

South Peninsula Hospital
(A Component Unit of the Kenai Peninsula
Borough)

Basic Financial Statements, Required
Supplementary Information and *Government*
Auditing Standards Report
Years Ended June 30, 2025 and 2024

The report accompanying these financial statements was issued by
BDO USA, P.C., a Virginia professional corporation, and the U.S. member
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South Peninsula Hospital
(A Component Unit of the Kenai Peninsula Borough)

Basic Financial Statements, Required Supplementary Information
and *Government Auditing Standards* Report
Years Ended June 30, 2025 and 2024

South Peninsula Hospital
(A Component Unit of the Kenai Peninsula Borough)

Contents

	Page
Independent Auditor's Report	1-3
Management's Discussion & Analysis	6-14
Basic Financial Statements	
Statements of Net Position	16-17
Statements of Revenues, Expenses and Changes in Net Position	18
Statements of Cash Flows	19-20
Statements of Fiduciary Net Position	21
Statements of Changes in Fiduciary Net Position	22
Notes to Basic Financial Statements	23-48
Required Supplementary Information	
Schedule of Changes in the Net Pension Asset (Liability) and Related Ratios	51
Schedule of Pension Contributions	52
Other Reports	
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 <i>Government Auditing Standards</i>	55-56



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Independent Auditor's Report

To the Honorable Mayor and Members
of the Kenai Peninsula Borough Assembly,
and South Peninsula Hospital, Inc. Operating Board
Homer, Alaska

Report on the Audit of the Financial Statements

Opinions

We have audited the business-type activities of South Peninsula Hospital (the Hospital), a component unit of Kenai Peninsula Borough, as of and for the years ended June 30, 2025 and 2024, and its fiduciary activities as of December 31, 2024 and 2023, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Hospital, as of June 30, 2025, and 2024 and its fiduciary activities as of December 31, 2024 and 2023, and the changes in financial position and, where applicable, its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Hospital and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Hospital's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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Emphasis of Matters

As discussed in Note 15 to the financial statements, the Hospital adopted the provision of Governmental Accounting Standards Board Statement 101, *Compensated Absences*, as of July 1, 2023. As a result, there was no material impact on beginning net position as of July 1, 2023 and, but management elected to restate opening net position. Beginning net position was restated as of July 1, 2023. Our opinion is not modified with respect to this matter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Hospital's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Hospital's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.



Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedules of changes in the net pension (asset) liability and related ratios, and schedule of pension contributions be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2025 on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hospital's internal control over financial reporting and compliance.

BDO USA, P.C.

Anchorage, Alaska
October 30, 2025

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Management's Discussion and Analysis

South Peninsula Hospital
(A Component Unit of the Kenai Peninsula Borough)

Management's Discussion and Analysis

Introduction

South Peninsula Hospital (the Hospital) is a rural community hospital that serves a population of approximately 15,000 and spans 8,900 square miles. The Hospital's mission is to promote and improve community health and wellness by providing high quality, cost-effective, locally coordinated, and holistic healthcare.

South Peninsula Hospital provides a variety of services, including:

- Diagnostic Laboratory and Imaging
- Inpatient Hospitalization
- Outpatient Care
- General and Orthopedic Surgery
- Skilled Long-term Nursing Care
- 24-Hour Emergency Services
- Specialty Care Clinics
- Home Health Services
- Rehabilitation Therapy
- Sleep Lab Services
- Family Practice Services

The Hospital is a discretely presented component unit of the Kenai Peninsula Borough serving the Southern Kenai Peninsula. The Hospital operates as a not-for-profit hospital and healthcare organization with business-type activities. The Hospital follows accrual-based accounting and records transactions in accordance with Governmental Accounting Standards for an enterprise fund.

**The Statement of Net Position and
Statement of Revenues, Expenses and Changes in Net Position**

One of the most important questions asked about the Hospital's finances is, "is the Hospital as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenue, Expenses and Changes in Net Position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The Hospital's net position is the difference between its assets and liabilities reported on the Statement of Net Position.

These two statements report the Hospital's net position and changes in it. You can think of the Hospital's net position as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net position is one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the hospital's patient base and measures of the quality of service it provides to the service area, as well as local economic factors to assess the overall health of the Hospital.

South Peninsula Hospital
(A Component Unit of the Kenai Peninsula Borough)

Management's Discussion and Analysis

The Statement of Cash Flows

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and both capital and noncapital financing activities. It provides answers to such questions as "Where did cash come from?" "What was cash used for?" and "What was the change in cash during the reporting period?"

Fiduciary Fund

The Statements of Fiduciary Net Position and Changes in Fiduciary Net Position are presented for the South Peninsula Hospital Employees' Pension Plan and Trust, as it is required to be presented to account for resources held for the benefit of the participants where the Hospital acts as a trustee. The fund uses the accrual basis of accounting.

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South Peninsula Hospital
(A Component Unit of the Kenai Peninsula Borough)

Management's Discussion and Analysis

The Hospital's Net Position

During fiscal year 2025, the Hospital determined that certain liabilities related to compensated absences are reported as incurred liabilities reducing the unrestricted assets.

Summarized financial information of the Hospital's Statement of Net Position as of June 30, 2025, 2024 and 2023 (000's omitted) are as follows:

	2025	(Restated) 2024**	(Revised) 2023*
<i>Assets</i>			
Cash and cash equivalents	\$ 30,479	\$ 26,313	\$ 26,125
Net patient receivables	24,058	19,927	15,033
Other current assets	12,970	11,918	11,827
Capital assets, net	51,700	46,791	43,377
Other noncurrent assets	7,857	11,467	11,875
Total assets	127,064	116,416	108,237
Total deferred outflows	5,991	5,584	6,156
<i>Liabilities</i>			
Current liabilities	21,506	19,007	15,610
Noncurrent liabilities	12,003	12,299	11,651
Total liabilities	33,509	31,306	27,261
Total deferred inflows	178	337	570
<i>Net Position</i>			
Net investment in capital assets	40,070	34,722	31,467
Restricted	577	3,285	9,396
Unrestricted	58,722	52,350	45,699
Total net position	\$ 99,369	\$ 90,357	\$ 86,562

*Revised in 2024 for the implementation of GASB 100

**Restated in 2025 for the implementation of GASB 101

South Peninsula Hospital

(A Component Unit of the Kenai Peninsula Borough)

Management's Discussion and Analysis

The Hospital's net patient receivable increased by \$4.1 million in 2025. This increase is due to rate increases, the addition of new services, and due to time constraints while a new electronic medical record was being implemented. Current liabilities increased by \$2.5 million in 2025 due to increased payroll liabilities related to salary & FTE increases, the implementation of GASB 101, an increase in self-insured medical claim reserves, as well as an increase in advances from local government related to an advance from the Kenai Peninsula Borough for the purchase of a new electronic medical record, EMR. Noncurrent liabilities decreased by \$296 thousand in 2025 due to the payment of bond during the year. The Hospital's net patient receivable increased by \$4.9 million in 2024. This increase is mostly due to rate increases and the addition of new services. Current liabilities increase by \$3.5 million in 2024 due to increased payroll liabilities related to salary increases required by a collective bargaining agreement.

The Hospital's net position increased by \$9.0 million in 2025. This increase is related to a gain from operations of \$2.7 million and non-operating revenues of \$6.3 million as a result of \$1.6 million in grants, \$1.7 million in investment income from interest earnings, and \$3.98 million in property taxes. The increase in net position resulted in an increase in operating cash of \$4.1 million, an increase of \$645 thousand in equity in central treasury, and an increase of \$4.8 million in capital assets. The Hospital's net position increased by \$3.8 million in 2024. This increase is mostly due to the increase of the Hospital's investment in capital assets which resulted in an overall increase of net capital assets of \$3.4 million in 2024.

The capital infrastructure of the Hospital is primarily funded by an established property tax mil rate which pays for both debt service on bond issuance and provides for capital equipment replacement. There have been no significant recent changes to the debt structure. Long-range capital expenditures are expected to be adequately funded by this mil rate and funded depreciation.

Operating Results and Changes in the Hospital's Net Position

Summarized financial information of the Hospital's Statement of Revenues, Expenses and Changes in Net Position for the years ended June 30, 2025, 2024 and 2023 (000's omitted) are as follows:

	2025	(Restated) 2024**	(Revised) 2023*
Revenues:			
Operating Revenue:			
Net patient service revenue	\$ 146,909	\$ 123,979	\$ 106,939
Other operating revenue	1,219	1,072	756
Nonoperating Revenue:			
General property taxes	3,982	5,161	4,934
Grants and contributions	1,563	1,403	292
Investment income (loss)	1,665	1,558	556
Other nonoperating revenue	39	18	-
Gain on sale of assets	-	9	7
Total Revenues	155,377	133,200	113,484

South Peninsula Hospital
(A Component Unit of the Kenai Peninsula Borough)

Management's Discussion and Analysis

	2025	(Restated) 2024**	(Revised) 2023*
Expenses:			
Operating Expenses:			
Salaries and wages	68,239	60,237	51,628
Employee benefits	31,668	27,143	27,274
Professional fees	7,421	7,357	6,389
Supplies, drugs and food	17,487	14,485	12,071
Depreciation and amortization	5,848	5,701	5,188
Repairs and maintenance	4,464	3,846	3,336
Utilities and telephone	2,254	2,130	1,769
Contract staffing	3,110	2,918	2,995
Lease and rentals	468	279	225
Insurance	1,143	885	727
Travel, meetings and education	762	750	608
Dues, books and subscriptions	295	289	222
Other operating expenses	2,282	2,740	1,833
Nonoperating Expenses:			
Interest expense	676	541	502
Loss on sale of assets	76	-	-
Other expenses	172	104	133
Total Expenses	146,365	129,405	114,900
Change in net position	9,012	3,795	(1,416)
Net position, beginning of year, before adjustment	90,357	90,668	87,978
Change in Accounting Principle Implementation of GASB 101	-	(4,106)	-
Net position, beginning of year, after adjustment	90,357	86,562	87,978
Net position, end of year	\$ 99,369	\$ 90,357	\$ 86,562

*Revised in 2024 for the implementation of GASB 100.

**Restated in 2025 for the implementation of GASB 101.

South Peninsula Hospital
(A Component Unit of the Kenai Peninsula Borough)

Management's Discussion and Analysis

The Hospital realized a gain of \$2.7 million from operations for 2025 compared to a \$3.7 million loss in 2024. Gross patient revenue grew by 17.2% while net patient revenue increased by 18.5% due to rate increases and adding additional services. Net patient revenue for 2025 was \$22.9 million higher than previous year and operating expenses increased \$16.7 million. Of that increase, \$8 million was in salaries and wages, \$4.5 million was in employee benefits, and \$3 million was in supplies, drugs, and food. The majority of the increase in salaries and wages was from wage increases required by a collective bargaining agreement; other increases were due to expanding services by hiring additional staff and increased contract staffing. Employee benefit increases were attributed to significant employee health claim expenses experienced during 2025, which aligns with industry trends where those who put off care during the pandemic are now sicker and require care that is more expensive. Supply increases were related to an increase services combined with increases in supply costs.

The Hospital realized a loss of \$3.7 million from operations for 2024 compared to a \$2.5 million loss in 2023. Gross patient revenue grew by 16.5% while net patient revenue increased by 15.9% due to rate increases and adding additional services. Net patient revenue for 2024 was \$17 million higher than previous year and operating expenses increased \$18.6 million. Of that increase, \$8.6 million was in salaries and wages, \$3.9 million was in employee benefits, and \$2.4 million was in supplies, drugs, and food. The majority of the increase in salaries and wages was from wage increases required by a collective bargaining agreement; other increases were due to expanding services by hiring additional staff and reducing contract staffing. Employee benefit increases were attributed to significant employee health claim expenses experienced during 2024, which aligns with industry trends where those who put off care during the pandemic are now sicker and require care that is more expensive. Supply increase were related to an increase services combined with a decreased demand in supplies necessary to protect staff and to provide vaccinations and testing for COVID-19.

Operational changes for 2026 include the addition of a full time Pediatrician, Dermatologist, and Radiologist. In addition, the facility is recruiting to expand Behavioral Health Services and Primary Care. The hospital will also be opening a childcare facility for staff in the fall of FY26. implementation of the Electronic Health Record (EHR). The hospital anticipates that contract staffing levels will continue to decline as more permanent staff are hired.

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South Peninsula Hospital
(A Component Unit of the Kenai Peninsula Borough)

Management's Discussion and Analysis

Budgetary Highlights

	Actual	Budget	Variance
Revenue:			
Gross patient charges	\$ 267,455	\$ 267,343	\$ 112
Deductions	(120,546)	(126,098)	5,552
Other revenue	1,219	1,653	(434)
Total operating revenue	148,128	142,898	5,230
Operating Expenses:			
Salaries, wages and benefits	99,907	99,738	(169)
Professional fees and contract staffing	10,531	7,999	(2,532)
Supplies	17,487	16,857	(630)
Depreciation and amortization	5,848	4,712	(1,136)
Other	11,668	13,587	1,919
Total operating expenses	145,441	142,893	(2,548)
Gain from operations	2,687	5	2,682
Total nonoperating revenue, net	6,325	5,649	676
Change in net position	\$ 9,012	\$ 5,654	\$ 3,358

The Hospital exceeded budgeted revenue levels due to an increase in demand for treatment and the addition of new services. This variance resulted in net operating revenue, which was \$5.2 million above budget. Total expenses exceeded budget by \$2.5 million. Salaries, wages, and benefits were under budget by \$169 thousand due to inability to hire permanent staff in clinical areas as well as not meeting projected FTE due to delays in hiring childcare providers as a result of the childcare center not opening in FY25, medical claim reserves increased by 1.1 million from prior year. Professional fees and contract staffing exceeded budget by \$2.5 million as it took longer than expected to fill vacant medical and nursing positions as well as permanent staff, the facility is working to recruit an additional hospitalist and ER Physician. Supplies were \$630 thousand over budget due to increased services as well as increased prices. Total nonoperating gains were \$676 thousand above budget due to an increase in interest rates and grant revenues. Overall, the facility's net income in 2025 was \$3.3 million over budget.

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South Peninsula Hospital
(A Component Unit of the Kenai Peninsula Borough)

Management's Discussion and Analysis

Capital Assets

	2025	2024	2023
Capital Assets			
Land and land improvements	\$ 4,345	\$ 4,125	\$ 4,115
Buildings and building improvements	68,063	67,086	63,999
Equipment	28,627	30,188	27,858
Right-to-use leased equipment	6,009	5,570	3,275
Subscription IT assets	890	2,135	1,987
Improvements other than buildings	1,522	927	311
Construction in progress	7,469	1,879	1,254
Less accumulated depreciation and amortization	(65,225)	(65,119)	(59,422)
Capital Assets, net	\$ 51,700	\$ 46,791	\$ 43,377

The capital infrastructure of the Hospital is primarily funded by an established property tax mil rate which pays for both debt service on bond issuance and provides for capital equipment replacement. There have been no significant recent changes to the debt structure. Long-range capital expenditures are expected to be adequately funded by this mil rate and funded depreciation.

As of year-end, the Hospital has \$51.7 million (net of accumulated depreciation and amortization) invested in capital assets. In 2025, the Hospital's capital improvement projects totaled \$10.9 million with \$1 million in intangible right to use buildings and software, and \$2.1 million in major moveable equipment, \$1.4 million in buildings and fixed equipment and \$603 thousand in other improvements. Among the largest capital purchases was the remodel of the PT area for OBGYN to combine Certified Nurse Midwife Services and OBGYN services in one location within the main facility. Other large projects included RAD PACS Archive and Upgrade, SAGE ERP, and the replacement C ARM. Total capital asset depreciation and amortization for 2025 was \$5.9 million and total asset additions less construction in progress deletions were \$9.8 million. In 2025 as part of the SAGE ERP implementation a new fixed asset software module was implemented and \$4.3 million in fully depreciated obsolete and no longer utilized assets were retired. Resulting in an overall increase in net capital assets of \$4.8 million from year prior.

In 2024, the Hospital has \$46.8 million (net of accumulated depreciation and amortization) invested in capital assets. In 2024, the Hospital's capital improvement projects totaled \$9.1 million with \$2.4 million in intangible right to use buildings and software, and \$3.0 million in major moveable equipment, and \$3.7 million in buildings and fixed equipment. Among the largest capital purchases were the replacement of a portion of the Hospital air conditioning unit and the addition of

South Peninsula Hospital
(A Component Unit of the Kenai Peninsula Borough)

Management's Discussion and Analysis

SmartRobotics equipment. Total capital asset depreciation and amortization for 2024 was \$5.7 million and total asset additions less construction in progress deletions were \$9.1 million, resulting in an overall increase in net capital assets of \$3.4 million from year prior.

Other Economic Factors

There are issues facing the hospital that could result in material changes in its financial position in the long term. Among those issues are:

- Risks related to changes in Medicare and Medicaid reimbursement
- Risks related to changes in the marketplace subsidies/Affordable Care Act
- Competition in the local healthcare market
- Nursing and other healthcare related labor shortages
- Global Supply Chain Issues

The hospital is certified as a provider under both the Medicare program, which provides certain healthcare benefits to beneficiaries who are over 65 year of age or disabled, and the Medicaid program, funded jointly by the federal government and the state, which provides medical assistance to certain needy individuals and families. Approximately 45% of the hospital's gross patient revenue for 2025 was derived from Medicare and 21% from Medicaid.

Statement on Risks Related to the One Big Beautiful Bill (OB BB) Act

The Hospital's future financial trajectory and operating results are subject to certain risks and uncertainties due to the recently enacted One Big Beautiful Bill (OB BB) Act. This new legislation is expected to significantly impact our primary revenue sources, particularly with changes to Medicare and Medicaid reimbursement rates and expanded patient cost-sharing requirements.

As described in the accompanying combined financial statements, these regulatory changes create significant risks, including an increase in uncompensated care and a potential decrease in patient volumes. This could put pressure on our operating margins and increase the administrative burden associated with verifying coverage and addressing patient financial inquiries. The full financial impact is uncertain and will depend on multiple factors, including patient utilization trends and the Hospital's successful implementation of cost-containment and operational efficiency strategies. Management is conducting financial modeling to assess these risks and develop appropriate strategies, but there can be no assurance that the Hospital will be able to fully mitigate the adverse financial effects of the OB BB Act.

Contacting the Hospital's Financial Management

The financial report is designed to provide our patients, suppliers, investors and creditors with a general overview of the Hospital's finances. If you have questions about this report or need additional information, contact the Hospital's Finance Office at 4300 Bartlett, Homer, Alaska, 99603.

Basic Financial Statements

South Peninsula Hospital
(A Component Unit of the Kenai Peninsula Borough)
Statements of Net Position

<i>June 30,</i>	2025	Restated 2024
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and cash equivalents	\$ 30,479,148	\$ 26,312,886
Equity in central treasury of Kenai Peninsula Borough	8,791,199	8,178,507
Total cash and cash equivalents and equity in central treasury of Kenai Peninsula Borough	39,270,347	34,491,393
Patient receivables, net of contractual allowances of \$13,904,784 in 2025 and \$13,286,528 in 2024	29,584,005	24,415,457
Less estimated uncollectibles	(5,526,422)	(4,488,193)
Net patient receivables	24,057,583	19,927,264
Property taxes receivable	87,848	103,313
Less estimated uncollectible taxes	(11,950)	(7,817)
Property taxes receivable, net of allowances of \$11,950 in 2025 and \$7,817 in 2024	75,898	95,496
Other receivables	270,530	417,614
Inventory	2,663,363	2,340,673
Prepaid expenses	1,169,457	885,528
Total Current Assets	67,507,178	58,157,968
Restricted Assets		
Net pension asset	534,985	3,225,068
Unspent bond proceeds - equity in central treasury of Kenai Peninsula Borough	21,775	23,253
Other	19,855	36,311
Total Restricted Assets	576,615	3,284,632
Assets Whose Use is Limited		
Plant replacement and expansion fund equity in central treasury of Kenai Peninsula Borough	7,280,457	8,182,060
Capital assets, net	51,700,238	46,790,951
Total Assets	127,064,488	116,415,611
Deferred Outflows of Resources		
Pension related	5,828,198	5,360,446
Unamortized deferred charge on refunding	162,789	223,835
Total Deferred Outflows of Resources	5,990,987	5,584,281
Total Assets and Deferred Outflows of Resources	\$ 133,055,475	\$ 121,999,892

See accompanying notes to basic financial statements.

South Peninsula Hospital
(A Component Unit of the Kenai Peninsula Borough)

Statements of Net Position, continued

<i>June 30,</i>	2025	Restated 2024
Liabilities, Deferred Inflows of Resources and Net Position		
Current Liabilities		
Accounts and contracts payable	\$ 2,060,845	\$ 2,373,544
Accrued liabilities	4,280,063	3,551,294
Medical claims reserve	3,380,893	2,259,834
Unearned revenue	901,149	1,296,047
Current portion of bonds payable	1,250,000	1,195,000
Current portion of advances from primary government	279,960	8,112
Current portion of leases payable	1,014,194	867,284
Current portion of subscription IT assets payable	199,887	332,153
Current portion of compensated absences	6,997,411	6,162,329
Bond interest payable	64,361	81,820
Due to third-party payors	1,076,864	879,746
Total Current Liabilities	21,505,627	19,007,163
Long-term Liabilities		
Bonds payable, net of current portion	4,170,000	5,420,000
Advances from primary government, net of current portion	822,820	37,338
Unamortized premium on bonds payable	181,041	271,850
Leases payable, net of current portion	3,855,262	3,942,930
Subscription IT assets payable, net of current portion	41,365	241,257
Compensated absences, net of current portion	2,932,180	2,385,178
Total Long-term Liabilities	12,002,668	12,298,553
Total Liabilities	33,508,295	31,305,716
Deferred Inflows of Resources		
Pension related	37,757	56,276
Property taxes received in advance	140,616	281,220
Total Deferred Inflows of Resources	178,373	337,496
Net Position		
Net investment in capital assets	40,070,273	34,722,115
Restricted for:		
Pension benefits	534,985	3,225,068
Debt service	21,775	23,253
Other	19,855	36,311
Unrestricted	58,721,919	52,349,933
Total Net Position	99,368,807	90,356,680
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 133,055,475	\$ 121,999,892

See accompanying notes to basic financial statements.

South Peninsula Hospital
(A Component Unit of the Kenai Peninsula Borough)

Statements of Revenues, Expenses and Changes in Net Position

<i>Years Ended June 30,</i>	2025	Restated 2024
Operating Revenues		
Gross patient charges	\$ 267,454,484	\$ 228,217,402
Less charges associated with charity care	(2,601,203)	(1,668,124)
Patient service revenue	264,853,281	226,549,278
Contractual adjustments	(114,415,433)	(98,859,181)
Provision for bad debts	(3,529,144)	(3,711,094)
Net patient service revenue	146,908,704	123,979,003
Other operating revenue	1,219,150	1,072,092
Total Operating Revenues	148,127,854	125,051,095
Operating Expenses		
Salaries and wages	68,239,206	60,236,977
Employee benefits	31,667,894	27,142,753
Professional fees	7,421,376	7,357,186
Supplies, drugs and food	17,486,943	14,484,544
Depreciation and amortization	5,848,418	5,701,331
Repairs and maintenance	4,464,000	3,845,567
Utilities and telephone	2,254,175	2,130,276
Contract staffing	3,109,886	2,917,721
Lease and rentals	467,808	279,408
Insurance	1,143,157	884,660
Travel, meetings and education	762,630	749,580
Dues, books and subscriptions	294,194	288,495
Other operating expenses	2,281,574	2,740,194
Total Operating Expenses	145,441,261	128,758,692
Income (loss) from operations	2,686,593	(3,707,597)
Nonoperating Revenues (Expenses)		
General property taxes	3,982,176	5,160,918
Grants and contributions	1,563,372	1,402,764
Other income	39,878	17,889
Investment income	1,664,527	1,558,025
Gain (loss) on sale of assets	(75,873)	9,275
Interest expense	(676,231)	(540,922)
Other expenses	(172,315)	(105,630)
Total Nonoperating Revenues, net	6,325,534	7,502,319
Change in net position	9,012,127	3,794,722
Net Position, beginning of year, before adjustment	90,356,680	90,668,303
Change in Accounting Principle - Implementation of GASB 101	-	(4,106,345)
Net Position, beginning of year, after adjustment	90,356,680	86,561,958
Net Position, end of year	\$ 99,368,807	\$ 90,356,680

See accompanying notes to basic financial statements.

South Peninsula Hospital
(A Component Unit of the Kenai Peninsula Borough)

Statements of Cash Flows

<i>Years Ended June 30,</i>	2025	Restated 2024
Cash Flows from Operating Activities		
Receipts from patients and users	\$ 142,975,503	\$ 119,025,911
Payments to suppliers	(39,426,056)	(34,578,136)
Payments to employees	(95,650,381)	(85,212,816)
Other receipts	1,424,386	958,517
Net cash flows from operating activities	9,323,452	193,476
Cash Flows from Non-Capital Financing Activities		
Receipts from property taxes	3,861,170	4,941,095
Grant and other non-operating revenues (expenses)	977,885	2,505,996
Net cash flows from non-capital financing activities	4,839,055	7,447,091
Cash Flows for Capital and Related Financing Activities		
Purchase of capital assets	(9,832,095)	(6,145,533)
Bond principal paid	(1,195,000)	(1,850,000)
Payments on leases	(866,368)	(329,781)
Payments on subscription IT assets	(332,158)	(524,335)
Interest paid on capital debt	(723,453)	(613,552)
Increase in advances from primary government	1,057,330	-
Note proceeds	-	45,450
Proceeds from sale of capital assets	(75,873)	9,275
Net cash flows for capital and related financing activities	(11,967,617)	(9,408,476)
Cash Flows from Investing Activities		
Increase (decrease) in restricted assets - unspent bond proceeds and other	17,934	(12,989)
Increase in assets whose use is limited	901,603	87,124
Interest and dividends received	1,664,527	1,558,025
Net cash flows from investing activities	2,584,064	1,632,160
Net increase (decrease) in cash and cash equivalents	4,778,954	(135,749)
Cash, Cash Equivalents and Equity in Central Treasury, beginning of year	34,491,393	34,627,142
Cash, Cash Equivalents and Equity in Central Treasury, end of year	\$ 39,270,347	\$ 34,491,393

See accompanying notes to basic financial statements.

South Peninsula Hospital
(A Component Unit of the Kenai Peninsula Borough)

Statements of Cash Flows, continued

<i>Years Ended June 30,</i>	2025	Restated 2024
Reconciliation of Income (Loss) from Operations to Net		
Cash Flows from Operating Activities		
Income (loss) from operations	\$ 2,686,593	\$ (3,707,597)
Adjustments to reconcile income (loss) from operations to net cash from operating activities:		
Depreciation and amortization	5,848,418	5,701,331
Change in assets, deferred outflows and liabilities:		
Patient receivables, net	(4,130,319)	(4,894,077)
Other receivables	143,925	(53,796)
Inventory	(322,690)	(210,640)
Prepaid expenses	(283,929)	(148,298)
Net pension asset	2,690,083	334,551
Deferred outflows - pension related	(467,752)	503,813
Accounts and contracts payable	(312,699)	888,674
Accrued liabilities	728,769	969,970
Medical claims reserve	1,121,059	612,041
Unearned revenue	61,311	(59,779)
Due to third-party payors	197,118	(59,015)
Compensated absences	1,382,084	334,817
Deferred inflows - pension related	(18,519)	(18,519)
Total adjustments	6,636,859	3,901,073
Net Cash Flows from Operating Activities	\$ 9,323,452	\$ 193,476
Supplemental Disclosure of Cash-Flow Information		
Contributed capital assets from Primary Government	\$ -	\$ 93,172
Capital assets acquired with leases	\$ 925,610	\$ 2,722,894
Capital assets acquired with subscription IT assets	\$ -	\$ 148,848

See accompanying notes to basic financial statements.

South Peninsula Hospital
(A Component Unit of the Kenai Peninsula Borough)

Statements of Fiduciary Net Position - Pension Trust Fund
South Peninsula Hospital Employees' Pension Plan and Trust

<i>December 31,</i>	2024	2023
Assets		
Investments, at fair value	\$ 14,859,439	\$ 16,810,802
Cash	-	(41,773)
Total Assets	14,859,439	16,769,029
Net Position - restricted for pensions	\$ 14,859,439	\$ 16,769,029

See notes to accompanying basic financial statements.

South Peninsula Hospital
(A Component Unit of the Kenai Peninsula Borough)

Statements of Changes in Fiduciary Net Position - Pension Trust Fund
South Peninsula Hospital Employees' Pension Plan and Trust

<i>Years Ended December 31,</i>	2024	2023
Additions:		
Investment income (loss)	\$ (770,060)	\$ 2,335,914
Employer contributions	332,250	1,417,697
Total Additions	(437,810)	3,753,611
Deductions:		
Benefits paid to participants	1,471,780	10,531,239
Total Deductions	1,471,780	10,531,239
Net Decrease in Fiduciary Net Position	(1,909,590)	(6,777,628)
Net Position, beginning of year	16,769,029	23,546,657
Net Position, end of year	\$ 14,859,439	\$ 16,769,029

See notes to accompanying basic financial statements.

South Peninsula Hospital
(A Component Unit of the Kenai Peninsula Borough)

Notes to Basic Financial Statements
June 30, 2025 and 2024

1. The Reporting Entity

The South Peninsula Hospital (the Hospital) is a component unit of the Kenai Peninsula Borough (the Borough), which was incorporated as a second-class borough on January 1, 1964, under provisions of the State of Alaska Borough Act of 1961. The South Peninsula Hospital accounts for the provision of Hospital services for the south peninsula area within the Kenai Peninsula Borough. The South Peninsula Hospital is operated under a sublease and operating agreement (“Operating Agreement”) by South Peninsula Hospital, Inc. Under the terms of this agreement, which expires December 31, 2029, with an optional five-year extension, the South Peninsula Hospital Service Area provides funds to the Hospital, for payment of debt service, additions to, repairs and replacement of property, plant, and equipment and for operational purposes if needed.

In 2012, the Kenai Peninsula Borough adopted the provisions of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*. In connection therewith, the Kenai Peninsula Borough reviewed its legal and contractual agreements with the South Peninsula Hospital, which was previously reported as an enterprise fund, and has determined that, for financial reporting purposes in accordance with generally accepted accounting principles, this activity is appropriately recorded as a discretely presented enterprise component unit of the Kenai Peninsula Borough.

South Peninsula Hospital Employee’s Pension Plan and Trust (the Fiduciary Fund) is noncontributory defined benefit pension plan covering certain employees of the Hospital. It is reported as a component unit because the Hospital appoints a voting majority of the Trustees of the Fiduciary Fund. The Hospital reports the South Peninsula Hospital Employee’s Pension Plan and Trust as a fiduciary fund under the provisions of GASB Statement No. 84, *Fiduciary Activities*, as it is a pension plan that is administered through a trust in which contributions are irrevocable, assets are dedicated to providing pensions to plan members, and assets are legally protected from creditors. The Fiduciary Fund’s fiscal year is December 31; therefore, the financial information presented for the Fiduciary Fund are as of and for the fiscal years ended December 31, 2024 and 2023.

2. Summary of Significant Accounting Policies

Enterprise Accounting

Enterprise activities accounting is used to account for government operations which are financed and operated in a manner similar to private business enterprises. It is the intent of the Hospital that the costs (expenses, including depreciation and amortization) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges.

The acquisition, maintenance and improvement of the physical plant facilities required to provide these services are financed from existing cash resources of the Hospital and the Kenai Peninsula Borough including the issuance of general obligation bonds by the Kenai Peninsula Borough on behalf of the Hospital.

The accrual basis of accounting is followed by the Hospital and by the Fiduciary Fund. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when incurred.

South Peninsula Hospital
(A Component Unit of the Kenai Peninsula Borough)

Notes to Basic Financial Statements

Operating vs. Non-operating Revenues and Expenses

The Hospital has defined operating revenues to include all patient service charges and other applicable charges for services directly attributable to providing healthcare services, product sales or other related community health services. Operating expenses are defined as those expenses directly related to providing services including administrative expenses, and depreciation and amortization, and excludes expenses utilized directly for capital projects which are charged to capital assets. Non-operating revenues and expenses are not directly attributable to the services provided. This includes investment interest, property taxes, gain (loss) on disposal of capital assets, and non-operating grant revenue.

Equity in Central Treasury

The Kenai Peninsula Borough has combined monies available for investment from all of the Borough's separate reporting funds and component units into a "Central Treasury". The Central Treasury concept permits the more efficient investment of the combined assets. Each entity whose monies are deposited in the Central Treasury has equity therein.

Cash Equivalents

For purposes of the statements of cash flows, the Hospital considers all highly liquid investments and deposits in the Kenai Peninsula Borough central treasury to be cash equivalents except those included in assets whose use is limited and restricted assets. The central treasury, which holds cash and investments, is used essentially as a cash management pool by each fund or entity.

Investments

The Hospital's policy is to invest only in obligations of the U.S. Treasury, its agencies and instrumentalities, fully collateralized certificates of deposit, commercial paper, and money market mutual funds. Investments are stated at fair value.

The fiduciary fund reports investments at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Purchases and sales of securities are recorded on a trade-date basis. Dividends are recorded on the ex-dividend date. Investment income includes gains and losses on the investments bought and sold as well as held during the year.

Restricted Assets

Restricted assets include net pension assets, bond proceeds, and other cash and investments that are restricted due to external agreements.

Assets Whose Use is Limited

Assets whose use is limited are assets set aside by the Board for uses over which the Board retains control and may, at its discretion, use for other purposes.

Inventory

Inventory consists primarily of Hospital supplies and pharmaceuticals and is stated at the lower of cost (first-in, first-out method) or market.

South Peninsula Hospital
(A Component Unit of the Kenai Peninsula Borough)

Notes to Basic Financial Statements

Prepaid Expenses

Certain payments to vendors reflect cost applicable to future accounting periods and are recorded as prepaid expenses.

Capital Assets

Capital assets are stated at cost less accumulated depreciation. To be considered for capitalization, the cost of an asset must exceed \$5,000 and the service life must exceed one year. Land and construction in progress are not depreciated. Expenditures for renewals and betterments are capitalized and maintenance and repairs are expensed when incurred. Gains and losses upon asset disposal are reflected in income. Depreciation is charged to operations by use of the straight-line method over the estimated useful lives of the assets, estimated as follows:

Buildings and building improvements	10-50 years
Improvements other than buildings	5-25 years
Equipment	3-15 years

Deferred Outflows and Deferred Inflows

A deferred outflow represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then. A deferred inflow represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenues) until that time. Deferred outflows consist of deferred charges on debt refunding, goodwill, and outflows related to the pension plan. Deferred inflows of resources consist of inflows related to the pension plan and payments received as of June 30 for property taxes due October 15th. Such deferred property tax revenues are for support for the following fiscal year operations.

Net Position

In the financial statements, net position is reported under three classifications.

The net investment in capital assets classification represents the position of net position related to the Hospital's investment in capital assets net of capital related obligations.

The restricted classification reflects constraints imposed on resources either by (a) externally by creditors, grantors, contributors, or laws or regulations; or (b) imposed by law through constitutional provisions or enabling legislation.

The unrestricted classification reflects the residual amount of net position.

When both restricted and unrestricted resources are available for use, it is the Hospital's policy to use restricted resources first followed by unrestricted.

Pensions

For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the plan and additions to/from the plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

South Peninsula Hospital
(A Component Unit of the Kenai Peninsula Borough)

Notes to Basic Financial Statements

Property Taxes

Property taxes attach as an enforceable lien on property as of January 1 each year. Taxes are levied by the Kenai Peninsula Borough on July 1 and are due in either two installments on September 15 and November 15, or one installment due October 15. The Borough bills and collects property taxes of the Borough service areas including the South Peninsula Hospital.

Charity Care

The Hospital provides cares to patients who meet certain criteria under its charity policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not included in net revenue.

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors and estimated provision for bad debts. Retroactive adjustments are accrued as estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. The provision for uncollectible patient accounts receivable is based on the duration the patient's account has been outstanding, current economic conditions, and historical collection experience.

Federal and State Grants and Deferred Revenue

The Hospital recognizes revenue from grants when the expenses have been incurred for the purpose specified by the grantor or in accordance with the terms of the agreement. Payments received in advance are reported as deferred revenue. The Hospital is subject to examination by the funding sources of grants to determine compliance with grant provisions. If expenditures could be disallowed though such examination of review, repayment of such disallowances could be required.

Leases

The Hospital is party to multiple leases of nonfinancial assets as a lessee. South Peninsula Hospital recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the statement of net position.

At the commencement of a lease, the Hospital initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

South Peninsula Hospital
(A Component Unit of the Kenai Peninsula Borough)

Notes to Basic Financial Statements

Key estimates and judgments related to leases include how the Hospital determines (1) the discount rate used to discount the expected lease payments to present value, (2) lease term, and (3) lease payments. The Hospital uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the Hospital generally uses its estimated incremental borrowing rate as the discount rate for leases. The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the Hospital is reasonably certain to exercise.

The Hospital monitors changes in circumstances that would require a remeasurement of its leases and will remeasure lease assets and liabilities if certain changes occur that are expected to significantly affect the amount of any lease liability. Lease assets are reported with other capital assets and lease liabilities are reported with long-term debt on the statement of net position.

Subscription-Based Information Technology Arrangements

The Hospital is party to 19 subscription-based information technology arrangements (SBITAs). The Hospital recognizes a subscription liability and an intangible right-to-use subscription asset (subscription asset) in the statement of net position. The Hospital recognizes subscription liabilities with an initial term greater than twelve months and an individual annual value of \$5,000 or more. Remaining subscription terms range from 1 to 4 years with fixed payments due at various time frames depending on arrangement terms. For SBITAs with a maximum possible term of 12 months or less at commencement, the Hospital recognizes expenses based on the provisions of the arrangement.

At the commencement of a SBITA, the Hospital initially measures the subscription liability at the present value of expected subscription payments to be made over the SBITA term. Subsequently, the subscription liability is reduced by the principal portion of subscription payments made. The subscription asset is initially measured as the initial measurement of the subscription liability, adjusted for payments associated with the SBITA contract made to the vendor at the commencement of the subscription term, plus any capitalizable initial implementation costs, less any vendor incentives received at the commencement of the subscription term. Subsequently, the subscription asset is amortized on a straight-line basis over the shorter of the useful life of the IT asset or subscription term.

Key estimates and judgments related to SBITAs include how the Hospital determines (1) the discount rate it uses to discount the expected subscription payments to present value, (2) the subscription term, and (3) subscription payments.

The Hospital uses the interest rate charged by the vendor as the discount rate. When the interest rate charged by the vendor is not provided, the Hospital generally uses its estimated incremental borrowing rate as the discount rate. The subscription term includes the noncancellable period during which the Hospital has a noncancellable right to use the underlying IT assets. The subscription term also includes periods covered by an option to extend if reasonably certain the Hospital or vendor will exercise that option or to terminate if it is reasonably certain that the Hospital or vendor will not exercise that option. Subscription payments included in the measurement of the subscription liability are composed of fixed payments.

The Hospital monitors changes in circumstances that would require a remeasurement of a SBITA and will remeasure the subscription asset and subscription liability if certain changes occur that are expected to significantly affect the amount of the subscription liability.

South Peninsula Hospital
(A Component Unit of the Kenai Peninsula Borough)

Notes to Basic Financial Statements

Subscription assets are reported with other capital assets and subscription liabilities are reported with long-term obligations on the statement of net position.

The Hospital capitalizes qualifying initial implementation costs of \$5,000 or more as part of the subscription asset. Preliminary project stage outlays are expensed as included. Operation and additional implementation stage activities are expensed as incurred unless they meet specific capitalization criteria.

Compensated Absences

Compensated absences are leave benefits for which employees will be paid, such as vacation/paid time off (PTO) and sick leave. South Peninsula Hospital's policy permits employees to accumulate earned but unused vacation/PTO leave benefits, up to a maximum of 420 hours, which are eligible for payment upon separation from service. South Peninsula Hospital also permits employees to accumulate earned by unused sick leave, up to a maximum of 400 hours, which are not paid out upon separation from service. The liability for such leave is reported as incurred in the financial statements. The liability for compensated absences includes salary-related payments, where applicable.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

3. Uncompensated Care

Bad debts and charity care are subtracted from patient service revenue to arrive at net patient revenue. The following information relates to uncompensated care for the years ended June 30, 2025 and 2024.

	2025	2024
Bad debt	\$ 3,529,144	\$ 3,711,094
Charges forgone, based on established rates (unaudited)	2,601,203	1,668,124
Total Uncompensated Care	\$ 6,130,347	\$ 5,379,218

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South Peninsula Hospital
(A Component Unit of the Kenai Peninsula Borough)

Notes to Basic Financial Statements

4. Deposits and Investments

Deposits for the Hospital consisted of the following at June 30, 2025 and 2024:

	2025		2024	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
Bank accounts	\$ 30,490,694	\$ 33,707,093	\$ 26,341,318	\$ 26,626,535
Cash on hand	3,307	-	2,876	-
	30,494,001	33,707,093	26,344,194	26,626,535
Less cash equivalents included in restricted assets	(14,853)	-	(31,308)	-
Cash and Cash Equivalents	\$ 30,479,148	\$ 33,707,093	\$ 26,312,886	\$ 26,626,535

For the cash and cash equivalents and for central treasury cash, the checking account balances are fully insured by federal deposit insurance or collateralized by securities which are held by the financial institution or third party and the Borough's agent in the Kenai Peninsula Borough's name.

The Kenai Peninsula Borough has combined monies available for investment from all of the Borough's separate funds and several component units into a "Central Treasury."

The Hospital's investment in the Central Treasury is recorded on the statements of net position as follows:

	2025	2024
Equity in Central Treasury of Kenai Peninsula Borough	\$ 16,093,431	\$ 16,383,820
Less amount included in assets whose use is limited:		
Plant replacement and expansion fund	(7,280,457)	(8,182,060)
Unspent bond proceeds	(21,775)	(23,253)
Total Equity in Central Treasury	\$ 8,791,199	\$ 8,178,507

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South Peninsula Hospital
(A Component Unit of the Kenai Peninsula Borough)

Notes to Basic Financial Statements

Fiduciary Fund Investments

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described as follows:

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

Level 2 Inputs to the valuation methodology include:

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

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

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

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

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in methodologies used at December 31, 2024 and 2023.

Common collective trusts: Valued at the net asset value (NAV) of units of a bank collective trust. NAV is readily determinable fair value and is the basis for current transactions. Transactions (purchases and sales) may occur daily.

Money market fund: Consists of investments in an institutions money market fund that permits daily redemption, the fair value of which is based upon the quoted price in active markets provided by the financial institution managing this fund.

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

South Peninsula Hospital
(A Component Unit of the Kenai Peninsula Borough)

Notes to Basic Financial Statements

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

The following table sets forth by level, within the fair value hierarchy, the fiduciary fund's investments at fair value:

<i>December 31, 2024</i>	Level 1	Level 2	Level 3	Total
Common collective trusts	\$ -	\$ 1,931,693	\$ -	\$ 1,931,693
Mutual funds	-	12,435,131	-	12,435,131
Money market fund	492,615	-	-	492,615
Total Investments at Fair Value	\$ 492,615	\$ 14,366,824	\$ -	\$ 14,859,439
<i>December 31, 2023</i>	Level 1	Level 2	Level 3	Total
Common collective trusts	\$ -	\$ 1,983,535	\$ -	\$ 1,983,535
Mutual funds	-	14,344,018	-	14,344,018
Money market fund	483,249	-	-	483,249
Total Investments at Fair Value	\$ 483,249	\$ 16,327,553	\$ -	\$ 16,810,802

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South Peninsula Hospital
(A Component Unit of the Kenai Peninsula Borough)

Notes to Basic Financial Statements

5. Capital Assets

A summary of the changes in capital assets during fiscal year 2025 follows:

	Balance July 1, 2024	Additions	Deletions	Balance June 30, 2025
Land and land improvements	\$ 4,124,558	\$ 278,112	\$ (57,097)	\$ 4,345,573
Construction in progress	1,878,835	15,417,119	(9,827,179)	7,468,775
Total nondepreciable assets	6,003,393	15,695,231	(9,884,276)	11,814,348
Buildings and building improvements	67,085,720	1,687,647	(709,970)	68,063,397
Equipment	30,187,940	2,115,817	(3,676,834)	28,626,923
Right-to-use leased equipment	5,570,261	705,496	(266,955)	6,008,802
Subscription IT assets	2,135,559	-	(1,245,419)	890,140
Improvements other than buildings	926,890	602,276	(7,652)	1,521,514
Total depreciable assets	105,906,370	5,111,236	(5,906,830)	105,110,776
Total capital assets	111,909,763	20,806,467	(15,791,106)	116,925,124
Less accumulated depreciation and amortization for:				
Land improvements	(3,110,603)	(181,902)	39,924	(3,252,581)
Buildings	(34,611,380)	(2,717,882)	603,238	(36,726,024)
Equipment	(23,795,165)	(1,618,287)	3,487,440	(21,926,012)
Right-to-use leased equipment	(1,841,259)	(682,669)	335,127	(2,188,801)
Subscription IT assets	(1,545,340)	(377,022)	1,268,337	(654,025)
Improvements other than buildings	(215,065)	(270,656)	8,278	(477,443)
Total accumulated depreciation and amortization	(65,118,812)	(5,848,418)	5,742,344	(65,224,886)
Net Capital Assets	\$ 46,790,951	\$ 14,958,049	\$ (10,048,762)	\$ 51,700,238

South Peninsula Hospital
(A Component Unit of the Kenai Peninsula Borough)

Notes to Basic Financial Statements

A summary of the changes in capital assets during fiscal year 2024 follows:

	Balance July 1, 2023	Additions	Deletions	Balance June 30, 2024
Land and land improvements	\$ 4,114,693	\$ 9,865	\$ -	\$ 4,124,558
Construction in progress	1,254,244	6,667,736	(6,043,145)	1,878,835
Total nondepreciable assets	5,368,937	6,677,601	(6,043,145)	6,003,393
Buildings and building improvements	63,998,830	3,086,890	-	67,085,720
Equipment	27,858,480	2,329,460	-	30,187,940
Right-to-use leased equipment	3,275,027	2,295,234	-	5,570,261
Subscription IT assets	1,986,711	148,848	-	2,135,559
Improvements other than buildings	311,331	615,559	-	926,890
Total depreciable assets	97,430,379	8,475,991	-	105,906,370
Total capital assets	102,799,316	15,153,592	(6,043,145)	111,909,763
Less accumulated depreciation and amortization for:				
Land improvements	(2,932,010)	(178,593)	-	(3,110,603)
Buildings	(32,167,658)	(2,443,722)	-	(34,611,380)
Equipment	(22,108,530)	(1,686,635)	-	(23,795,165)
Right-to-use leased equipment	(1,197,523)	(643,736)	-	(1,841,259)
Subscription IT assets	(899,083)	(646,257)	-	(1,545,340)
Improvements other than buildings	(117,677)	(97,388)	-	(215,065)
Total accumulated depreciation and amortization	(59,422,481)	(5,696,331)	-	(65,118,812)
Net Capital Assets	\$ 43,376,835	\$ 9,457,261	\$ (6,043,145)	\$ 46,790,951

South Peninsula Hospital
(A Component Unit of the Kenai Peninsula Borough)

Notes to Basic Financial Statements

6. Long-term Obligations

Changes in general obligations bonds for the year ended June 30, 2025 is as follows:

General Obligation Bonds:

	Balance June 30, 2024	Additions	Retired	Balance June 30, 2025	Due Within One Year
General Obligation Bonds					
General obligation bonds 2017 series in annual installments, including a coupon rate ranging between 2.5% - 5.0%, maturing in May 2032	\$ 2,750,000	\$ -	\$ 295,000	\$ 2,455,000	\$ 310,000
Refunding general obligation bonds 2015 series (2007 original issue) in annual installments, including a coupon rate ranging between 2.0% - 5.0%, maturing in March 2028	3,865,000	-	900,000	2,965,000	940,000
Total General Obligation Bonds	6,615,000	-	1,195,000	5,420,000	1,250,000
Plus Unamortized Bond Premium	271,850	-	90,809	181,041	-
Total Bonds Payable	\$ 6,886,850	\$ -	\$ 1,285,809	\$ 5,601,041	\$ 1,250,000

Other Long-term Obligations:

Changes in other long-term obligations for the year ended June 30, 2025 is as follows:

	Balance June 30, 2024	Additions	Retired	Balance June 30, 2025	Due Within One Year
Advance from Primary Government (KPB)	\$ 45,450	\$ 1,159,810	\$ 102,480	\$ 1,102,780	\$ 279,960
Compensated Absences	8,547,50	7,463,981	6,081,897	9,929,591	6,997,411
Lease Liabilities	4,810,214	925,610	866,368	4,869,456	1,014,194
Subscription Liabilities	573,410	-	332,158	241,252	199,887
Total Other Long-term Obligations	\$ 13,976,581	\$ 9,549,401	\$ 7,382,903	\$ 16,143,079	\$ 8,491,452

South Peninsula Hospital
(A Component Unit of the Kenai Peninsula Borough)

Notes to Basic Financial Statements

Changes in general obligations bonds for the year ended June 30, 2024 is as follows:

General Obligation Bonds:

	Balance June 30, 2023	Additions	Retired	Balance June 30, 2024	Due Within One Year
General Obligation Bonds					
General obligation bonds 2017 series in annual installments, including a coupon rate ranging between 2.5% - 5.0%, maturing in May 2032	\$ 3,040,000	\$ -	\$ 290,000	\$ 2,750,000	\$ 295,000
Refunding general obligation bonds 2016 series (2007 original issue) in annual installments, including a coupon rate ranging between 2.0% - 5.0%, maturing in December 2023	705,000	-	705,000	-	-
Refunding general obligation bonds 2015 series (2007 original issue) in annual installments, including a coupon rate ranging between 2.0% - 5.0%, maturing in March 2028	4,720,000	-	855,000	3,865,000	900,000
Total General Obligation Bonds	8,465,000	-	1,850,000	6,615,000	1,195,000
Plus Unamortized Bond Premium	389,368	-	117,518	271,580	-
Total Bonds Payable	\$ 8,854,368	\$ -	\$ 1,967,518	\$ 6,886,580	\$ 1,195,000

Other Long-term Obligations:

Changes in other long-term obligations for the year ended June 30, 2024 is as follows:

	Balance June 30, 2023	Additions	Retired	Balance June 30, 2024	Due within one year
Advance from Local Government (KPB)	\$ -	\$ 45,450	\$ -	\$ 45,450	\$ 8,112
Compensated Absences	-	8,547,507	-	8,547,507	6,162,329
Lease Liabilities	2,417,101	2,722,894	329,781	4,810,214	867,284
Subscription Liabilities	948,897	148,848	534,335	573,410	332,153
Total Other Long-term Obligations	\$ 3,365,998	\$11,464,699	\$864,116	\$ 13,976,581	\$57,369,878

South Peninsula Hospital
(A Component Unit of the Kenai Peninsula Borough)

Notes to Basic Financial Statements

Advance from Primary Government Payable:

In June of 2024, the Hospital received a loan for up to \$7,000,000 from the Kenai Peninsula Borough to finance the replacement of the Hospital's EMR software. The five-year advance has a fixed interest rate of 4.81% that compounds daily. The Hospital is required to make quarterly principal and interest payments. As of June 30, 2025, the Hospital has received loan proceeds of \$1,205,260.

Lease Liabilities:

During the current year, the Hospital continued multiple-year lease agreements as a lessee for various nonfinancial assets. As of June 30, 2025, the outstanding balance on the leases was \$4,869,456. The Hospital is required to make monthly principal and interest payments. The Hospital uses a variety of discount rates as determined by the specifics of each lease, which range from 5.25% to 10.50%. The nonfinancial assets have various useful lives. No material direct costs payments were made. The value of the right-to-use asset as of June 30, 2025 was \$6,008,802 and had accumulated amortization of \$2,188,801.

Subscription IT Assets Payable:

The Hospital recognizes a subscription-based IT arrangement payable for numerous contracts in which the Hospital, acting as the subscriber, is granted the right to use a vendor's proprietary software. The contracts did not contain a stated interest rate, so the Hospital used an incremental borrowing rate, which range from 6.23% to 8.57%, as the discounted rate. As of June 30, 2025, the outstanding balance on the contracts was \$241,252. The value of the right-to-use asset as of June 30, 2025 was \$890,140 and had accumulated amortization of \$654,025.

The future principal and interest payments for long-term liabilities as of June 30, 2025 are as follows:

Year Ending June 30,	General Obligation Bonds		
	Principal	Interest	Total
2026	\$ 1,250,000	\$ 237,919	\$ 1,487,919
2027	1,315,000	175,419	1,490,419
2028	1,375,000	109,669	1,484,669
2029	355,000	47,719	402,719
2030	365,000	37,069	402,069
2031-2032	760,000	39,138	799,138
	\$ 5,420,000	\$ 646,933	\$ 6,066,933

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South Peninsula Hospital
(A Component Unit of the Kenai Peninsula Borough)

Notes to Basic Financial Statements

<i>Year Ending June 30,</i>	Advance from Primary Government		
	Principal	Interest	Total
2026	\$ 279,960	\$ 59,826	\$ 339,786
2027	236,236	35,593	271,829
2028	247,813	24,016	271,829
2029	260,086	11,743	271,829
2030	78,685	1,133	79,818
	\$ 1,102,780	\$ 132,311	\$ 1,235,091

<i>Year Ending June 30,</i>	Lease Payables		
	Principal	Interest	Total
2026	\$ 1,014,194	\$ 350,068	\$ 1,364,262
2027	1,026,806	268,096	1,294,902
2028	1,076,756	182,111	1,258,867
2029	879,890	103,080	982,970
2030	617,998	44,246	662,244
2031-2032	253,812	15,024	268,836
	\$ 4,869,456	\$ 962,625	\$ 5,832,081

<i>Year Ending June 30,</i>	Subscription IT Asset Payable		
	Principal	Interest	Total
2026	\$ 199,887	\$ 6,614	\$ 206,501
2027	41,365	474	41,839
	\$ 241,252	\$ 7,088	\$ 248,340

7. Deferred Charge on Bonds

The Hospital issued bonds in 2007, which were refunded in 2015 (see Note 6 regarding long-term obligations) resulting in a deferred charge on bonds. The unamortized balance as of June 30, 2025 and 2024 was \$162,789 and \$223,835, respectively. Amortization expense for the years ending June 30, 2025 and 2024 was \$61,046 and \$63,284, respectively.

South Peninsula Hospital
(A Component Unit of the Kenai Peninsula Borough)

Notes to Basic Financial Statements

8. Restricted Net Position

The Hospital has restricted net position of \$576,615 June 30, 2025 and \$3,284,632 as of June 30, 2024. The restrictions include net pension assets, unspent bond proceeds, and restricted cash.

9. Functional Expenses

Operating expenses grouped according to function are as follows for the years ended June 30, 2025 and 2024:

	2025	2024
Operating Expenses		
Healthcare services	\$ 105,681,131	\$ 100,059,513
Fiscal, administrative and facility services	33,911,712	22,997,848
Depreciation and amortization	5,848,418	5,701,331
Total Operating Expenses	\$ 145,441,261	\$ 128,758,692

10. Third-Party Payer Programs

The Hospital has agreements with third-party payers that provide for reimbursement at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's established rates for services and amounts reimbursed by third-party payers. A summary of the basis of reimbursement with major third-party payers follows:

Medicare

Critical Access Hospitals are paid based on each Hospital's reported costs. Inpatient, Outpatient, Laboratory, Therapy, and Swing-Bed services are paid at 101 percent of the Hospital's cost of providing those services. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports and audits by the Medicare fiscal intermediary.

Medicaid

Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid for through a cost reimbursement method. Inpatient stays are paid on a per day rate. Outpatient services are reimbursed as a percentage of charges.

Commercial

The Hospital has multiple commercial payer contracts with the largest portions of revenue coming from Premera and Aetna. The Hospital is reimbursed at a percentage of charges with its commercial payers.

South Peninsula Hospital
(A Component Unit of the Kenai Peninsula Borough)

Notes to Basic Financial Statements

Balances due to third-party payers are as follows for the years ended June 30, 2025 and 2024:

	2025	2024
Due to Third-Party Payors - Medicare	\$ 1,076,864	\$ 879,746

Composition of payers of gross patient receivables and revenues is approximated as follows for the year ended June 30, 2025:

	Revenues	Patient Receivables
Commercial	31%	39%
Medicare	45	32
Medicaid	21	18
Self-pay and other	3	11
	100%	100%

Composition of payers of gross patient receivables and revenues is approximated as follows for the year ended June 30, 2024:

	Revenues	Patient Receivables
Commercial	33%	44%
Medicare	41	28
Medicaid	23	19
Self-pay and other	3	8
	100%	100%

11. Defined Benefit Pension Plan

Description of Plan

The Hospital employees participate in the South Peninsula Hospital Employees' Pension Plan, a defined-benefit single-employer plan. The Plan was established and is administered by the South Peninsula Hospital. The Plan issues separate financial statements that are available by contacting the Hospital at South Peninsula Hospital, 4300 Bartlett Street, Homer, Alaska 99603. As of January 1, 2013, the plan is "frozen for nonunion employees" and will not accept participants other than those previously designated. The Plan has been closed to all employees hired after February 28, 2016.

Benefits Provided

The Plan provides retirement, disability, and death benefits. Retirement benefits for employees are calculated as 0.69% of the employee's average annual compensation plus 0.4% of the average compensation in excess of \$10,000 times years of service to a maximum of 35 years. Average compensation is determined based on the highest five years. Employees with 3 years of continuous

South Peninsula Hospital
(A Component Unit of the Kenai Peninsula Borough)

Notes to Basic Financial Statements

service are eligible to retire at age 65. Employees with 12 years of continuous service are eligible to retire at age 55. Disability retirement benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Death benefits equal 50% of the participant's deferred vested benefit. An employee who leaves the Hospital's service may withdraw his or her contributions, plus any accumulated interest.

Benefit terms provide for annual cost-of-living adjustments to each employee's retirement allowance subsequent to the employee's retirement date.

At January 1, 2025 and 2024, respectively, the following employees were covered by the benefit terms:

	2025	2024
Inactive employees or beneficiaries currently receiving benefits	9	1
Inactive employees entitled to, but not yet receiving benefits	6	7
Active employees	122	136
	137	144

Contributions

The Plan's funding policy provides for actuarially determined periodic contributions by the Hospital at rates that, for individual employees, increase gradually over time so that sufficient assets will be available to pay benefits when due. The Plan uses the Unit Credit cost funding actuarial method. Significant actuarial assumptions used to calculate the net pension obligation are identical to those used for funding purposes. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Employees do not contribute to the Plan. For the year ended June 30, 2025 and 2024, respectively, the Hospital's average contribution rate was 0% and 14.04% percent of annual payroll.

Net Pension Asset

The Hospital's net pension asset was measured as of June 30, 2025 and 2024, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of January 1, 2025 and 2024.

Actuarial Assumptions

The total pension liability in the June 30, 2025 and 2024 actuarial valuation was determined using the following actuarial assumptions.

	2025	2024
Inflation	2.0% to 2.5%, annually	2.0% to 2.5%, annually
Salary increases	2.50%, average, including inflation	2.50%, average, including inflation
Investment rate of return	5.50%	6.25%

South Peninsula Hospital
(A Component Unit of the Kenai Peninsula Borough)

Notes to Basic Financial Statements

Mortality rates for June 30, 2025 and 2024 were based on the Pri-2012 White Collar Mortality, projected with MP-2021 for plan funding.

The actuarial assumptions used in the June 30, 2025 valuation were based on the results of an actuarial experience study for the period January 1, 2024 to December 31, 2024. The actuarial assumptions used in the June 30, 2024 valuation were based on the results of an actuarial experience study for the period January 1, 2023 to December 31, 2023.

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 the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity	5%	5.5%
Fixed income	95	5.5
Total	100%	

Discount Rate

The discount rate used to measure the total pension liability June 30, 2025 and 2024 was 5.5% and 6.25%, respectively. The projection of cash flows used to determine the discount rate assumed that Hospital contributions will be made at rates equal to the actuarially determined contribution rates. 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 active and inactive employees. 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.

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South Peninsula Hospital
(A Component Unit of the Kenai Peninsula Borough)

Notes to Basic Financial Statements

Net Pension Liability (Asset)

	Total Pension Liability	Plan Net Position	Net Pension Asset
Balances at June 30, 2023	\$11,532,692	\$15,092,311	\$ (3,559,619)
Charges for the year:			
Service cost	275,064	-	275,062
Interest	820,556	-	820,556
Difference between expected and actual experience	(677,992)	-	(677,991)
Assumption changes	1,262,786	-	1,262,786
Contributions - employer	-	996,751	(996,750)
Net investment income	-	349,112	(349,112)
Benefit payments	(897,298)	(897,298)	-
Net change for the year	783,116	448,565	334,551
Balances at June 30, 2024	\$12,315,808	\$15,540,876	\$ (3,225,068)
Charges for the year:			
Service cost	325,632	-	325,632
Interest	785,101	-	785,101
Difference between expected and actual experience	550,849	-	550,849
Assumption changes	1,435,122	-	1,435,122
Contributions - employer	-	-	-
Net investment income	-	406,621	(406,621)
Benefit payments	(839,916)	(839,916)	-
Net change for the year	2,256,788	(433,295)	2,690,083
Balances at June 30, 2025	\$14,572,596	\$15,107,581	\$ (534,985)

South Peninsula Hospital
(A Component Unit of the Kenai Peninsula Borough)

Notes to Basic Financial Statements

Sensitivity Net Pension Asset

The following presents the pension asset of the Hospital, calculated using the discount rate of 5.50 percent, as well as what the Hospital's pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.50 percent) or 1-percentage-point higher (6.50 percent) than the current rate:

	1% Decrease 4.50%	Current Discount Rate 5.50%	1% Increase 6.50%
Net pension liability (asset) June 30, 2025	\$ 1,806,675	\$ (534,985)	\$ (2,357,325)

The following presents the pension asset of the Hospital, calculated using the discount rate of 6.25 percent, as well as what the Hospital's pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25 percent) or 1-percentage-point higher (7.25 percent) than the current rate:

	1% Decrease 5.25%	Current Discount Rate 6.25%	1% Increase 7.25%
Net pension liability (asset) June 30, 2024	\$ (1,229,527)	\$ (3,225,068)	\$ (4,870,625)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Plan's financial report. If you have questions about that report or need additional information, contact the Hospital's Finance Office at 4300 Bartlett, Homer, Alaska, 99603.

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

For the year ended June 30, 2025 and 2024, the Hospital recognized pension expense of \$2,203,812 and \$1,816,595, respectively.

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South Peninsula Hospital
(A Component Unit of the Kenai Peninsula Borough)

Notes to Basic Financial Statements

At June 30, 2025, the Hospital reported deferred outflows of resources related to pensions from the following sources:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual experience	\$ -	\$ 1,573,078
Changes in assumptions	37,757	2,220,666
Net difference between projected and actual earnings on pension investments	-	2,034,454
Total Deferred Inflows and Outflows of Resources - Pension Related	\$ 37,757	\$ 5,828,198

At June 30, 2024, the Hospital reported deferred outflows of resources related to pensions from the following sources:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual experience	\$ -	\$ 2,087,602
Changes in assumptions	56,276	1,216,303
Net difference between projected and actual earnings on pension investments	-	2,056,541
Total Deferred Inflows and Outflows of Resources - Pension Related	\$ 56,276	\$ 5,360,446

Net amounts reported as deferred inflows and outflows of resources related to pensions will be recognized in pension expense as follows:

*Year Ending
June 30*

2026	\$ 2,521,250
2027	1,329,782
2028	647,674
2029	441,385
2030	329,445
Thereafter	520,905
Total	\$ 5,790,441

South Peninsula Hospital
(A Component Unit of the Kenai Peninsula Borough)

Notes to Basic Financial Statements

12. Deferred Compensation Plans

The Hospital offers union and nonunion deferred compensation plans created in accordance with Internal Revenue Code Section 403(b). The union plan, available to all union employees hired after March 1, 2016, has a 4% defined contribution and an additional 2% match. The nonunion plan has a discretionary defined contribution and match of up to 4%. The deferred compensation is generally not available to employees until termination, retirement, death, or unforeseeable emergency although the Plan organized under Section 403(b) allows employees to borrow against their accounts subject to certain restrictions.

In accordance with the Internal Revenue Code, all assets and income of the Plans are held in trust for the exclusive benefit of participants and their beneficiaries.

13. Risk Management

The Hospital is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, medical malpractice, errors and omissions, injuries to employees, and natural disasters. The Hospital has claims outstanding at year end that management believes the chances of an adverse outcome are either remote or the loss cannot be reasonably estimated; therefore, there is no accrual at year end. The Hospital purchases commercial insurance for all risks of loss except as described below.

The Hospital is insured for medical malpractice claims by a modified claims-made policy for any occurrence since January 1, 1987 reported during the current policy period or renewal thereof. Management has no reason to believe that the Hospital will not be able to obtain such coverage in future periods. The Hospital also retains \$100,000 of medical claims expense per covered employee each year, with coverage limited to a lifetime maximum of \$1,000,000 per covered employee.

Self-Insured Health Plan

The Hospital is self-insured for employee health insurance claims. Health Plan administration and processing is contracted to an independent third-party service provider. Health expense claims, administrative fees, and stop loss premiums are accrued in the period incurred. An estimate for claims incurred but not reported (IBNR) and claims incurred but not paid (IBNP) as of the Statement of Net Position's date has been recorded based on claims lag reports from the plan administrator. A schedule of the changes in the claims liability for the years ended June 30, 2025 and 2024 follows:

	2025	2024
Medical claims reserve liabilities, beginning of year	\$ 2,259,834	\$ 1,647,793
Current year claims incurred and changes in estimates for claims incurred in prior years	20,179,328	16,247,152
Claims and expenses paid	(19,058,269)	(15,635,111)
Medical Claims Reserve Liabilities, end of year	\$ 3,380,893	\$ 2,259,834

South Peninsula Hospital
(A Component Unit of the Kenai Peninsula Borough)

Notes to Basic Financial Statements

14. Subsequent Events

The Advance from the primary government increased to a total of \$3,844,516 in July 2025, including one advance of \$2,768,866.

Changes to future payments for this long-term obligation are as follows:

<i>Year Ending June 30,</i>	Advance from Primary Government - Restated		
	Principal	Interest	Total
2026	\$ 737,148	\$ 166,411	\$ 903,559
2027	766,903	136,656	903,559
2028	804,428	99,131	903,559
2029	844,326	59,232	903,558
2030	691,711	19,857	711,568
	\$ 3,844,516	\$ 481,287	\$ 4,325,803

Property Acquisition:

On August 19, 2025 the Kenai Peninsula Borough Assembly approved Ordinance 2025-19-06. The ordinance authorizes the acquisition of four properties, appropriates \$2,046,500 for the acquisitions, and an additional \$55,000 for related due diligence, administrative, and closing fees from the SPH Plant Replacement and Expansion Fund, PREF, fund balance. Total funds to be used are \$2,101,500. PREF funds are funds sent to the Kenai Peninsula Borough at the end of each quarter when days cash on hand exceed 90 days. The Kenai Peninsula Borough holds these funds to be used for capital purchases or operations if needed.

Walls et al. Property - Purchase price: \$500,000; physical address: 324 West Fairview Avenue The Walls et al. property consists of a .19-acre lot and 1,028-square-foot existing residential structure, to be demolished after closing. The Walls et al. Property lies within the Homer Medical District.

Westwing, LLC Property - Purchase price: \$550,000; physical address: 4117 Bartlett Street The Westwing, LLC Property consists of a .19-acre lot and 1,612-square-foot office building currently under lease by SPHI for \$3,000 per month. SPHI intends to immediately occupy the building after closing. The Westwing, LLC Property lies within the Homer Medical District.

Lazy Bulldogs, LLC Property - Purchase price: \$825,000; physical address: 3714 Greatland Street The Lazy Bulldogs, LLC Property consists of a .34-acre lot and a 1,650-square-foot office building. SPHI intends to immediately occupy the building after closing. The Lazy Bulldogs, LLC Property lies within the Homer Central Business District.

Pacific Premier Trust Property - Purchase price: \$171,500; physical address: 4323 Main St. The Pacific Premier Trust Property consists of a 4.82-acre vacant parcel. The Pacific Premier Trust Property lies within the Homer Rural Residential District.

South Peninsula Hospital
(A Component Unit of the Kenai Peninsula Borough)

Notes to Basic Financial Statements

15. Change in Accounting Principle

For the year ended June 30, 2025, the Hospital had a change in accounting principle for the implementation of GASB Statement No. 101, *Compensated Absences*. The nature of the changes are as follows:

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 changes in accounting principle resulted in adjustments to the beginning net position as follows:

	6/30/2024 As Previously Reported	Change in Accounting Principle	6/30/2024 As Restated
Current Liabilities			
Accrued liabilities	7,992,456	(4,441,162)	3,551,294
Current portion of compensated absences	-	6,162,329	6,162,329
Long-term Liabilities			
Compensated absences, net of current portion	-	2,385,178	2,385,178
Net Position, beginning of year	\$ 90,668,303	\$ (4,106,345)	\$ 86,561,958

16. Risks Related to Legislative and Regulatory Change (One Big Beautiful Bill Act)

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.

- Revenue cycle risk: The OBBBA includes provisions that alter eligibility criteria and reduce federal funding for certain Medicaid and Affordable Care Act (ACA) marketplace coverage. These changes are expected to increase the number of uninsured individuals and decrease overall reimbursement rates. These factors could lead to a decline in net patient service revenue and a corresponding increase in uncollectible patient accounts. The Hospital is actively analyzing the potential revenue cycle impacts, which are highly dependent on the state-specific Medicaid policy interpretations and the ultimate number of patients who lose coverage.
- Billing and compliance risk: The OBBBA has directed significant federal investment into artificial intelligence (AI) tools designed to detect fraudulent billing and utilization patterns, especially within Medicare and Medicaid programs. While the technology is intended to identify fraudulent use, it creates a risk of billing errors or false positives that could lead to denied claims, payment delays, and potential penalties. The Hospital is evaluating and updating its billing workflows, software, and compliance protocols to mitigate this risk.

South Peninsula Hospital
(A Component Unit of the Kenai Peninsula Borough)

Notes to Basic Financial Statements

- Operational and liquidity risk: Changes to reimbursement rates, coupled with ongoing inflationary pressures on labor and supply costs, may reduce the Hospital's operating margins and cash flow. The bill also increases regulatory oversight of private equity investment in healthcare, which could reduce the availability of capital for operational improvements. These factors may affect the Hospital's liquidity and ability to fund strategic initiatives and capital expenditures.
- Forward-looking statement: This disclosure is based on current interpretations of the OBBBA and is subject to change. The Hospital has modeled a range of potential financial outcomes based on various assumptions, but the actual impact could differ materially from current estimates. The Hospital will continue to monitor developments and adjust its risk mitigation strategies and financial reporting as more information becomes available.

17. New Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has issued several new accounting standards with upcoming implementation dates. The following new accounting standards were implemented by the Hospital for 2025 reporting:

GASB Statement No. 101 - Compensated Absences - Effective for year-end June 30, 2025. Earlier application is encouraged. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. There was a change in accounting principle in the financial statements from implementing GASB 101, see Note 15.

GASB Statement No. 102 - Certain Risk Disclosures - Effective for year-end June 30, 2025. Earlier application is encouraged. The objective of this Statement is to provide users of the government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. The disclosures will provide users with timely information regarding certain concentrations or constraints and related events that have occurred or have begun to occur that make a government vulnerable to a substantial impact. As a result, the adoption of GASB 102 required additional disclosure regarding the recently enacted One Big Beautiful Bill Act. See Note 16.

The GASB has issued new accounting standards with upcoming implementation dates. Management has not fully evaluated the potential effects of these statements, and actual impacts have not yet been determined. The statements are as follows:

GASB Statement No. 103 - Financial Reporting Model Improvements - Effective for year-end June 30, 2026. Earlier application is encouraged. The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues.

GASB Statement No. 104 - Disclosure of Certain Capital Assets - Effective for year-end June 30, 2026. Earlier application is encouraged. The objective of this Statement is to provide users of governmental financial statements with essential information about certain types of capital assets in order to make informed decisions and assess accountability. The disclosure requirements will improve consistency and comparability between governments.

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Required Supplementary Information

South Peninsula Hospital
(A Component Unit of the Kenai Peninsula Borough)

Schedule of Changes in the Net Pension (Asset) Liability and Related Ratios

<i>Years Ended June 30,</i>	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Total Pension Liability										
Service costs	\$ 325,632	\$ 275,064	\$ 351,869	\$ 354,338	\$ 373,822	\$ 402,959	\$ 460,975	\$ 552,945	\$ 677,790	\$ 685,421
Interest	785,101	820,556	1,383,321	1,303,668	1,176,670	1,173,850	1,186,280	1,165,248	1,095,431	1,084,781
Changes in assumptions	1,435,122	1,262,786	-	45,827	467,682	(9,010)	(157,344)	24,287	23,460	22,728
Difference between expected and actual experience	550,849	(677,992)	2,199,297	1,103,860	662,719	496,583	493,686	89,493	646,237	151,435
Benefit payments, including refunds of employee contributions	(839,916)	(897,298)	(12,183,739)	(1,664,386)	(1,676,959)	(2,397,916)	(1,924,438)	(1,138,595)	(1,752,472)	(1,831,964)
Net Change in Total Pension Liability	2,256,788	783,116	(8,249,252)	1,143,307	1,003,934	(333,534)	59,159	693,378	690,446	112,401
Total Pension Liability - beginning of year	12,315,808	11,532,692	19,781,944	18,638,637	17,634,703	17,968,237	17,909,078	17,215,700	16,525,254	16,412,853
Total Pension Liability - end of year	\$ 14,572,596	\$ 12,315,808	\$ 11,532,692	\$ 19,781,944	\$ 18,638,637	\$ 17,634,703	\$ 17,968,237	\$ 17,909,078	\$ 17,215,700	\$ 16,525,254
Plan Fiduciary Net Position										
Contributions - employer	\$ -	\$ 996,751	\$ 1,368,250	\$ 1,950,000	\$ 2,925,000	\$ 2,250,000	\$ 2,475,000	\$ 2,990,000	\$ 1,174,500	\$ 681,750
Additional investment return	406,621	349,112	1,450,147	(3,067,310)	5,191,769	1,032,801	1,181,078	1,070,126	1,518,194	144,855
Benefit payments, including refunds of employee contributions	(839,916)	(897,298)	(12,183,739)	(1,664,386)	(1,676,959)	(2,397,916)	(1,924,438)	(1,138,595)	(1,752,472)	(1,831,964)
Net Change in Plan Fiduciary Net Position	(433,295)	448,565	(9,365,342)	(2,781,696)	6,439,810	884,885	1,731,640	2,921,531	940,222	(1,005,359)
Plan Fiduciary Net Position - beginning of year	15,540,876	15,092,311	24,457,653	27,239,349	20,799,539	19,914,654	18,183,014	15,261,483	14,321,261	15,326,620
Plan Fiduciary Net Position - end of year	\$ 15,107,581	\$ 15,540,876	\$ 15,092,311	\$ 24,457,653	\$ 27,239,349	\$ 20,799,539	\$ 19,914,654	\$ 18,183,014	\$ 15,261,483	\$ 14,321,261
Hospital's Net Pension (Asset) Liability	\$ (534,985)	\$ (3,225,068)	\$ (3,559,619)	\$ (4,675,709)	\$ (8,600,712)	\$ (3,164,836)	\$ (1,946,417)	\$ (273,936)	\$ 1,954,217	\$ 2,203,993
Plan fiduciary net position as a percentage of the total pension asset (liability)	103.67%	126.19%	130.87%	123.64%	146.14%	117.90%	110.80%	101.50%	88.65%	86.66%
Covered-employee payroll	\$ 6,351,198	\$ 7,096,914	\$ 7,661,992	\$ 8,981,095	\$ 8,612,159	\$ 9,423,893	\$ 10,864,897	\$ 11,374,381	\$ 18,456,466	\$ 19,654,269
Hospital's net pension (asset) liability as a percentage of covered-employee payroll	8.42%	45.44%	46.46%	52.06%	99.87%	33.60%	-17.90%	-2.40%	10.59%	11.21%

See notes to RSI on the following page.

South Peninsula Hospital
(A Component Unit of the Kenai Peninsula Borough)

Schedule of Pension Contributions

<i>Years Ended June 30,</i>	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Actuarially determined contribution	\$ 810,626	\$ 724,146	\$ 771,464	\$ -	\$ -	\$ 1,414,858	\$ 1,722,750	\$ 1,231,588	\$ 1,386,433	\$ 1,354,770
Contributions in relation to the actuarially determined contribution	-	996,750	1,368,250	1,950,000	2,925,000	2,250,000	2,475,000	2,990,000	1,174,500	681,750
Contribution deficiency (excess)	\$ 810,626	\$ (272,604)	\$ (596,786)	\$ (1,950,000)	\$ (2,925,000)	\$ (835,142)	\$ (752,250)	\$ (1,758,412)	\$ 211,933	\$ 673,020
Covered-employee payroll	\$ 6,351,198	\$ 7,096,914	\$ 7,661,992	\$ 8,981,095	\$ 8,612,159	\$ 9,423,893	\$ 10,864,897	\$ 11,374,381	\$ 18,456,466	\$ 19,654,269
Contributions as a percentage of covered-employee payroll	0.00%	14.04%	17.86%	21.71%	33.96%	23.88%	22.78%	26.29%	6.36%	3.47%

Notes to RSI:

The Schedule of Changes in the Net Pension (Asset) Liability NS Related Ratios Plan measurement date. For June 30, 2025 the Plan measurement date is June 30, 2025.

The Schedule of Pension Contributions is based on the Hospitals contributions for each year presented.

Valuation date: Actuarially determined contributions rates are calculated as of January 1, 2025.

Methods and Assumptions Used to Determine Contribution Rates

Discount Rate	5.50%
Remaining Amortization Period	7.99 to 13.33 years
Asset Valuation Method	5-year smooth market
Inflation	2.0% to 2.5%, annually
Salary Increases	2.50%, average, including inflation
Investment Rate of Return	5.50%
Retirement Age	All participants are assumed to retire at age 55 or 65 depending on years of service.
Mortality	Pri-2012 White Collar Mortality, projected with MP-2021

Change in Assumptions

In 2025, the discount rate and investment rate of return were lowered from 6.25% to 5.5%

The actuarial assumptions used in the June 30, 2025 valuation were based on the results of an actuarial experience study for the period January 1, 2024 to December 31, 2024.

The actuarial assumptions used in the June 30, 2024 valuation were based on the results of an actuarial experience study for the period January 1, 2023 to December 31, 2023.

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Single Audit Section



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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*

To the Honorable Mayor and Members
of the Kenai Peninsula Borough Assembly,
and South Peninsula Hospital
Operating Board
Homer, Alaska

We have audited, in accordance with the 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 the business-type activities of South Peninsula Hospital (the Hospital), a component unit of the Kenai Peninsula Borough, as of and for the year ended June 30, 2025, and its fiduciary activities as of December 31, 2024, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated October 30, 2025.

Report on 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 audit procedures that are appropriate in the circumstances 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.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital'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 financial statements. 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 Hospital'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 Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BDO USA, P.C.

Anchorage, Alaska
October 30, 2025