credit Balances	
						1,965,062	Total AR	61.4

November 7, 2016

To: Health Service Board
Subject: Amended 2015 Audited Financial Statement

Suggested Motion: “I move to approve the 2015 Audited Financial Statement.”

CORDOVA COMMUNITY MEDICAL CENTER
(a Component Unit of the City of Cordova, Alaska)

LETTER TO THE BOARD

For the Year Ended December 31, 2015

November 4, 2016

ELGEE REHFELD MERTZ, LLC

CERTIFIED PUBLIC ACCOUNTANTS

9309 Glacier Highway, Suite B-200 • Juneau, Alaska 99801
907.789.3178 • FAX 907.789.7128 • www.ermcpa.com

November 4, 2016

Honorable Mayor, City Council and
Cordova Community Health Services Board
Cordova Community Medical Center
Cordova, Alaska

Dear Members:

We have audited the financial statements of Cordova Community Medical Center (the "Medical Center"), a component unit of the City of Cordova, as of and for the year ended December 31, 2015, and have issued our report thereon dated. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated January 1, 2016, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Medical Center solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and our network firms have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Medical Center is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2015. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

As described in Notes 1 and 8 to the financial statements, during the year, the Medical Center changed its method of accounting for pensions by adopting Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*. Accordingly, the cumulative effect of the accounting change as of the beginning of the year has been reported in the statement of revenues, expenses, and changes in net position (deficit).

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are management's estimate of the net realizable value of accounts receivable and the associated allowance for doubtful accounts.

Management's estimates of the net realizable value of accounts receivable and the associated allowance for doubtful accounts is based on historical collections of accounts receivable. We evaluated the key factors and assumptions used to develop the above mentioned values and determined that they are reasonable in relation to the basic financial statements taken as a whole.

Financial Statement Disclosures

The financial statement disclosures are neutral, consistent, and clear.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. Management has corrected all identified misstatements.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. The following material misstatements that we identified as a result of our audit procedures were brought to the attention of, and corrected by, management:

- To adjust grant revenue and receivables.
- To adjust waiver income and receivable.
- To accrue liability for year-end payroll costs.
- To adjust PERS on behalf payments to correct amount.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the Medical Center's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in the attached letter.

Management Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings or Issues

In the normal course of our professional association with the Medical Center, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Medical Center's auditors.

Other Information in Documents Containing Audited Financial Statements

Pursuant to professional standards, our responsibility as auditors for other information in documents containing the Medical Center's audited financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform any procedures to corroborate such other information. However, in accordance with such standards, we have read the information and considered whether such information, or the manner of its presentation, is materially inconsistent with its presentation in the financial statements.

Our responsibility also includes communicating to you any information which we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

Internal Control and Other Matters

Significant Deficiencies and Material Weakness in Internal Controls over Financial Reporting
As described in our *Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards,* we identified certain deficiencies in internal control over financial reporting that we consider to be either significant deficiencies, or a material weakness, as described below.

Finding 2015-001 - Material Weakness in Internal Controls over Financial Reporting – Reconciliation of Significant Balance Sheet Accounts

The Medical Center did not accurately reconcile several significant balance sheet accounts.

Finding 2015-002 - Significant Deficiency in Internal Controls over Financial Reporting – Internal Controls Over Disbursements

The Medical Center did not establish and maintain adequate policies and procedures related to internal controls over disbursements.

Finding 2015-003 - Significant Deficiency in Internal Controls over Financial Reporting – Backup of Accounting Software

The Medical Center did not perform sufficient backup of its accounting data.

This report is intended solely for the use of the Members of the Community Health Services Board, the City Council, and management of Cordova Community Medical Center and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

ERM

Cordova Community
MEDICAL CENTER

P: (907) 424-8000 | F: (907) 424-8116
P.O. Box 160 | 602 Chase Ave., Cordova, AK 99574-0160

November 4, 2016

Elgee Rehfeld Mertz, LLC, CPAs
9309 Glacier Highway, Suite B-200
Juneau, AK 99801

This representation letter is provided in connection with your audits of the financial statements of Cordova Community Medical Center as of and for the year ended December 31, 2015 and as of and for the year ended December 31, 2014, and the related notes to the financial statements, for the purpose of expressing an opinion on whether the basic financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows, where applicable, of Cordova Community Medical Center in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in the letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of November 4, 2016.

Financial Statements

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated January 1, 2016, for the preparation and fair presentation of the financial statements of the various opinion units referred to above in accordance with U.S. GAAP.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- We acknowledge our responsibility for compliance with the laws, regulations, and provisions of contracts and grant agreements.
- We have reviewed, approved, and taken responsibility for the financial statements and related notes.
- The internal controls over the receipt and recording of contributions are appropriate.

- We have a process to track the status of audit findings and recommendations.
- We have identified and communicated to you all previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- Adequate provisions have been made for:
    - Estimated adjustments to revenue, such as for denied claims, changes to diagnosis-related group (DRG) assignments, or other estimated retroactive adjustments by third-party payors.
    - Obligations related to third-party payor contracts, including risk sharing and contractual settlements.
    - Audit adjustments by intermediaries, third-party payors, or other regulatory agencies.
    - Obligations related to providing future services under prepaid health care service contracts.
    - Medical malpractice obligations expected to be incurred with respect to services provided through November 4, 2016.
- Recorded receivable valuation allowances are necessary, appropriate, and properly supported.
- The following have been properly recorded or disclosed in the financial statements:
    - Compliance with bond indentures or other debt instruments.
    - Agreements and settlements with third-party payors.
    - Professional liability insurance coverage information.
- Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
- All events subsequent to the date of the financial statements and for which U.S GAAP requires adjustment or disclosure have been adjusted or disclosed.
- There is no summary of unrecorded misstatements since all adjustments proposed by the auditor, material and immaterial, have been recorded.
- The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
- All component units, as well as joint ventures with an equity interest, are included and other joint ventures and related organizations are properly disclosed.
- All funds and activities are properly classified.
- All components of net position, non-spendable fund balance, and restricted, committed, assigned, and unassigned fund balance are properly classified and, if applicable, approved.
- Our policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position/fund balance are available is appropriately disclosed and net position/fund balance is properly recognized under the policy.

- All revenues within the statement of activities have been properly classified as program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
- All expenses have been properly classified in or allocated to functions and programs in the statement of activities, and allocations, if any, have been made on a reasonable basis.
- We implemented the provisions of Government Accounting Standards Board Statement No. 68 *Accounting and Financial Reporting for Pensions* (GASB 68), during fiscal year 2015. Cordova Community Medical Center considers the component of the Net Pension Liability attributable to contributions by the State of Alaska under AS 39.35.280 to be a 'Special Funding Situation' as defined by GASB 68 and has excluded that component from these financial statements. We understand that the Alaska Department of Law disagrees with this position and, in a memorandum dated August 3, 2015, issued a legal opinion that AS 39.35.280 does not create a special funding situation, requiring the State to incur debt and assume the unfunded liability of participating employers. Further, we understand that Cordova Community Medical Center will record the entire net pension liability, including the State's proportionate share, if the State of Alaska no longer contributes its proportionate share as measured by the annual State contributions and provided under Alaska Statute 39.35.280. By changing the existing statute to a higher rate above and up to the actuarially determined rate, Cordova Community Medical Center may be required to record some or all of the State's proportion and its contribution amounts will increase accordingly.
- All interfund and intra-entity transactions and balances have been properly classified and reported.
- Special items and extraordinary items have been properly classified and reported.
- Deposit and investment risks have been properly and fully disclosed.
- Capital assets, including infrastructure assets, are properly capitalized, reported, and if applicable, depreciated.
- All required supplementary information is measured and presented within the prescribed guidelines.

Information Provided

- We have provided you with:
    - Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements of the various opinion units referred to above, such as records, documentation, meeting minutes, and other matters;
    - Additional information that you have requested from us for the purpose of the audit;
    - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence;
    - All contracts with significant third-party payors or other providers; and
    - All reports and information related to peer review organizations, fiscal intermediaries, and third-party payors.

- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
    - Management;
    - Employees who have significant roles in internal control; or
    - Others where the fraud could have a material effect on the financial statements.
- We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, vendors, regulators, or others.
- We have disclosed to you all known instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements, including:
    - Violations or possible violations of laws or regulations, such as those related to the Medicare and Medicaid antifraud and abuse statutes, including but not limited to the Medicare and Medicaid Anti-Kickback Statute, Limitations on Certain Physician Referrals (the Stark law), and the False Claims Act, in any jurisdiction whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency (other than those disclosed or accrued in the financial statements); and
    - Communications, whether oral or written, from regulatory agencies, governmental representatives, employees, or others concerning investigations or allegations of noncompliance with laws and regulations in any jurisdiction, including those related to the Medicare and Medicaid antifraud and abuse statutes, deficiencies in financial reporting practices, or other matters that could have a material adverse effect on the financial statements.
- We have complied with all grants and donor restrictions.
- We are not aware of any pending or threatened litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
- We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance. In connection therewith, we specifically represent that we are responsible for determining that we are not subject to the requirements of the Single Audit Act and OMB Circular A-133. We have not engaged the entity to perform an audit in accordance with the Single Audit Act or OMB Circular A-133.
- Billings to third-party payors comply in all respects with applicable coding principles (for example, ICD-10-CM and CPT-4) and laws and regulations (including those dealing with Medicare and Medicaid antifraud and abuse), and billings only reflect charges for goods and services that were medically necessary, properly approved by regulatory bodies (for example, the Food and Drug Administration), if required, and properly rendered.
- With respect to cost reports:

- We have filed all required Medicare, Medicaid, and similar reports.
- We are responsible for the accuracy and propriety of all cost reports filed.
- All costs reflected on such reports are appropriate, allowable under applicable reimbursement rules and regulations, patient-related, and properly allocated to the applicable payor(s).
- The reimbursement methodologies and principles employed are in accordance with applicable rules and regulations.
- Adequate consideration has been given to, and appropriate provision made for, audit adjustments by intermediaries, third-party payors, or other regulatory agencies.
- All items required to be disclosed, including disputed costs that are being claimed to establish a basis for a subsequent appeal, have been fully disclosed in the cost report.
- Recorded third-party settlements include differences between filed (and to be filed) cost reports and calculated settlements, which are necessary based upon historical experience or new or ambiguous regulations that may be subject to differing interpretations. While management believes the entity is entitled to all amounts claimed on the cost reports, management also believes the amounts of these differences are appropriate.

- We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
- There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
- Cordova Community Medical Center has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
- We have disclosed to you all guarantees, whether written or oral, under which Cordova Community Medical Center is contingently liable.
- We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed in accordance with GASB Statement No. 62 (GASB-62), *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.
- We have identified and disclosed to you the laws, regulations, and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
- There are no:
    - Violations or possible violations of laws or regulations, or provisions of contracts or grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, including applicable budget laws and regulations.

- Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed in accordance with GASB-62.
- Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB-62.

- Cordova Community Medical Center has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset or future revenue been pledged as collateral, except as disclosed to you.
- We have complied with all aspects of grant agreements and other contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

Cordova Community Medical Center

Lee H Holter Date 11/4/16
Current Chief Financial Officer
Employed October 3, 2016

Date 11-4-16
Current Hospital Administrator
Employed June 27, 2016

CORDOVA COMMUNITY MEDICAL CENTER
(a Component Unit of the City of Cordova, Alaska)

FINANCIAL STATEMENTS

For the Year Ended December 31, 2015 and 2014

TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

ELGEE REHFELD MERTZ, LLC

CERTIFIED PUBLIC ACCOUNTANTS

9309 Glacier Highway, Suite B-200 • Juneau, Alaska 99801
907.789.3178 • FAX 907.789.7128 • www.ermcpa.com

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor, City Council and
Cordova Community Health Services Board
Cordova Community Medical Center
Cordova, Alaska

Report on the Financial Statements

We have audited the accompanying statements of net position of Cordova Community Medical Center, a component unit of the City of Cordova, as of December 31, 2015 and 2014, and the related statements of revenues, expenses, and changes in net position, statements of cash flows, and notes to financial statements, which collectively comprise Cordova Community Medical Center's basic financial statements.

Management's Responsibility for the Financial Statements

Cordova Community Medical Center's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; 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 of America and the standards applicable to financial audits contained in *Government Auditing Standard*s, 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 of 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 respects, the financial position of Cordova Community Medical Center as of December 31, 2015 and 2014, and the changes in its financial position and its cash flows for the year then ended, respectively, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Notes 1 and 8 to the financial statements, the Medical Center adopted the provision of Government Accounting Standards Board Statement No. 68 *Accounting and Financial Reporting for Pensions* during the year ended December 31, 2015. The implementation resulted in a reduction of the Medical Center's previously presented net position of $2,782,574. The Medical Center has determined the component of the net pension liability attributable to contributions by the State of Alaska under AS 39.35.280 a Special Funding Situation. Accordingly, it has not recorded a liability for the State of Alaska's proportionate share of the total net pension liability totaling $1,343,213 as of December 31, 2015.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary pension schedules on pages 27 and 28 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2016, on our consideration of Cordova Community Medical Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Cordova Community Medical Center's internal control over financial reporting and compliance.

November 4, 2016

CORDOVA COMMUNITY MEDICAL CENTER
(a Component Unit of the City of Cordova, Alaska)

STATEMENTS OF NET POSITION (DEFICIT)

December 31, 2015 and 2014

	2015	2014
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES:		
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,766	$ 314,246
Receivables:		
Patient accounts receivable, less allowance for doubtful accounts of $869,909 and $880,815 at December 31, 2015 and December 31, 2014, respectively	955,130	896,320
Other	62,255	236,763
Due from third party payors	236,400	-
Supplies inventory	135,374	134,897
Prepaid expenses	22,642	27,010
Total current assets	1,413,567	1,609,236
PROPERTY and EQUIPMENT, net	5,114,385	3,976,208
Total assets	6,527,952	5,585,444
DEFERRED OUTFLOWS OF RESOURCES -		
Contributions to pension plan and other	929,979	-
Total assets and deferred outflows of resources	7,457,931	5,585,444
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES:		
CURRENT LIABILITIES:		
Accounts payable	878,357	685,913
Accrued payroll and related liabilities	495,636	488,745
Payable to third party payors	-	336,000
Notes payable to the City of Cordova	2,174,611	1,274,611
Current portion of capital lease obligations	24,590	-
Current portion of long term debt	7,849	7,105
Total current liabilities	3,581,043	2,792,374
LONG TERM LIABILITIES:		
Long term debt, net of current portion	2,668	10,496
Obligations under capital leases, net of current portion	74,110	-
Net pension liability	5,015,100	-
Total liabilities	8,672,921	2,802,870
DEFERRED INFLOWS OF RESOURCES -		
Differences in pension earnings	88,788	-
Total liabilities and deferred inflows of resources	8,761,709	2,802,870
NET POSITION (DEFICIT):		
Net investment in capital assets	4,430,557	3,383,996
Restricted for:		
Van for long term care unit	13,035	11,903
Unrestricted (deficit)	(5,747,370)	(613,325)
Total net position (deficit)	$ (1,303,778)	$ 2,782,574

The accompanying notes to financial statements are an integral part of these statements.

CORDOVA COMMUNITY MEDICAL CENTER
(a Component Unit of the City of Cordova, Alaska)

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (DEFICIT)

For the years ended December 31, 2015 and 2014

	2015	2014
HOSPITAL OPERATING REVENUES AND EXPENSES:		
OPERATING REVENUES:		
Net patient service revenue	$ 6,809,089	$ 6,859,797
PERS on-behalf contribution	208,342	278,066
Rural Health Care Program - Universal Service Fund assistance	381,371	916,804
Other	34,454	42,010
Total operating revenues	7,433,256	8,096,677
OPERATING EXPENSES:		
Salaries and related benefits	5,484,078	5,707,521
Professional services	2,001,289	1,648,709
Facility	726,845	695,114
Depreciation	329,029	263,088
Medical supplies	237,878	266,318
Insurance	217,308	193,228
Other supplies	171,421	199,044
Other expenses	162,256	149,112
Repairs and maintenance	55,275	48,114
Small equipment	40,623	29,565
Training and travel	26,588	48,404
Total operating expenses	9,452,590	9,248,217
Operating loss from hospital activities	(2,019,334)	(1,151,540)
SOUND ALTERNATIVES AND OTHER OPERATING REVENUES AND EXPENSES:		
Sound Alternatives grant revenue	415,941	363,330
Sound Alternatives other revenue	415,705	587,789
Grant and other revenues	115,867	111,404
Other grant program expenses	(171,383)	(228,642)
Sound Alternatives program expenses	(662,577)	(829,105)
Sound Alternatives and other operating revenues and expenses, net	113,553	4,776
Operating loss	(1,905,781)	(1,146,764)
NONOPERATING REVENUES AND EXPENSES:		
Investment income	10	167
Interest expense	(9,839)	(9,250)
Donations	1,132	11,903
Nonoperating revenues and expenses	(8,697)	2,820
Loss before transfers and capital contributions	(1,914,478)	(1,143,944)
CAPITAL CONTRIBUTIONS	693,080	251,950
TRANSFERS IN:		
City of Cordova:		
Utility costs waived by the City of Cordova	25,790	28,134
Salaries and professional services paid by the City of Cordova	150,000	378,117
Total transfers in	175,790	406,251
Change in net position	(1,045,608)	(485,743)
Net position - beginning of period as previously reported	2,782,574	3,268,317
Restatement	(3,040,744)	-
Net position (deficit) - end of period	$ (1,303,778)	$ 2,782,574

The accompanying notes to financial statements are an integral part of these statements.

CORDOVA COMMUNITY MEDICAL CENTER
(a Component Unit of the City of Cordova, Alaska)

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2015 and 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patient services	$ 6,750,279	$ 7,798,799
Cash paid to other sources	(27,438)	(117,642)
Net cash from Sound Alternatives and grant programs	113,553	118
Cash paid to suppliers	(3,221,987)	(2,719,038)
Cash paid to employees	(4,135,680)	(4,753,621)
Net cash provided by (used for) operating activities	(521,273)	208,616
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Contribution proceeds restricted for specific purpose	1,132	11,903
Proceeds from City of Cordova loan	900,000	-
Transfer in from City of Cordova	98,700	-
Net cash provided by noncapital financing activities	999,832	11,903
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal payments on long term debt	(7,084)	(6,403)
Interest payments on long term debt	(9,839)	(9,250)
Purchase of property and equipment	(774,126)	(2,646)
Net cash used for capital and related financing activities	(791,049)	(18,299)
CASH FLOWS FROM INVESTING ACTIVITIES -		
Interest received	10	167
Net increase (decrease) in cash and cash equivalents	(312,480)	202,387
Cash and cash equivalents, beginning of year	314,246	111,859
Cash and cash equivalents, end of year	$ 1,766	$ 314,246

(Continued)

The accompanying notes to financial statements are an integral part of these statements.

CORDOVA COMMUNITY MEDICAL CENTER
(a Component Unit of the City of Cordova, Alaska)

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2015 and 2014

(Continued)

RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY
(USED FOR) OPERATING ACTIVITIES

	2015	2014
Operating loss	$ (1,905,781)	$ (1,146,764)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities:		
Depreciation	329,029	263,088
Pension expense	1,303,584	-
Bad debt expense, net of recovery	233,474	430,801
Utility costs waived by the City of Cordova	25,790	28,134
Salaries and professional services paid by the City of Cordova	150,000	378,117
Decrease (increase) in assets:		
Patient accounts receivable	(292,284)	508,201
Other receivables	174,508	(164,310)
Due from third party payors	(236,400)	-
Supplies inventory	(477)	(6,438)
Prepaid expenses	4,368	37,761
Deferred outflows of resources for pensions	(681,118)	-
(Decrease) increase in liabilities:		
Accounts payable	192,444	111,546
Payable to third party payors	(336,000)	(268,616)
Net pension liability	421,911	-
Deferred inflows of resources for pensions	88,788	-
Accrued payroll and related liabilities	6,891	37,096
Net cash provided by (used for) operating activities	$ (521,273)	$ 208,616
SUPPLEMENTAL DISCLOSURE:		
Schedule of non-cash, non-capital financing activity and capital and related financing activity that affects recognized assets and liabilities:		
Capital contributions	$ 693,080	$ 251,950

The accompanying notes to financial statements are an integral part of these statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Cordova Community Medical Center (the "Medical Center") is a 23-bed medical center owned by the City of Cordova, Alaska, and operated by the City Council sitting as the Community Health Services Board. For this reason, the Medical Center is considered to be a blended component unit of the City of Cordova and is included in its annual financial statements. The Medical Center provides acute inpatient and outpatient, as well as long-term care, and other community health care services.

Basis of Presentation

The financial statements of the Medical Center have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting standards which, along with subsequent GASB pronouncements (Statements and Interpretations) constitute GAAP for governmental units. The more significant of these accounting policies are described below.

The Medical Center implemented Government Accounting Standards Board Statement No. 68 *Accounting and Financial Reporting for Pensions* (GASB 68), during fiscal year 2015. The implementation resulted in the Medical Center restating and reducing net position as of December 31, 2014 by $3,040,744 from the amounts previously reported in order to recognize its proportionate share of net pension liability of $3,165,175 and deferred outflows for its defined benefit pension contributions of $124,431. As required by GASB 68, the standard was applied in the period of adoption. It has not been applied to the comparative financial statements for fiscal year 2014. The Medical Center's participation in other defined benefit retirement plans offered to its employees through the State of Alaska have not been impacted by GASB 68.

Proprietary Fund Accounting

The proprietary fund financial statements are prepared using the economic resources measurement focus. The Medical Center utilizes the proprietary fund method of accounting whereby revenue and expenses are recognized on the accrual basis. Substantially all revenues and expenses are subject to accrual.

Net position is categorized as follows:

- **Unrestricted Net Position** – Assets, net of related liabilities, which are not subject to externally imposed restrictions and are not considered invested in capital assets, net of related debt. Unrestricted net position may be designated for specific purposes by action of management or the Community Health Services Board or may otherwise be limited by contractual agreements with outside parties.
- **Restricted Net Position** – Net position whose use is constrained externally by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.
- **Investment in Capital Assets** – Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents
For purposes of the statements of cash flows, the Medical Center considers all highly liquid investments with a maturity of three months or less when purchased to be cash and cash equivalents.

Allowance for Doubtful Accounts
The Medical Center estimates doubtful accounts based on historical bad debts, factors related to the specific payer's ability to pay, and current economic trends. Receivables are written off when a balance is determined to be uncollectible.

Inventories
Inventories are stated at replacement cost, which approximates cost on a first-in, first-out method.

Property and Equipment
Property and equipment are carried at original acquisition cost or estimated fair market value at the time of donation. Depreciation is computed using the straight-line method at rates calculated to depreciate the cost of the assets over the following useful lives:

Description	Useful Life
Equipment	5-20 years
Building improvements	5-40 years
Buildings	5-40 years

Deferred Outflows and Inflows of Resources
In addition to assets and liabilities, the statements of net position (deficit) report separate sections for deferred outflows and inflows of resources. Deferred outflows of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred inflows of resources represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until then.

Pensions
For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Alaska Public Employees' Retirement System (PERS) and additions to/deductions from PERS's fiduciary net position have been determined on the same basis as PERS, and assuming the State's pension support under AS39.35.280 is a "Special Funding Situation" as defined by GASB 68. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Compensated Absences
The Medical Center's policy of paid days off (which includes vacation, sick leave, and holidays) allows full-time employees and regular part-time employees to accrue paid days off, to a maximum of 320 hours. Paid days off are accrued when incurred and reported as a liability.

Operating Revenues and Expenses and Nonoperating Items
The Medical Center distinguishes operating from nonoperating revenues and expenses. Operating revenues and expenses generally result from delivering services in connection with the Medical Center's principal ongoing operations. The principal operating revenues of the Medical Center are charges to patients for hospital and long-term care services provided, including mental health service revenue and expenses (Sound Alternatives). All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Net Patient Service Revenue
The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amount from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. 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.

Contributions of Capital
Contributions of capital in proprietary fund financial statements arise from outside contributions of capital assets, or from grant or outside contributions of resources restricted to capital acquisition and construction.

Transfers
Transfers between the primary government and component unit are required when revenue is generated in one fund and expenditures are paid from another fund.

Charity Care
The Medical Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates based on a sliding payment scale. Because the Medical Center does not expect payment, estimated charges for charity care are not included in revenue. Charity care charges are estimated to be $145,943 for the year ended December 31, 2015 and $110,520 for December 31, 2014.

Subsequent Events
The Medical Center has evaluated subsequent events through the date of the Independent Auditor's Report, which is commensurate with the date the financial statements were available to be issued.

Reclassifications
Certain balances from the year ended December 31, 2014 have been reclassified to conform to the current period financial statement presentation.

NOTE 2 – NET PATIENT SERVICE REVENUE

Net patient service revenue, as reported in the statements of revenues, expenses, and changes in net position, is reported net of bad debt expense and contractual allowances. Bad debt expenses were $233,474 for the year ended December 31, 2015 and $430,801 for the year ended December 31, 2014. Contractual allowances were $835,406 for the year ended December 31, 2015 and $1,093,357 for the year ended December 31, 2014.

The Medical Center has contractual agreements with several third-party payors that provide for prospective payment and cost reimbursement at specified rates. For the years ended December 31, 2015 2014, revenue and the related accounts receivable for such care are recorded at established rates and unreimbursed charges are accounted for as a contractual allowance, which is an adjustment to patient service revenue. A summary of the basis of reimbursement with major third-party payors follows:

- Medicare
  Inpatient acute care, outpatient hospital services, and swing beds rendered to Medicare program beneficiaries are paid based upon cost reimbursement methods. These cost reimbursements occur on an interim basis and these tentative rates are settled with final amounts determined after annual cost reports are submitted and audited by the Medicare Fiscal Intermediary. Long-term care services are paid based upon the RUGS payment system, a prospectively determined amount with rates that vary according to a classification system that is based upon clinical factors, with no final settlements.

- Medicaid
  Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed based upon a prospective reimbursement methodology. The Medical Center is reimbursed at a prospective rate from an adjusted four-year prior rate, plus a four-year inflation add-on rate. In management's opinion, the final contractual allowances for the year ended December 31, 2015 and 2014 will not be significantly different from the estimates reflected in the accompanying financial statements.

NOTE 3 – CAPITAL ASSETS

The Medical Center owns land, buildings, equipment and construction work in progress as follows:

	Balance at December 31, 2013	Additions	Transfers and Retirements	Balance at December 31, 2014	Additions	Transfers and Retirements	Balance at December 31, 2015
Land	$ 122,010	$ -	$ -	$ 122,010	$ -	$ -	$ 122,010
Buildings	6,951,302	-	-	6,951,302	55,461	-	7,006,763
Building improvements	3,639,912	-	(26,751)	3,613,161	-	-	3,613,161
Equipment	1,509,599	4,737	-	1,514,336	98,700	1,300,220	2,913,256
Construction in progress	770,658	249,859	26,751	1,047,268	1,313,045	(1,300,220)	1,060,093
Total property and equipment	12,993,481	254,596	-	13,248,077	1,467,206	-	14,715,283
Accumulated depreciation	(9,008,781)	(263,088)	-	(9,271,869)	(329,029)	-	(9,600,898)
Net property and equipment	$ 3,984,700	$ (8,492)	$ -	$ 3,976,208	$ 1,138,177	$ -	$ 5,114,385

Depreciation expense was $329,029 for the year ended December 31, 2015 and $263,088 for the year ended December 31, 2014.

NOTE 4 – NOTES PAYABLE

The Medical Center has notes payable due to the City of Cordova which amount to $2,174,611 and $1,274,611 at December 31, 2015 and 2014, respectively. The terms of these notes, including interest rates and amortization schedules, have not been fully determined or formalized and the Medical Center has not made repayments of principal or interest on them as of December 31, 2015 and 2014. The notes payable are deemed on-demand notes and are classified as current liabilities on the statements of net position (deficit).

NOTE 5 – LONG TERM DEBT OBLIGATIONS

The Medical Center's long term debt obligations includes an obligation to a financial institution, payable in monthly installments of $712, and interest at 10%, until maturity in 2017.

The following is a summary of changes to long-term debt:

	Balance, December 31, 2013	Additions	Reductions	Balance, December 31, 2014	Additions	Reductions	Balance, December 31, 2015	Amounts Due Within One Year
Loan payable:								
Vehicle Loan	24,004	-	(6,403)	17,601	-	(7,084)	10,517	7,849
Total loan payable	$ 24,004	$ -	$ (6,403)	$ 17,601	$ -	$ (7,084)	$ 10,517	$ 7,849

Scheduled Principal Repayments

Scheduled principal repayments on the loans and sinking fund requirements are as follows:

Year Ending December 31	Principal	Interest	Total
2016	$ 7,849	$ 697	$ 8,546
2017	2,668	52	2,720
	$ 10,517	$ 749	$ 11,266

NOTE 6 – CAPITAL LEASE OBLIGATIONS

The Medical Center has acquired a backup storage system under the provisions of a 9.75% capital lease obligation with a term of 36 equal monthly payments of $3,174 beginning in April of 2016, with a $1 purchase option. The amount owed under the lease will be paid off in 2019. Carrying value of the system acquired under the lease is $98,700. A summary of capital lease obligations as of December 31, 2015 follows:

	2015
Total capital lease obligation	$ 98,700
Less current portion	24,590
Long-term portion	$ 74,110

The following is a schedule of future minimum lease payments under capital lease as of December 31, 2015:

Year	Principal	Interest	Total
2016	$ 24,590	$ 7,153	$ 31,743
2017	32,287	5,804	38,091
2018	35,580	2,512	38,092
2019	6,243	76	6,319
	$ 98,700	$ 15,545	$ 114,245

NOTE 7 – RURAL HEALTH CARE PROGRAM

The Medical Center participates in the Rural Health Care Program (RHC) of the Universal Service Fund (USF), which is administered by the Universal Service Administrative Company. RHC is a support program authorized by Congress and designed by the Federal Communications Commission (FCC) to provide reduced rates to rural health care providers for telecommunications services and internet access charges related to the use of telemedicine and tele-health. RHC is intended to ensure that rural health care providers pay no more for telecommunication in the provision of health care services than their urban counterparts.

Payments under RHC are made directly by USF to the Medical Center's telecommunications provider upon submission by the Medical Center of the required FCC forms. The Medical Center's contribution benefit under the program, which meets the definition of contributed services under generally accepted accounting principles, was $381,371 for the year ended December 31, 2015 and $278,066 for the year ended December 31, 2014, and is included in operating revenue in the accompanying statements of revenues, expenses and changes in net position (deficit). In the event that the Medical Center does not file all required FCC forms and payment is not made by USF, the telecommunications provider may seek payment from the Medical Center for amounts unpaid.

NOTE 8 – RETIREMENT PLANS

Medical Center employees participate in the State of Alaska Public Employees' Retirement System (PERS), a defined benefit plan, or the State of Alaska Defined Contribution Pension Plan (DC Plan), a defined contribution plan, based on date of initial hire by a participating employer as described below. The plans are governed by the Alaska Retirement Management Board (the "Board" or the "System"), which consists of nine trustees, as follows: the commissioner of administration, the commissioner of revenue, two trustees who are members of the general public, one trustee who is employed as a finance officer for a political subdivision participating in either the PERS or Teachers' Retirement System (TRS), two trustees who are members of PERS, and two trustees who are members of TRS. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. PERS issues a publicly available financial report that can be obtained at:
http://doa.alaska.gov/drb/pers/employee/resources/index.html.

State of Alaska PERS Defined Benefit Plan

Plan Description

PERS is a cost-sharing multiple-employer defined benefit (DB) pension plan administered by the State of Alaska which includes a defined benefit health plan and occupational death and disability plan (Other Post Employment Benefits "OPEB"). All employees initially hired prior to July 1, 2006 must participate in this plan. With the passage of Senate Bill (SB) 141, the DB Plan is closed to all new members effective July 1, 2006. Employees hired on or after this date must participate in the DC Plan described later.

Benefits Provided

PERS provides retirement, health insurance premium supplement, long-term disability, occupational death and disability and survivor benefits. Retirement benefits are calculated on the basis of age, average monthly compensation and service credit as follows (a more complete description of benefits can be found at http://doa.alaska.gov/drb/ or the financial report referred to above):

	"Tier 1"	"Tiers 2 and 3"
Initial hire date	Before July 1, 1986 and all police and firefighters	July 1, 1986 - June 30, 1996 (2) After July 1, 1996 (3)
Minimum credited years of service	Five Years	Five Years
Retirement age with minimum years of service	55, or early retirement - 50, or any age with 30 or more service years	60, or early retirement - 55, or any age with 30 or more service years
Pension benefit:		
Basis	Years of Service based and average of three highest consecutive years' salaries	Years of Service based and average of three highest consecutive years' salaries
Amount per year of service	2% to 2.5% depending on hire date and length of service	2% to 2.5% depending on hire date and length of service
Form	Joint and survivor annuity	Joint and survivor annuity
Death benefit:		
Pre-retirement, work related, non-willful negligence death	Monthly survivor benefit	Monthly survivor benefit
Active DB Plan member, occupational death	40% of members' salary, higher amounts for police or firefighters	40% of members' salary, higher amounts for police or firefighters
Active DB Plan member, non-occupational death	Spouse receives 50% of members' benefit, or lump sum to other beneficiaries	Spouse receives 50% of members' benefit, or lump sum to other beneficiaries
Disability benefits	Paid to normal retirement age, if vested, when normal retirement benefits apply	Paid to normal retirement age, if vested, when normal retirement benefits apply

Medical benefits	Major medical benefits at no cost	Major medical at no cost after 60, or premium amount if under age 60 (Tier 2), paid premium (Tier 3), at no cost if disabled
Postretirement pension adjustments (PRPA):		
Automatic	Benefits increased each July 1 based on cost of living increase the previous calendar year	Benefits increased each July 1 based on cost of living increase the previous calendar year
Discretionary	Granted if funding ratio of the DB Plan meets or exceeds 105%	Granted if funding ratio of the DB Plan meets or exceeds 105%

Contributions

Contribution requirements of the active plan members and the participating employers are actuarially determined and approved by the Board as an amount that, when combined, is expected to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The DB Plan's members' contribution rates are 7.5% for peace officers and firefighters, 9.6% for some school district employees, and 6.75% for general DB Plan members, as required by statute. The Medical Center's effective contribution rate is 22.00% of annual payroll. Alaska Statute 39.35.280 states that the State of Alaska, as a nonemployer contributing entity, shall contribute each July 1, or as soon after July 1 for the ensuing fiscal year, an amount that when combined with the total employer contributions is sufficient to pay the System's past service liability at the actuarially determined contribution rate adopted by the Board for that fiscal year.

Additionally, there is a Defined Benefit Unfunded Liability (DBUL) amount levied against the DC Plan payroll. The DBUL amount is computed as the difference between:

(A) the amount calculated for the statutory employer contribution rate of 22.00% on eligible salary, less
(B) the total of the employer contributions for
    (1) the defined contribution employer matching amount,
    (2) major medical,
    (3) occupational death & disability, and
    (4) health reimbursement arrangement.

The difference is deposited based on an actuarial allocation into the DB Plan's pension and healthcare funds.

Refunds

DB Plan member contributions may be voluntarily or, under certain circumstances, involuntarily refunded to the member or a garnishing agency 60 days after termination of employment. Voluntary refund rights are forfeited on July 1 following the member's 75th birthday or within 50 years of the member's last termination date. Members who have had contributions refunded forfeit all retirement benefits, including postemployment healthcare benefits. Members are allowed to reinstate refunded service due to involuntary refunds by repaying the total involuntary refunded balance and accrued interest. Members were allowed to reinstate voluntarily refunded service by repaying the voluntarily refunded balance and accrued interest, as long as they reestablished an employee relationship with a participating DB Plan employer before July 1, 2010. Members who had not reestablished an employee relationship with a participating DB Plan employer by June 30, 2010 are not eligible to reinstate voluntarily refunded service and have forfeited any claim to DB Plan membership rights. Balances refunded to members accrue interest at the rate of 7.0% per annum, compounded semiannually.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2015, the Medical Center reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the Medical Center. The amount recognized by the Medical Center as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the Medical Center were as follows:

Medical Center's proportionate share of the net pension liability	$	5,015,100
State's proportionate share of the net pension liability associated the Medical Center		1,343,213
Total Net Pension Liability	$	6,358,313

The Medical Center will record the entire net pension liability, including the State's proportionate share, if the State of Alaska no longer contributes its proportionate share as measured by the annual State contributions and provided under Alaska Statute 39.35.280. By changing the existing statute to a higher rate above and up to the actuarially determined rate, the Medical Center may be required to record some or all of the State's proportion and its contribution amounts will increase accordingly.

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Medical Center's proportion of the net pension liability was based on a projection of the Medical Center's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers and the State, actuarially determined. At June 30, 2015, the Medical Center's proportion was .10340000%, which was an increase of .03553806% from its proportion measured as of June 30, 2014.

For the year ended December 31, 2015, the Medical Center recognized pension expense of $1,489,078 including revenue of $185,494 for support provided by the State. At December 31, 2015, the Medical Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	$ -	$ 88,788
Changes in proportion and differences between Medical Center contributions and proportionate share of contributions	798,688	-
Medical Center contributions subsequent to measurement date	131,311	-
Total	$ 929,799	$ 88,788

$131,311 reported as deferred outflows of resources related to pensions resulting from Medical Center contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in the measurement year (fiscal year) as follows:

Year ended December 31:	
2015 (2016)	$ 674,921
2016 (2017)	9,702
2017 (2018)	(57,023)
2018 (2019)	82,280

Actuarial Assumptions

The total pension liability at the June 30, 2015 measurement date was determined by an actuarial valuation as of June 30, 2014, which was rolled forward to June 30, 2015. This actuarial valuation used the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.12%
Salary increases	Graded by service, from 9.66% to 4.92% for Peace Officers/Firefighters Graded by age and service, from 8.55% to 4.34% for All Others
Investment rate of return	8.00%, net of pension plan investment expenses. This is based on an average inflation rate of 3.12% and a real rate of return of 4.88%.

Pre-termination mortality rates were based on the 2010-2013 actual mortality experience, 60% of male and 65% of female post-termination rates. Deaths are assumed to be occupational 70% of the time for Peace Officer/Firefighters, 50% of the time for others. Post-termination mortality rates were based on 95% of all rates of the RP-2000 table, 2000 Base Year projection to 2018 with Projection Scale BB.

The actuarial assumptions used in the June 30, 2014 actuarial valuation were based on the results of an actuarial experience study for the period July 1, 2009 to June 30, 2013, resulting in changes in actuarial assumptions adopted by the Board to better reflect expected future experience.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by an asset allocation percentage, which is based on the nature of the mix of current and expected plan investments, and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in the System's current and expected asset allocation are summarized in the following table (note that the rates shown below exclude the inflation component):

Asset Class	Long-term Expected Real Rate of Return
Domestic equity	5.35%
Global equity (non-US)	5.55
Private equity	6.25
Fixed income composite	0.80
Real estate	3.65
Alternative equity	4.70

Discount Rate

The discount rate used to measure the total pension liability was 8%. The projection of cash flows used to determine the discount rate assumed that employer and nonemployer State contributions will continue to follow the current funding policy, which meets State statutes. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Medical Center's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Medical Center's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the Medical Center's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

	1% Decrease (7.0%)	Current Discount rate (8.0%)	1% Increase (9.0%)
Medical Center's proportionate share of the net pension liability	$ 6,667,150	$ 5,015,100	$ 3,624,244

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial report. During the State fiscal year ended June 30, 2015, pursuant to SB 119, the State of Alaska provided additional on-behalf funding totaling $1 billion. This resulted in a total contribution rate, including the rate required of the Medical Center of 22%, of 64.41%, which exceeded the actuarially determined rate set by the Board of 44.03%. This additional contribution was applied to the nonemployer component of the total net pension liability. The contribution rate for the period of July 1, 2015 through December 31, 2015 was 27.19%, which includes the rate required by the Medical Center of 22%.

Defined Benefit Other Postemployment Benefit Plans Funding Status

The Medical Center's annual OPEB costs for the years ending December, 2015, 2014 and 2013, and the amounts actually contributed are listed below.

Period Ending	Annual OPEB Cost	Percentage of Required Contribution
December 31, 2015	$ 185,604	100%
December 31, 2014	235,970	100%
December 31, 2013	131,302	100%

Defined Contribution Pension Plan

Plan Description

The Medical Center participates in the State of Alaska Defined Contribution Pension Plan (DC Plan), Tier 4, which provides pension benefits and Other Postemployment Benefits Occupational death and disability benefits similar to those of the defined contribution plan for eligible employees hired after July 1, 2006. The State of Alaska Healthcare Reimbursement Arrangement Plan is also provided to allow medical expenses to be reimbursed from individual savings accounts established for eligible participants. Additionally, certain active members of the DB Plan were eligible to transfer to the DC Plan if that member had not vested in the DB Plan. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. The DC Plan is administered by the System.

Pension Benefits
A participating member is immediately and fully vested in that member's contributions and related earnings (losses). A member shall be fully vested in the employer contributions made on that member's behalf, and related earnings (losses), after five years of service. A member is partially vested in the employer contributions made on that member's behalf, and the related earnings, in the ratio of (a) 25% with two years of service; (b) 50% with three years of service; (c) 75% with four years of service; and (d) 100% with five years of service.

Contributions
Alaska statutes require an 8.0% contribution rate for DC Plan members. Employers are required to contribute 5.0% of the member's compensation. For the year ended December 31, 2015 and 2014, employee contributions totaled $174,756 and $169,096, respectively, and the Medical Center recognized pension expense of $109,222 and $105,685 respectively.

Refunds
A member is eligible to elect distribution of their account 60 days after termination of employment.

Participant Accounts
Participant accounts under the DC Plan are self-directed with respect to investment options.

Each participant designates how contributions are to be allocated among the investment options. Each participant's account is credited with the participant's contributions and the appreciation or depreciation in unit value for the investment funds.

Record-keeping/administrative fees, consisting of a fixed amount, applied in a lump sum each calendar year, and a variable amount, applied monthly, are deducted from each participant's account, applied pro rata to all the funds in which the employee participates. This fee is for all costs incurred by the record keeper and by the State. The investment management fees are netted out of the funds' performance.

NOTE 9 - SELF-INSURANCE PLAN

The Medical Center started a self-funded group health plan effective June 1, 2015. The plan is administered by Professional Benefit Services, Inc., and is available to all full-time and part-time employees, working 15 or more hours per week, sixty days after their date of hire. Under its plan, the Medical Center is self-funded for employee medical claims up to $45,000. The Medical is reinsured for claims exceeding $45,000, up to a maximum of $1,000,000 per contract period. The Medical Center has not accrued for claim reserves or incurred but not reported claims because the amounts are not significant. Total health insurance costs were $927,395 and $613,670 in fiscal years 2015 and 2014, respectively.

NOTE 10 – CONCENTRATIONS OF CREDIT RISK AND OFF BALANCE SHEET RISK

Patient Receivables

The Medical Center grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at December 31 are as follows:

	2015	2014
Patients/other	60%	55%
Medicare	11	16
Medicaid	29	29
	100%	100%

NOTE 11 – CONTINGENT LIABILITIES

Amounts received or receivable under grant programs from the State of Alaska are subject to audit and adjustment. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Medical Center expects such amounts, if any, to be immaterial.

Payments made under the Medicaid program are subject to audit by the State of Alaska. Paid claims could be disallowed upon audit if there is inadequate documentation to substantiate the services provided to Medicaid beneficiaries. The amount, if any, of claims which may be disallowed by the State of Alaska cannot be determined at this time, although the Medical Center expects such amounts, if any, to be immaterial.

In the normal course of business the Medical Center is subject to litigation from time to time but defends its rights vigorously and obtains insurance coverage for potential claims arising as a result of litigation.

NOTE 12 – RISK MANAGEMENT

The Medical Center is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Medical Center carries commercial insurance for all risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal periods.

ELGEE REHFELD MERTZ, LLC

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable Mayor, City Council and
Cordova Community Health Services Board
Cordova Community Medical Center
Cordova, Alaska

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Cordova Community Medical Center, a component unit of the City of Cordova, as of and for the year ended December 31, 2015, and the related notes to financial statements, which collectively comprise Cordova Community Medical Center's basic financial statements, and have issued our report thereon dated November 4, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Cordova Community Medical Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Cordova Community Medical Center's internal control. Accordingly, we do not express an opinion on the effectiveness of Cordova Community Medical Center's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Responses to be a material weakness [2015-001].

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Responses to be significant deficiencies [2015-002, and 2015-003].

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cordova Community Medical Center's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

November 4, 2016

CORDOVA COMMUNITY MEDICAL CENTER
(a Component Unit of the City of Cordova, Alaska)

SCHEDULE OF FINDINGS AND RESPONSES

For the year ended December 31, 2015

MATERIAL WEAKNESS

Finding 2015-001 **Internal Controls over Financial Reporting – Reconciliation of Significant Balance Sheet Accounts**

Condition: The Medical Center did not accurately reconcile several significant balance sheet accounts.

Criteria: Generally accepted accounting principles require that entities maintain a system of internal controls to provide reasonable assurance regarding the achievement of objectives in the following three categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting; and
- Compliance with applicable laws and regulations

To ensure that accurate financial reporting is possible from an entity's accounting records, a system of internal controls should ensure that significant balance sheet accounts are reconciled on a timely basis, that all transactions are captured and recorded and done so in the proper period, and that the accounting function is adequately staffed.

Effect: Numerous and individually material errors existed in the books and records that required adjustment to the Medical Center's accounting records.

Cause of condition: Turnover in accounting positions and a lack of available resources to dedicate to reconciliation of balance sheet accounts led to this condition.

Recommendation: The Medical Center should review its policies and procedures related to internal controls over financial reporting. In addition, the Medical Center should establish a monitoring process whereby the Administrator/Management Team and/or Community Health Services Board can assure itself that the accounting records are being properly maintained.

Views of responsible Officials: Management concurs with the finding. Current management agrees that reconciliation of significant balance sheet accounts need to be done. Current management will improve the process and keep significant balance sheet accounts reconciled.

CORDOVA COMMUNITY MEDICAL CENTER
(a Component Unit of the City of Cordova, Alaska)

SCHEDULE OF FINDINGS AND RESPONSES

For the year ended December 31, 2015

SIGNIFICANT DEFICIENCIES

Finding 2015-002 **Internal Controls over Financial Reporting – Internal Controls Over Disbursements**

Condition: The Medical Center did not establish and maintain adequate policies and procedures related to internal controls over disbursements.

Criteria: Generally accepted accounting principles require that entities maintain a system of internal controls to provide reasonable assurance regarding the achievement of objectives in the following three categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting; and
- Compliance with applicable laws and regulations

To ensure that accurate financial reporting is possible from an entity's accounting records, a system of internal controls should ensure that disbursements are appropriately supported, reviewed, approved, and recorded.

Effect: Expenses were recorded in the wrong period, capital additions were not recorded as such, and many transactions were not supported. Further, there is not an approval process in place for credit card transactions.

Cause of condition: Insufficient oversight of accounting personnel, and inadequate policies and procedures related to internal controls over financial reporting.

Recommendation: The Medical Center should review its policies and procedures related to internal controls over financial reporting related to disbursements to ensure transactions are properly supported, reviewed, approved, and recorded.

Views of responsible Officials: Management concurs with the finding. Current management agrees:

- That internal control for approving Credit Card Expenses is important. Current management plans to put policies and processes in place to improve approval of Credit Card expenditures.
- That the recording of expenses in the proper period must be done to meet GAAP Standards and proper financial reporting. Current management will strive to improve the timely recording of expenses and revenue in the proper period according GAAP and GASB standards.
- Capital purchases must be recorded per GAAP and GASB standards, and also according to Medicare guidelines for the proper capture of costs on the Cost Report. Current Management will make sure Capital purchases are properly recorded.

Finding 2015-003 **Internal Controls over Financial Reporting – Backup of Accounting Software**

Condition: The Medical Center did not perform a sufficient backup of its accounting data.

Criteria: Generally accepted accounting principles require that entities maintain a system of internal controls to provide reasonable assurance regarding the achievement of objectives in the following three categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting; and
- Compliance with applicable laws and regulations

To ensure that accurate financial reporting is possible from an entity's accounting records, a system of internal controls should ensure that financial data is safeguarded.

Effect: The prior accounting system used before the migration to the electronic health record (EHR) system failed and all data was lost. The Medical Center was not able to recover this data from their backup tapes. The failure happened after the migration to the EHR. Therefore, detailed information was available in the new accounting system; however, the ability to query historical information and reports from the prior system has been lost.

Cause of condition: Backup tapes were not sufficiently maintained or tested.

Recommendation: The Medical Center should review its backup testing and frequency to ensure they are able to restore to back up of their accounting system in the event of a system issue.

Views of responsible Officials: Management concurs with the finding. While current management could not have prevented the loss of data because the lack or loss of backup systems, Current Management has asked the current Computer System vendor for their SOC (*) report so that we have assurances that our data is backed up and protected from future loss.

* **Service Organization Control Reports®** are internal control **reports** on the services provided by a service organization providing valuable information that users need to assess and address the risks associated with an outsourced service.

REQUIRED SUPPLEMENTARY INFORMATION

CORDOVA COMMUNITY MEDICAL CENTER
(a Component Unit of the City of Cordova, Alaska)

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE HOSPITAL'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY

Years Ended June 30, 2015 and 2014

	2015	2014
Hospital's proportion of the net pension liability	0.10340000%	0.06786194%
Hospital's proportionate share of the net pension liability	$ 5,015,100	$ 3,165,175
State's proportionate share of the net pension liability associated with the Hospital	1,343,213	3,040,931
Total	$ 6,358,313	$ 6,206,106
Hospital's covered payroll	$ 2,606,949	$ 3,230,841
Hospital's proportionate share of the net pension liability as a percentage of its covered employee payroll	192.37%	97.97%
Plan fiduciary net position as a percentage of the total pension liability	63.96%	62.37%

The accompanying notes to financial statements are an integral part of these statements.

CORDOVA COMMUNITY MEDICAL CENTER
(a Component Unit of the City of Cordova, Alaska)

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF HOSPITAL CONTRIBUTIONS

Years Ended December 31, 2015 and 2014

	2015	2014
Contractually required contribution	$ 262,622	$ 260,286
Contributions in relation to the contractually required contribution	(262,622)	(260,286)
Contribution deficiency (excess)	$ -	$ -
Hospital's covered payroll	$ 3,019,377	$ 3,384,142
Contributions as a percentage of covered employee payroll	8.70%	7.69%

The accompanying notes to financial statements are an integral part of these statements.

November 7, 2016

To: Health Service Board
Subject: Amended 2017 CCMC Operating Budget

Suggested Motion: “I move to approve the amended 2017 CCMC Operating Budget.”

Cordova Community Medical Center
Revised 2017 Budget

	2016 Budget	2016 Annualized	2017 Budget
Revenue			
Acute	-1,474,607	-1,403,386	-1,564,015
Long Term Care	-4,156,537	-4,096,798	-4,096,798
Clinic	-759,517	-966,104	-1,014,409
Outpatients - Other	-2,262,238	-2,874,286	-3,198,427
Behavioral Health	-579,053	-599,106	-676,990
Patient Services Total	-9,231,952	-9,939,680	-10,550,639
Deductions			
Charity	250,643	273,020	150,000
Contractual Adjustments	1,132,620	2,074,261	1,623,174
Bad Debt	222,907	354,847	312,500
Deductions Total	1,606,170	2,702,128	2,085,674

Note: Contractual adjustments were increased because of a decreased Medicare daily rate for acute care of $976 received October 26th from an Interim Rate Review. There was a pickup of $48 per day on Swingbed.

Cost Recoveries			
Grants	-489,695	-196,007	-487,671
In-Kind Contributions	-1,217,444	-1,086,524	-1,109,695
Other Revenue	-770,451	-151,148	-156,600
Cost Recoveries Total	-2,477,590	-1,433,679	-1,753,966
Net Revenue	-10,103,372	-8,671,231	-10,218,931
Expenses			
Wages	3,521,668	3,394,731	4,183,042
Taxes & Benefits	2,425,108	1,871,302	2,207,365
Professional Services	2,180,831	2,359,294	1,540,815
Minor Equipment	21,074	49,859	27,700
Supplies	431,230	440,353	415,884
Repairs & Maintenance	105,574	45,503	67,272
Rents & Leases	122,365	169,730	106,000
Utilities	564,282	1,327,339	1,349,354
Travel & Training	49,392	52,377	48,800
Insurances	206,649	121,443	140,808
Recruitment & Relocation	94,060	93,315	50,000
Depreciation	268,331	510,617	525,000
Other Expenses	112,808	181,128	140,540
Total Expenses	10,103,372	10,616,991	10,802,580
Net Loss	0	1,945,760	583,650

CITY OF CORDOVA, ALASKA
ORDINANCE _____

AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF CORDOVA, ALASKA CREATING A NEW CORDOVA MUNICIPAL CODE CHAPTER ____ TO RESTRUCTURE THE CORDOVA COMMUNITY MEDICAL CENTER, REPEALING CHAPTER 15

WHEREAS, it is in the best interest of the City of Cordova to establish an autonomous governance of the Cordova Community Medical Center with its own board of directors and the powers and duties more particularly set for in Chapter _____;

NOW, **THEREFORE**, **BE IT ORDAINED**, by the City Council of the City of Cordova, Alaska, that:

Section 1. Cordova Municipal Code Chapter _____ is adopted to read as follows:

Chapter _____ - CORDOVA COMMUNITY MEDICAL CENTER AUTHORITY

Sections:

_____ Established; termination.

A. The Cordova Community Medical Center Authority shall be established as a public corporate authority of the City of Cordova ("City"), for the purposes of managing the operations of the Cordova Community Medical Center ("CCMC"). This authority is an instrument of the City, but exists independently of and separately from the City, with powers authorized under Section _____. The authority shall continue to exist until terminated by ordinance. When the Authority's existence is terminated, all of its rights, and control of assets and properties shall pass to the City.

_____ Definition of Cordova Community Medical Center or CCMC. *Cordova Community Medical Center or CCMC* shall means the group of facilities consisting of an acute care hospital, long term care facility and clinic, and all other health care facilities owned and/or operated by the City;

_____ Board of Directors.

A. The Authority shall be governed by a Board of Directors consisting of five members elected by the voters of Cordova, Alaska. Board members shall be qualified electors of the City of Cordova.
B. No member of the Board shall be an employee, or immediate family member (as defined in 42 CFR 1001.1001(a)(2)) or member of the household of an employee of CCMC either now or any time in the past twelve months; a tenant of that facility either now or any time in the past twelve months; a contractor that provides medical or other services to that facility either now or any time in the past twelve months; an employee of any such tenant or contractor either now or any time in the past twelve months; an individual, an immediate family member (as defined in 42 CFR 1001.1001(a)(2)) or a member of the household of an individual, or a managing employee of an entity, that has been excluded from participation in Medicare, Medicaid or any other Federal health care program as listed on the United States Department of Health & Human Services, Office of Inspector General's List of Excluded Individuals/Entities.
C. No member, or former member, of the Board shall be eligible for employment or contracting to provide services to CCMC until at least twelve months have elapsed since they have last served on the Board.
D. Members shall be elected by the voters to three year terms that will be staggered. In the first election, the highest vote getter will serve a three year term, the next two highest vote getters will serve two year terms and the next two highest vote getters will serve one year terms. Thereafter, the members elected will serve three year terms.
E. Vacancies on the Board shall be filled by the Board until the next regular election, when a member shall be elected to serve the rest of the unexpired term in the same manner that a mayor is now or may hereafter be elected to serve the rest of an unexpired term.
F. The Board shall meet at least quarterly in January, April, July, and October, at a time and place to be designated by the Board, and notice and agenda of all meetings shall be posted at a public location in the CCMC, and at City Hall. Any two members of the Board may schedule a meeting at any time when they determine such a meeting is necessary. All meetings of the Board shall be open to the public, except that the board may meet in executive session, in accordance with Alaska Statute 44.62.310, the Alaska Open Meetings Act.
G. The Board may maintain membership in any local, state, or national group or association organized an operated for the promotion of the public health and welfare or the advancement of the efficiency of medical center and community health facilities administration, and in connection therewith, pay dues and fees thereto.

_____ Chief Executive Officer

A. The Board of Directors of the Authority shall select the Chief Executive Officer ("CEO") of the CCMC. The CEO shall serve at the pleasure of the Board. The CEO shall establish and direct all operations of CCMC activities, both internal and external.
B. The authority and duties of the CEO are as follows:
    a. The CEO shall be responsible for the overall supervision and direction of the affairs and activities of CCMC. The CEO shall have such authority and duties as may be assigned and directed by the Board and those generally incumbent with CEOs at other hospitals.

b. To be responsible for carrying out all applicable federal and state laws, City code, and CCMC rules and regulations. Reviews compliance of CCMC with national, state and local standards and accreditation agencies.
c. Establishes policies pertaining to total patient care, personnel, medical staff, financial status, public relations, maintenance of building and grounds, all other policies needed for the operation of CCMC under broad directives from the Board. Reviews compliance with established policies by personnel and medical staff. Periodically reviews policies and makes changes as found necessary.
d. Establishes departmental staffing patterns. Evaluates jobs, prepares job descriptions, establishes job classifications and sets wage and salary schedules. Hires and discharges employees at CCMC in a manner consistent with federal and state laws and in accordance with the personnel policies of CCMC. Reviews and checks competence of work force.
e. To work with the professional staff and those concerned with the rendering of quality professional services at the hospital to the end that the best possible care may be rendered to all patients.
f. Regularly checks financial status of CCMC and maintains an efficient accounting system to meet the needs of the facility. Directs that forecast budgets be prepared and changes in fee schedules be made to insure coverage of cost of operations.
g. To attend all meetings of the CCMC Boards and all committee meetings of the Board.
h. To prepare such reports as may be required on any phase of hospital activity by the Board.
i. Represents CCMC in dealings with outside agencies, including governmental and third party payors. Represents CCMC at top level meetings, etc. and participates in such.
j. To perform other duties that may be in the best interests of CCMC.

_____ Fiscal Management.

Finances of the Authority and CCMC shall be managed in accordance with City, State and Federal laws and regulations, those regulations generally prescribed by any accrediting associations as may apply, and as the Board determines to accept.

_____ Legal Counsel.

The City Attorney shall advise and assist the Authority in general legal matters. The Authority shall also have the power to retain independent and/or specialized counsel in matters affecting the Authority.

_____ Powers.

In furtherance of its corporate powers, the Authority has the following powers:

1. To sue and be sued.
2. To have a seal and alter it at pleasure.
3. To adopt, amend, and repeal bylaws for its organization and internal management, however, bylaws regarding notice of meetings shall be adopted consistent with _____.
4. To operate and manage the City land and facilities in Authority inventory.

5. To design, construct, improve, alter, or repair the City land and facilities in the Authority's inventory, subject to budgetary approval.
6. Subject to _____, to accept gifts, grants, or loans, and enter into contracts, partnerships, joint ventures, and similar agreements, or other transactions with any governmental or private agency or entity as the Authority considers appropriate.
7. To deposit or invest its funds.

_____ Exemptions from Taxes.
The real and personal property of the Authority and its assets, income and receipts are declared to be the property of a political subdivision of the state, and together with any City land or facilities in the Authority's inventory devoted to an essential public and governmental function and purpose, and the property assets, income, receipts and facilities, shall be exempt from all City taxes.

_____ Reports and Recommendations.
The Authority shall file with the City Manager and the City Council an annual report, and schedule an annual work session, of its activities and shall make recommendations for the legislation or other actions it consider necessary to carry out its corporate purposes. The annual report shall include an annual audit, including income, expenditures, investments and inventory.

_____ Annual Budget.
The Authority shall have a separate budget than the Annual City Budget and shall prepare and submit for review an annual budget to the City Manager and City Council prior to approval of the City's Annual Budget in accordance with _____.

_____ Annual Audit.
The Authority shall be subject to the audit requirements of Government Auditing Standards, in addition any applicable requirements of the State of Alaska, Department of Health and Social Services, or the Centers for Medicare and Medicaid Services, or any other grantor or funding source.

Section 2. This ordinance shall be effective thirty (30) days after its passage and publication or _____, 2016, whichever date is later. This ordinance shall be enacted in accordance with Section 2.13 of the Charter of the City of Cordova, Alaska, and published within ten (10) days after its passage.

1st reading: _____, 2016
2nd reading and public hearing:

PASSED AND APPROVED THIS xx DAY OF _____, 2016

_____
_____, Mayor

ATTEST:

_____
Susan Bourgeois, CMC, City Clerk