



REPORT TO BOARD OF DIRECTORS

CENTRAL PENINSULA GENERAL HOSPITAL

2025 AUDIT RESULTS



Welcome

November 10, 2025

Board of Directors

Central Peninsula General Hospital

Professional standards require us to communicate with you regarding matters related to the audit, that are, in our professional judgment, significant and relevant to your responsibilities in overseeing the financial reporting process. On September 23, 2025, we presented an overview of our plan for the audit of the consolidated financial statements including the Schedule of Expenditures of Federal Awards (SEFA), and Schedule of State Financial Assistance (SSFA) of Central Peninsula General Hospital, (the Hospital), as of and for the year ended June 30, 2025, including a summary of our overall objectives for the audit, and the nature, scope, and timing of the planned audit work.

This communication is intended to elaborate on the significant findings from our audit, including our views on the qualitative aspects of the Hospital's accounting practices and policies, management's judgments and estimates, financial statement disclosures, and other required matters to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of the Hospital is responsible.

We are pleased to be of service to the Hospital and look forward to meeting with you to discuss our audit findings, as well as other matters that may be of interest to you, and to answer any questions you might have.

Respectfully,

BDO USA

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The following communication was prepared as part of our audit, has consequential limitations, and is intended solely for the information and use of those charged with governance (e.g., Board of Directors) and, if appropriate, management of the Hospital, and is not intended and should not be used by anyone other than these specified parties.

Executive Summary



Executive Summary

Results of Our Audit

- Overview and Status - we have completed our audit work with respect to the consolidated financial statements for the year ended June 30, 2025.
- Quality of the Hospital's Financial Reporting
- Significant Risk Overview & Discussion
- Corrected and Uncorrected Misstatements
- Internal Control Over Financial Reporting

Required Communications

- No Significant Items



Audit Results



Overview & Status of Our Audit

We have completed our audit of the consolidated financial statements as of and for the year ended June 30, 2025. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. This audit of the consolidated financial statements does not relieve management or those charged with governance of their responsibilities.

- ▶ The objective of our audit was to obtain reasonable - not absolute - assurance about whether the financial statements are free from material misstatements.
- ▶ The scope of the work performed was substantially the same as that described to you in our earlier Audit Plan communications.
- ▶ We issued an unmodified opinion on the financial statements and release our report on November 10, 2025.
- ▶ We have issued our 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 have issued an unmodified opinion on the Hospital's State of Alaska Single Audit Report, including the Schedule of State Financial Assistance (SSFA).
- ▶ We plan to issue an unmodified opinion on the Hospital's Federal Single Audit Report, including the Schedule of Expenditures of Federal Awards (SEFA) and release our report when the 2025 Compliance Supplement is issued.
- ▶ In planning and performing our audit of the SEFA and SSFA, we considered the Hospital's internal control over compliance with requirements that could have a direct and material effect on its major federal and state programs to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with GAS, Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and the State of Alaska Audit Guide and Compliance Supplement for State Single Audits (State Audit Guide), but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance.
- ▶ Our responsibility for other information in documents containing the Hospital's audited consolidated financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform procedures to corroborate such other information. However, in accordance with professional standards, we will read the information included by the Hospital and consider whether such information, or the manner of its presentation, is materially inconsistent with its presentation in the financial statements. Our responsibility also includes calling to management's attention any information that we believe is a material misstatement of fact. We have not identified any material inconsistencies or concluded there are any material misstatements of facts in the other information that management has chosen not to correct.
- ▶ All records and information requested by BDO were freely available for our inspection.

Quality of the Hospital's Financial Reporting

► Qualitative aspects of significant accounting policies and practices

We have evaluated the qualitative aspects of the Hospital's significant accounting policies and practices and concluded that they are appropriate, adequately disclosed, and consistently applied by management. We did not identify situations in which the auditor identified bias in management's judgments about the amounts and disclosures in the financial statements. The differences between estimates best supported by the audit evidence and estimates included in the financial statements did not indicate possible bias on the part of the Hospital's management.

► Our assessment of critical accounting estimates, accounting policies and practices

The Hospital's critical accounting estimates, policies, and practices are discussed on slide 15-16. Based on the audit procedures performed, the Hospital's estimates appear reasonable. During the year ended June 30, 2025, we are not aware of any significant changes to the critical accounting policies and practices. Based on our audit procedures, we did not propose any significant modifications to those policies and practices identified as critical.

► Significant unusual transactions

During the year ended June 30, 2025, there were no significant unusual transactions.

► Financial statement presentation

We believe that the consolidated financial statements and the related disclosures as of June 30, 2025, are in conformity with the applicable financial reporting framework, including the auditor's consideration of the form, arrangement, and content of the financial statements (including the accompanying notes), encompassing matters such as the terminology used, the amount of detail given, the classification of items, and the bases of amounts set forth.

► New accounting pronouncements

We did not identify any anticipated application of accounting pronouncements that have been issued but are not yet effective within the accounting policies related to the year ended June 30, 2025.

► Alternative accounting treatments

No alternative accounting treatments permissible under the applicable financial reporting framework for policies and practices related to material items were identified and discussed with management.

Areas of Significant Risk

AREAS OF SIGNIFICANT RISK

Our areas of significant risk, which are risks with both a higher likelihood of occurrence and a higher magnitude of effect that require special audit considerations, are as follows:

- ▶ Contractual Allowance - A presumed risk related to revenue recognition from the contractual allowances and its impact on revenue recognized.
- ▶ Management Override of Controls - Management can override controls. This risk is presumed for all audit clients.

CORRECTED AND UNCORRECTED MISSTATEMENTS

- ▶ There were no corrected misstatements, other than those that were clearly trivial, related to accounts and/or disclosures that we brought to the attention of management.
- ▶ There was one uncorrected misstatements related to interest income in the plant replacement fund which had not been recorded properly in prior years. As it was not material, this was corrected through 2025 investment income, for a total impact of \$969,210.



Internal Control Over Financial Reporting



Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hospital’s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital’s internal control.

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

We are required to communicate, in writing, to those charged with governance all material weaknesses and significant deficiencies that have been identified in the Hospital’s internal control over financial reporting. The definitions of control deficiency, significant deficiency and material weakness follow:

Category	Definition
Control Deficiency	A deficiency in internal control over financial reporting 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.
Significant Deficiency	A deficiency or combination of deficiencies in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
Material Weakness	A deficiency or combination of deficiencies in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Hospital’s financial statements will not be prevented or detected and corrected on a timely basis.

In conjunction with our audit of the financial statements, we noted no material weaknesses.

Internal Control Over Financial Reporting

- ▶ We have communicated to management of the Hospital control deficiencies that were identified as a result of our audit that we did not consider to be material weaknesses or significant deficiencies.

Control deficiencies	Comments
Cybersecurity Incident Response and Access Controls	During the year, CPGH experienced a cybersecurity incident. This event highlights an opportunity to strengthen controls around help desk procedures, system access, monitoring, and timely detection of unusual changes to sensitive employee information. This cybersecurity incident did not have a material impact on CPGH’s financial statements.
CPGH and KPB Reconciliation Process	There were differences identified in the final closing process between Borough records and the Hospital’s reported amounts of cash and investments help by the Borough, which resulted in an adjustment to investment income

Internal Control Over Compliance Findings

In performing our compliance audit in accordance with the Uniform Guidance and State of Alaska Audit Guide and Compliance Supplement for State Single Audits (State Audit Guide), we obtained an understanding of the Hospital’s internal control over compliance to design audit procedures and to test and report on internal control over compliance, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over compliance. Accordingly, we did not express an opinion on the effectiveness of the Hospital's internal control over compliance.

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

We are required to communicate, in writing and in a timely manner, to those charged with governance all material weaknesses and significant deficiencies that have been identified in the Hospital’s internal control over compliance. The definitions of a material weakness, significant deficiency, and instances of noncompliance with laws and regulations in internal control over compliance are as follows:

Category	Definition
Material Weakness	A deficiency or a combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis.
Significant Deficiency	A deficiency or a combination of deficiencies in internal control over compliance that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
Instances of Noncompliance with Laws and Regulations	In accordance with GAS, matters that involve instances of noncompliance with laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements.

In conjunction with our audit of the Schedule of State Financial Assistance, we noted no material weaknesses or any instances of noncompliance with laws and regulations. In conjunction with our audit of the Schedule of Expenditures of Federal Awards that is in progress, we have noted no material weaknesses or any instances of noncompliance with laws and regulations.

Detail of Significant Accounting Practices, Policies, Estimates and Disclosures



Significant Accounting Practices including Policies, Estimates, and Disclosures

The following summarizes the more significant required communications related to our audit concerning the Hospital's accounting practices, policies, estimates significant unusual transactions:

The Hospital's significant accounting practices and policies are those included in Note 2 to the financial statements. These accounting practices and policies are appropriate, comply with the applicable financial reporting framework and industry practice, were consistently applied, and are adequately described within Note 2 to the financial statements.

- ▶ A summary of recently issued accounting pronouncements is included in Note 18 to the Hospital's financial statements.
 - ▶ The Hospital adopted GASB Statement No. 101 - *Compensated Absences*. The Hospital has presented a liability for unused vacation leave as part of accrued liabilities in prior years. For the implementation of GASB 101, the Hospital reported an estimated liability for more likely than not to be used sick leave, to be included with the previously reported unused vacation leave and presented as compensated absences. The Hospital is presenting compensated absences on the statement of net position as both current and long-term liabilities, thereby reducing accrued liabilities for the previously reported unused vacation leave.
 - ▶ The Hospital adopted GASB Statement No. 102 - *Certain Risk Disclosures*. On July 4, 2025, the U.S. government enacted the "One Big Beautiful Bill Act" (OBBBA), which includes significant tax code changes and modifications to federal healthcare programs, including Medicare and Medicaid. This new law introduces substantial financial and operational risks for the Hospital, and its full impact is not yet known.
- ▶ There were no changes in significant accounting policies and practices during 2025.

Significant Accounting Practices including Policies, Estimates, and Disclosures continued

Critical accounting estimates are those that require management’s most difficult, subjective, or complex judgments, often as a result of the need to make estimates about the effects of matters that are inherently uncertain. The Hospital’s critical accounting estimates, including a description of management’s processes and significant assumptions used in development of the estimates, are disclosed in Note 2 of the financial statements.

- ▶ Management did not make any significant changes to the processes or significant assumptions used to develop the critical accounting estimates in 2025.
- ▶ The methods used to account for significant or unusual transactions, and related disclosures, are considered appropriate.

Significant Accounting Estimates

Contractual allowance

Accounting Estimates

Claims incurred but not reported

Allowance for doubtful accounts

Due to/from third party payers

Discount rate used for software-based IT arrangements and leases
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Additional Required Communications



Other Required Communications

Following is a summary of other required items, along with specific discussion points as they pertain to the Hospital:

Requirement	Discussion Point
Significant changes to planned audit strategy or significant risks initially identified	There were no significant changes to the planned audit strategy or significant risks initially identified and previously communicated to those charged with governance as part of our Audit Plan communications.
Obtain information from those charged with governance relevant to the audit	There were no matters noted relevant to the audit, including, but not limited to: violations or possible violations of laws or regulations; risk of material misstatements, including fraud risks; or tips or complaints regarding the Hospital's financial reporting that we were made aware of as a result of our inquiry of those charged with governance.
Alternative accounting treatment	No alternative accounting treatments permissible under the applicable financial reporting framework for policies and practices related to material items were identified and discussed with management.
Significant unusual transactions	During the year ended June 30, 2025, we were not aware of any significant unusual transactions.
Consultations with other accountants	We are not aware of any consultations about accounting or auditing matters between management and other independent public accountants. Nor are we aware of opinions obtained by management from other independent public accountants on the application of requirements of an applicable financial reporting framework.
Significant matters identified by component auditors	During the component auditor's procedures, there were no significant matters identified that were deemed necessary to bring to group management's attention.
Significant findings and issues arising during the audit in connection with the Hospital's related parties*	We have evaluated whether the identified related party relationships and transactions have been appropriately identified, accounted for, and disclosed and whether the effects of the related party relationships and transactions, based on the audit evidence obtained, prevent the financial statements from achieving fair presentation.

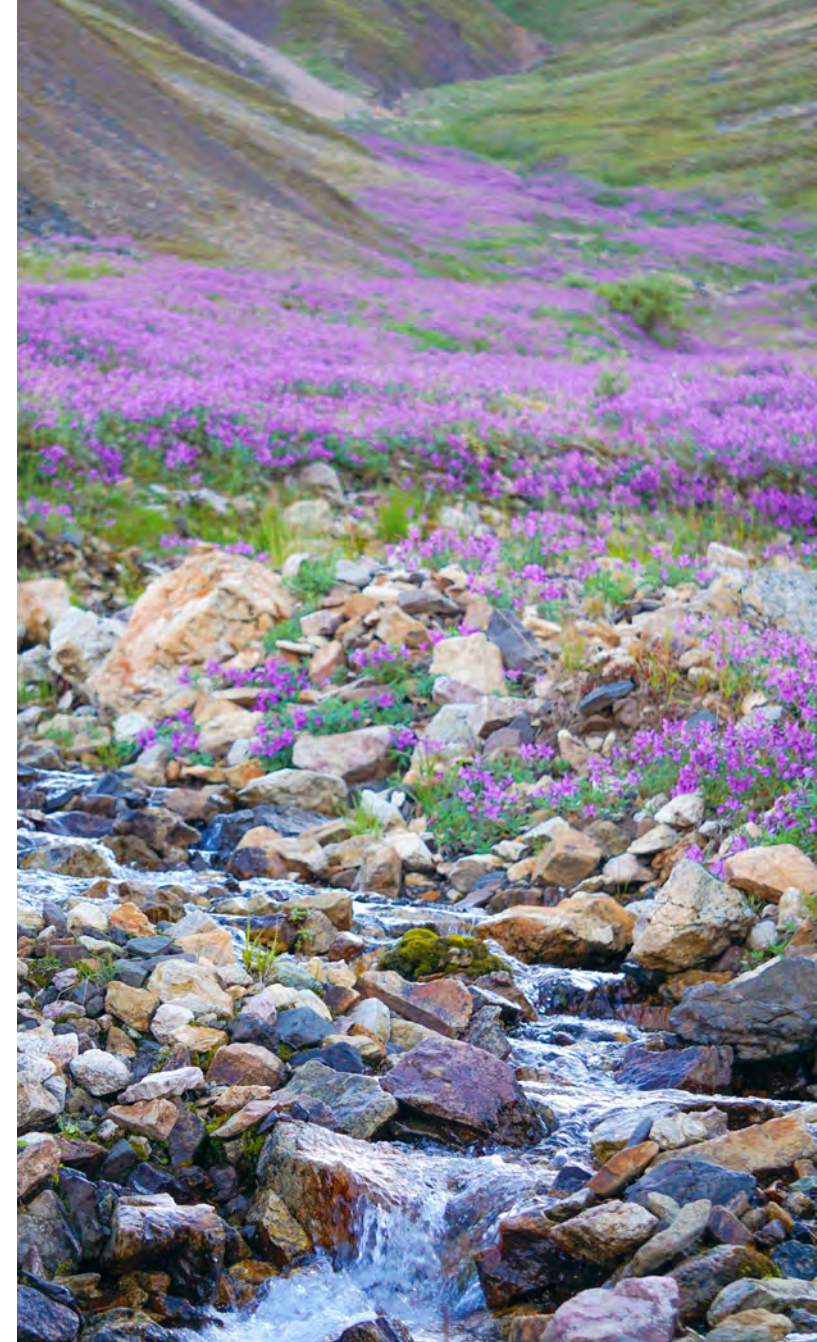
Other Required Communications (cont.)

Following is a summary of other required items, along with specific discussion points as they pertain to the Hospital:

Requirement	Discussion Point
Significant findings or issues arising during the audit that were discussed, or were the subject of correspondence, with management	There were no significant findings or issues arising during the audit that were discussed, or were the subject of correspondence, with management.
Disagreements with management	There were no disagreements with management about matters, whether or not satisfactorily resolved, that individually or in aggregate could be significant to the Hospital's financial statements or to our auditor's report.
Significant difficulties encountered during the audit	There were no significant difficulties encountered during the audit.
Matters that are difficult or contentious for which the auditor consulted outside the engagement team	There were no difficult or contentious matters that we consulted with others outside the engagement team that we reasonably determined to be relevant to those charged with governance regarding their oversight of the financial reporting process.
Representations requested from management	Please refer to the management representation letter .

Independence

Our engagement letter to you dated June 11, 2025, describes our responsibilities in accordance with professional standards and certain regulatory authorities and *Government Auditing Standards* regarding independence and the performance of our services. This letter also stipulates the responsibilities of the Hospital with respect to independence as agreed to by the Hospital. Please refer to that letter for further information.



Other Topics



BDO's System of Quality Management

An audit firm's effective system of quality management ("SoQM") is crucial for supporting the consistent performance of high-quality audits and reviews of financial statements, or other assurance or related services engagements under professional standards, and applicable legal and regulatory requirements.

Accordingly, BDO has implemented a SoQM designed to provide reasonable assurance that its professionals fulfill their responsibilities and conduct engagements in accordance with those standards and requirements. The firm's SoQM supports the consistent performance of quality audits through many ongoing activities including, at least annually, certification by leaders with responsibility for key controls and related processes. Our Assurance Quality Management team performs regular reviews and testing of key controls and processes throughout the SoQM and identifies and communicates areas for improvement. In addition, our Audit Quality Advisory Council supports our SoQM by providing guidance and input on audit quality initiatives.

As required by International Standard on Quality Management 1 (ISQM 1) under the International Auditing and Assurance Standards Board (IAASB), BDO has conducted an evaluation of the effectiveness of its system of quality management and concluded, as of July 31, 2024, that, except for certain deficiencies related to the execution of its issuer audits, that system provides the reasonable assurance that our professionals will perform audits and reviews of financial statements or related assurance services engagements in accordance with professional standards, and applicable legal and regulatory requirements. BDO has either implemented or is designing remedial actions to address those deficiencies prior to our next evaluation.



We will continue to provide you with updates on our progress. Currently, you may find discussion of BDO's system of quality management within our annual [Audit Quality Reports](#), the most recent of which is accessible [here](#).

[CLICK HERE TO ACCESS IAASB ISQM-1 IN ITS ENTIRETY >](#)

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