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, 2022 and 2021

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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 financial statements of South Peninsula Hospital (the Hospital), a component unit of Kenai Peninsula Borough, as of and for the years ended June 30, 2022 and 2021, the statements of fiduciary net position and changes in fiduciary net position as of December 31, 2021 and 2020, 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 Hospital as of June 30, 2022 and 2021 and its fiduciary fund as of December 31, 2021 and 2020, and the changes in financial position and its cash flows thereof for the years 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 opinion.

Emphasis of Matters

As discussed in Note 9 to the financial statements, the Hospital adopted the provisions of Governmental Accounting Standards Board Statement Number 87, Leases. As a result, net position has been restated as of July 1, 2020. Our opinion is not modified with respect to this matter.

As discussed in Note 18 to the financial statements, the Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position on pages 19 and 20 present comparative information for the year ended December 31, 2020 that was omitted from the basic financial statements of the Hospital for the year ended June 30, 2021. The inclusion of this information reflects a correction of an error from the previously issued fiscal year ended June 30, 2021 audited statements. Our opinion is not modified with respect to this matter

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.

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 and schedules of changes in the Hospital's net pension (asset) liability and Hospital 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.

Supplementary Information

Our audit for the year ended June 30, 2022 was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hospital's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2023 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, LLP

Anchorage, Alaska
January 9, 2023

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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 healthcare 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 hospitals 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.

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.

The Hospital's Net Position

The Hospital's net position increased by $4.9M in 2022 and $12.8M in 2021. Summarized financial information of the Hospital's Statement of Net Position as of June 30, 2022, 2021 and 2020 (000's omitted) are as follows:

		2022	2021	2020
			(as restated)	(not restated)*
Assets				
Cash and cash equivalents	$	25,723	23,990	24,939
Net patient receivables		15,582	13,106	11,157
Other current assets		15,539	18,090	32,518
Plant, property and equipment, net		43,457	44,204	39,628
Other noncurrent assets and deferred outflows		12,947	13,401	6,894
Total assets and deferred outflows	$	113,248	112,791	115,136
Liabilities				
Current liabilities and deferred inflows	$	13,953	16,649	28,260
Long-term bonds and lease payable		11,440	13,248	16,762
Total liabilities and deferred inflows	$	25,393	29,897	45,022
Net Position				
Invested in capital assets, net of related debt	$	30,509	29,391	25,678
Restricted		59	63	142
Unrestricted		57,287	53,440	44,294
Total net position	$	87,855	82,894	70,114

*Not restated for effects of GASB 87.

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, 2022, 2021 and 2020 (000's omitted) are as follows:

		2022	2021	2020
			(as restated)	(not restated)*
Total Operating Revenue	$	100,498	86,231	76,677
Operating Expenses:				
Salaries, wages and benefits		67,422	58,479	50,704
Professional fees and contract staffing		11,896	8,352	7,286
Supplies		13,723	9,733	7,966
Depreciation and amortization		4,361	3,888	3,288
Other		8,163	7,548	7,556
Total operating expenses		105,565	88,000	76,800
Loss from operations		(5,067)	(1,769)	(123)
Nonoperating gains (losses):				
Property taxes		4,690	4,691	4,675
Other		5,337	9,858	5,579
Total nonoperating gains		10,027	14,549	10,254
Change in net position		4,960	12,780	10,131
Net position, beginning of year		82,894	70,114	59,983
Net position, end of year	$	87,855	82,894	70,114

*Not restated for effects of GASB 87.

The Hospital realized a loss of $5.07 million from operations for fiscal year 2022 compared to a $1.77 million loss in fiscal year 2021, loss from operations of $1.2 thousand in 2020. Gross patient revenue grew by 19% while net patient revenue increased by 17%. Net patient revenue for fiscal year 2022 was $14.2 million higher than previous year and operating expenses increased $17.6 million. Of that increase, $3.1 million was in salaries and wages, $2.6 million was in contract staffing, 5.8 million was in employee benefits, and $3.99 million was in supplies & drugs. The majority of the increase in salaries and wages was from negotiated wage increases required by a collective bargaining agreement; other increases were due to expanding services by adding family care providers, mental health providers, a General Surgeon, and an OBGYN provider. Supply increases were attributable to both the increased demand in supplies necessary to protect staff and to provide vaccinations and testing for COVID-19 as well as increase prices due to supply chain sourcing issues and inflation. Supply costs were also elevated due to increased patient volumes, which increased the volume of supplies required to treat. Employee benefit increases were attributed to significant employee health claim expenses experienced during FY22, which aligns with industry trends where those who put off care during the pandemic are now sicker and require care that is more expensive. Contract staffing increased by $1.29 million due to contributed services from FEMA workers sent by the State of Alaska to assist with the COVID-19 Pandemic. Supplies increased by $895 thousand related to contributed supplies provided by the State of Alaska to allow South Peninsula Hospital to continue to provide needed COVID testing for the community.

No substantial operational changes are expected for fiscal year 2023. The hospital anticipates that contact staffing levels will remain high while recruitment continues for hard to fill clinical positions. It is expected that health insurance expenses will continue to increase and the hospital has budgeted for a 20% annual increase for employee benefits.

Budgetary Highlights

	Actual	Budget	Variance
Revenue			
Gross patient charges	$ 181,758	165,704	16,054
Deductions	(81,935)	(76,000)	(5,935)
Other revenue	675	605	70
Net Operating Revenue	100,498	90,309	10,189
Operating Expenses:			
Salaries, wages and benefits	67,422	62,187	(5,235)
Professional fees and contract staffing	11,896	5,965	(5,931)
Supplies	13,722	9,832	(3,890)
Depreciation and amortization	4,361	3,569	(792)
Other	8,164	8,369	205
Total operating expenses	105,565	89,922	(15,643)
Income (loss) from operations	(5,067)	387	(5,454)
Total nonoperating gains	10,027	6,177	3,850
Net Income	$ 4,960	6,564	(1,604)

The Hospital exceeded budgeted amounts for gross patient revenue by $16.1 million due to annual price increases and strong outpatient services, which also resulted in deductions exceeding budgeted levels by $5.9 million. This variance resulted in net operating revenue, which was $10.2 million above budget. Total expenses exceeded budget by $15.6 million. Salaries and wages exceeded budget by $931 thousand due to the expansion and growth of services being provided including additional Mental Health providers, and a full time General Surgeon. Contract staffing exceeded budget by $5.9million, of which $1.29 million was related to contributed services provided by the State of Alaska for assistance during the pandemic, and as numerous clinical positions remained unfilled throughout the year and additional contract providers were added for some of our Specialty services. Employee benefits were $4.3 million over budget due to increased health insurance claim expenses from employees. Total nonoperating gains were $3.8 million above budget due to receipt of governmental subsidies for lost revenues related to COVID-19, contributed services provided by the State of Alaska as traveling contract staff, and as contributed supplies related to COVID-19 test kits provided by the State of Alaska. Overall, the facility's net income in FY22 was $1.6 million under budget.

Capital Assets

		2022	2021	2020
			(as restated)	(not restated) *
Capital Assets				
Land and land improvements	$	4,115	3,857	3,817
Buildings and building improvements		67,422	66,245	62,733
Equipment		30,084	28,688	27,006
Leased equipment		3,179	2,803	-
Improvements other than buildings		290	213	140
Construction in progress		651	385	289
Less accumulated depreciation		(62,284)	(57,987)	(54,357)
Net Capital Assets	$	43,457	44,204	39,628

*Not restated for effects of GASB 87.

In FY22, South Peninsula Hospital's capital improvement projects totaled $3.3 million with $1.5 million in major moveable equipment, and $1.2 million in buildings. Among the largest capital purchases were the building at 203 W. Pioneer, an X-Ray machine for our Specialty Clinic, and replacement of the Homer Medical Center roof. Total fixed asset depreciation in FY22 was $3.96 million, resulting in an overall decrease in net capital assets of $711 thousand in FY22 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
Competition in the local healthcare market
Nursing and other healthcare related labor shortages
Affordable Care Act

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 40% of the hospital's gross patient revenue for fiscal year 2022 was derived from Medicare and 25% from Medicaid.

South Peninsula Hospital is uncertain as to the full magnitude that the pandemic will have on South Peninsula Hospital’s financial condition, liquidity, and future results of operations. South Peninsula Hospital is actively monitoring the impact of the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. South Peninsula Hospital is also evaluating additional funding sources.

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.

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Basic Financial Statements

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

June 30,	2022	2021 (as restated)
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and cash equivalents	$ 25,722,672	$ 23,990,124
Equity in central treasury of Kenai Peninsula Borough	7,327,807	6,276,576
Total cash and cash equivalents and equity in central treasury of Kenai Peninsula Borough	33,050,479	30,266,700
Patient receivables, net of contractual allowances of $10,626,713 in 2022 and $8,315,678 in 2021	19,419,058	17,850,843
Less estimated uncollectibles	(3,836,453)	(4,744,533)
Net patient receivables	15,582,605	13,106,310
Property taxes receivable	102,233	135,749
Less estimated uncollectible taxes	(4,165)	(6,325)
Property taxes receivable, net of allowance of $4,165 in 2022 and $6,325 in 2021	98,068	129,424
Other receivables	614,427	619,778
Inventory	2,062,504	1,808,615
Net pension asset	4,675,709	8,600,712
Prepaid expenses	760,219	654,007
Total Current Assets	56,844,011	55,185,546
Assets Whose Use is Limited		
Unspent bond proceeds	23,254	23,838
Plant replacement and expansion fund	7,904,096	10,359,499
Other	23,796	26,543
Total Assets Whose Use is Limited	7,951,146	10,409,880
Capital assets, net	43,457,288	44,204,155
Total Assets	108,252,445	109,799,581
Deferred Outflows of Resources		
Pension related	4,624,231	2,536,008
Goodwill	17,000	29,000
Unamortized deferred charge on refunding	354,766	426,177
Total Deferred Outflows of Resources	4,995,997	2,991,185
Total Assets and Deferred Outflows of Resources	$ 113,248,442	$ 112,790,766

See notes to accompanying basic financial statements.

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

Statements of Net Position, continued

June 30,	2022	2021 (as restated)
Liabilities, Deferred Inflows of Resources and Net Position		
Current Liabilities		
Accounts and contracts payable	$ 1,985,020	$ 2,690,272
Accrued liabilities	6,784,926	5,535,887
Medical claims reserve	1,326,000	1,333,116
Unearned revenue	29,927	15,859
Current portion of bonds payable	1,785,000	1,705,000
Current portion of leases payable	375,821	307,903
Bond interest payable	110,899	128,549
Due to third-party payors	1,212,604	1,376,416
Total Current Liabilities	13,610,197	13,093,002
Long-term Liabilities		
Bonds payable, net of current portion	8,465,000	10,250,000
Unamortized premium on bonds payable	535,373	715,206
Leases payable, net of current portion	2,164,807	2,282,350
Total Long-term Liabilities	11,165,180	13,247,556
Total Liabilities	24,775,377	26,340,558
Deferred Inflows of Resources		
Pension related	93,314	3,104,615
Property taxes received in advance	524,471	451,005
Total Deferred Inflows of Resources	617,785	3,555,620
Net Position		
Net investment in capital assets	30,509,307	29,391,194
Restricted	59,345	63,366
Unrestricted	57,286,628	53,440,028
Total Net Position	87,855,280	82,894,588
Total Liabilities, Deferred Inflows of Resources and Net Position	$ 113,248,442	$ 112,790,766

See notes to accompanying basic financial statements.

South Peninsula Hospital
(A Component Unit of the Kenai Peninsula Borough)
Statements of Revenues, Expenses and Changes in Net Position

Years Ended June 30,	2022	2021 (as restated)
Operating Revenues		
Gross patient charges	$ 181,757,902	$ 152,961,698
Less charges associated with charity care	(226,294)	(1,266,505)
Patient service revenue	181,531,608	151,695,193
Contractual adjustments	(78,140,540)	(62,766,688)
Provision for bad debts	(3,568,228)	(3,332,151)
Net patient service revenue	99,822,840	85,596,354
Other operating revenue	675,414	635,047
Total Operating Revenues	100,498,254	86,231,401
Operating Expenses		
Salaries and wages	47,034,508	43,867,020
Employee benefits	20,387,855	14,611,588
Professional fees	5,969,141	4,989,523
Supplies, drugs and food	13,722,585	9,732,515
Depreciation and amortization	4,360,582	3,888,174
Repairs and maintenance	3,529,255	3,142,993
Utilities and telephone	1,673,368	1,618,910
Contract staffing	5,926,912	3,362,632
Lease and rentals	314,977	651,132
Insurance	654,421	632,594
Travel, meetings and education	552,188	365,068
Dues, books and subscriptions	232,511	243,641
Other operating expenses	1,206,739	894,307
Total Operating Expenses	105,565,042	88,000,097
Loss from operations	(5,066,788)	(1,768,696)
Nonoperating Revenues (Expenses)		
General property taxes	4,689,619	4,691,422
Grants and contributions	6,070,463	3,738,022
Gain on extinguishment of PPP loan	-	6,623,389
Investment income (loss)	(155,225)	72,520
Gain on sale of assets	-	32,049
Interest expense	(510,810)	(493,738)
Other expenses	(66,567)	(114,878)
Total Nonoperating Revenues, net	10,027,480	14,548,786
Change in net position	4,960,692	12,780,090
Net Position, beginning of year	82,894,588	70,114,498
Net Position, end of year	$ 87,855,280	$ 82,894,588

See notes to accompanying basic financial statements.

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

Statements of Cash Flows

Years Ended June 30,	2022	2021 (as restated)
Cash Flows from Operating Activities		
Receipts from patients and users	$ 97,360,613	$ 83,671,763
Payments to suppliers	(32,657,635)	(24,704,294)
Payments to employees	(67,354,961)	(61,547,501)
Other receipts	680,765	823,737
Net cash flows for operating activities	(1,971,218)	(1,756,295)
Cash Flows from Noncapital Financing Activities		
Receipts from property taxes	4,596,463	4,638,735
(Decrease) increase in advances from Governmental Payers	(163,812)	(1,502,134)
Grant and other nonoperating revenues (expenses)	3,814,081	10,278,582
Net cash flows from noncapital financing activities	8,246,732	13,415,183
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	(3,328,452)	(5,675,011)
Bond principal paid	(1,705,000)	(1,630,000)
Payments on leases	(458,839)	(240,943)
Interest paid on capital debt	(500,931)	(647,895)
Net cash flows for capital and related financing activities	(5,993,222)	(8,193,849)
Cash Flows from Investing Activities		
Increase (decrease) in assets whose use is limited	2,458,734	(5,994,896)
Interest and dividends received	42,753	72,520
Net cash flows from (for) investing activities	2,501,487	(5,922,376)
Net increase (decrease) in cash and cash equivalents	2,783,779	(2,457,337)
Cash, Cash Equivalents and Equity in Central Treasury, beginning of year	30,266,700	32,724,037
Cash, Cash Equivalents and Equity in Central Treasury, end of year	$ 33,050,479	$ 30,266,700

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

Statements of Cash Flows, continued

Years Ended June 30,	2022	2021 (as restated)
Reconciliation of Loss from Operations to Net Cash Flows for Operating Activities		
Loss from operations	$ (5,066,788)	$ (1,768,696)
Adjustments to reconcile income from operations to net cash for operating activities:		
Depreciation and amortization	4,360,582	3,888,174
Bad debt expense	-	442,340
Contributed services and supplies received	2,189,815	-
Change in assets, deferred outflows and liabilities:		
Patient receivables, net	(2,476,295)	(2,335,679)
Other receivables	5,351	188,690
Inventory	(253,889)	(251,326)
Prepaid expenses	(106,212)	50,799
Net pension asset	3,925,003	(5,435,876)
Deferred outflows - pension related	(2,088,223)	(554,697)
Deferred inflows - pension related	(3,011,301)	2,867,076
Accounts and contracts payable	(705,252)	1,129,548
Unearned revenue	14,068	(31,252)
Accrued liabilities	1,249,039	54,604
Medical claims reserve	(7,116)	-
Total adjustments	3,095,570	12,401
Net Cash Flows for Operating Activities	$ (1,971,218)	$ (1,756,295)
Supplemental Disclosure of Cash-Flow Information		
Contributed services received	$ 1,294,815	$ -
Contributed supplies received	$ 895,000	$ -
Unearned revenue related to COVID advance funding	$ -	$ (1,502,134)

See notes to accompanying 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

December 31,	2021	2020
Assets		
Investments, at fair value	$ 28,618,088	$ 24,728,269
Cash	-	911
Receivables	300,000	1,350,000
Accrued income	-	112
Total Assets	28,918,088	26,079,292
Net Position - restricted for pensions	$ 28,918,088	$ 26,079,292

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

Years Ended December 31,	2021	2020
Additions:		
Investment income	$ 3,099,225	$ 3,053,827
Employer contributions	1,500,000	2,925,000
Total Additions	4,599,225	5,978,827
Deductions:		
Benefits paid to participants	1,718,299	1,611,770
Administrative expenses	42,130	64,246
Total Nonoperating Revenues, net	1,760,429	1,676,016
Net Increase in Fiduciary Net Position	2,838,796	4,302,811
Net Position, beginning of year	26,079,292	21,776,481
Net Position, end of year	$ 28,918,088	$ 26,079,292

See notes to accompanying basic financial statements.

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, 2021 and 2020.

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.

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. 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.

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.

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 improvements	10-50 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 any related debt.

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.

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care 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 payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

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.

Leases

South Peninsula 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 government-wide financial statements.

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.

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.

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, 2022 and 2021.

	2022	2021
Bad debt	$ 3,568,228	$ 3,332,151
Charges forgone, based on established rates (unaudited)	226,294	1,266,505
Total Uncompensated Care	$ 3,794,522	$ 4,598,656

4. Deposits and Investments

Deposits for the Hospital consisted of the following at June 30, 2022 and 2021:

	2022		2021	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
Bank accounts	$ 25,743,782	$ 26,576,681	$ 24,013,981	$ 24,641,976
Cash on hand	2,686	-	2,686	-
	25,746,468	$ 26,576,681	24,016,667	$ 24,641,976
Less cash equivalents included in assets whose use is limited	(23,796)		(26,543)	
Cash and Cash Equivalents	$ 25,722,672		$ 23,990,124	

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:

	2022	2021
Equity in Central Treasury of Kenai Peninsula Borough	$ 15,255,157	$ 16,659,913
Less amount included in assets whose use is limited:		
Plant replacement and expansion fund	(7,904,096)	(10,359,499)
Unspent bond proceeds	(23,254)	(23,838)
Total Equity in Central Treasury	$ 7,327,807	$ 6,276,576

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.

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, 2021 and 2020.

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.

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:

December 31, 2021	Level 1	Level 2	Level 3	Total
Common collective trusts	$ -	$ 27,805,845	$ -	$ 27,805,845
Money market fund	812,243	-	-	812,243
Total Investments at Fair Value	$ 812,243	$ 27,805,845	$ -	$ 28,618,088

December 31, 2020	Level 1	Level 2	Level 3	Total
Common collective trusts	$ -	$ 23,024,513	$ -	$ 23,024,513
Mutual funds	746,320	-	-	746,320
Money market fund	957,436	-	-	957,436
Total Investments at Fair Value	$ 1,703,756	$ 23,024,513	$ -	$ 24,728,269

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5. Capital Assets

A summary of the changes in capital assets during fiscal year 2022 follows:

	Balance July 1, 2021 (as restated)	Additions	Deletions	Balance June 30, 2022
Land and land improvements	$ 3,857,422	$ 257,221	$ -	$ 4,114,643
Construction in progress	385,206	266,744	-	651,950
Total nondepreciable assets	4,242,628	523,965	-	4,766,593
Buildings and building improvements	66,244,668	1,177,183	-	67,421,851
Equipment	28,687,804	1,546,296	(149,932)	30,084,168
Right-to-use leased equipment	2,803,350	375,826	-	3,179,176
Improvements other than buildings	213,358	77,029	-	290,387
Total depreciable assets	97,949,180	3,176,334	(149,932)	100,975,582
Total capital assets	102,191,808	3,700,299	(149,932)	105,742,175
Less accumulated depreciation and amortization for:				
Land improvements	(2,576,036)	(178,170)	-	(2,754,206)
Buildings	(31,908,780)	(2,377,935)	-	(34,286,715)
Equipment	(23,057,965)	(1,372,536)	63,348	(24,367,153)
Right-to-use leased equipment	(339,543)	(411,073)	-	(750,616)
Improvements other than buildings	(105,329)	(20,868)	-	(126,197)
Total accumulated depreciation and amortization	(57,987,653)	(4,360,582)	63,348	(62,284,887)
Net Capital Assets	$ 44,204,155	$ (660,283)	$ (86,584)	$ 43,457,288

A summary of the changes in capital assets during fiscal year 2021 (as restated) follows:

	Balance July 1, 2020 (as restated)	Additions	Deletions	Balance June 30, 2021 (as restated)
Land and land improvements	$ 3,816,722	$ 40,700	$ -	$ 3,857,422
Construction in progress	288,755	96,451	-	385,206
Total nondepreciable assets	4,105,477	137,151	-	4,242,628
Buildings and building improvements	62,732,513	3,512,155	-	66,244,668
Equipment	27,005,986	1,960,731	(278,913)	28,687,804
Right-to-use leased equipment	2,803,350	-	-	2,803,350
Improvements other than buildings	140,475	72,883	-	213,358
Total depreciable assets	92,682,324	5,545,769	(278,913)	97,949,180
Total capital assets	96,787,801	5,682,920	(278,913)	102,191,808
Less accumulated depreciation and amortization for:				
Land improvements	(2,400,379)	(175,657)	-	(2,576,036)
Buildings	(29,801,246)	(2,107,534)	-	(31,908,780)
Equipment	(22,063,050)	(1,252,203)	257,288	(23,057,965)
Right-to-use leased equipment	-	(339,543)	-	(339,543)
Improvements other than buildings	(92,092)	(13,237)	-	(105,329)
Total accumulated depreciation and amortization	(54,356,767)	(3,888,174)	257,288	(57,987,653)
Net Capital Assets	$ 42,431,034	$ 1,794,746	$ (21,625)	$ 44,204,155

6. Long-term Debt

Long-term debt consisted of the following at June 30, 2022 and 2021:

	Balance June 30, 2021	Additions	Retired	Balance June 30, 2022	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	$ 3,575,000	$ -	$ 260,000	$ 3,315,000	$ 275,000
Refunding general obligation bonds 2016 series (2007 original issue) in annual installments, including a coupon rate ranging between 2.5% - 5.0%, maturing in December 2023	2,020,000	-	645,000	1,375,000	670,000
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	6,360,000	-	800,000	5,560,000	840,000
Total General Obligation Bonds	11,955,000	-	1,705,000	10,250,000	1,785,000
Plus unamortized bond premium	715,206	-	179,833	535,373	-
Total General Obligation Bonds, Net of Premium	12,670,206	-	1,884,833	10,785,373	1,785,000
Total Bonds Payable	$ 12,670,206	$ -	$ 1,884,833	$ 10,785,373	$ 1,785,000

	Balance June 30, 2021	Additions	Retired	Balance June 30, 2022	Due Within One Year
Lease payable	$ 2,590,253	$ 273,363	$ (322,988)	$ 2,540,628	$ 375,821

In 2022, the Hospital implemented GASB 87, included in the beginning balance is lease liability at the beginning of the year of $2,592,770.

The remaining annual requirements of all debt outstanding as of June 30, 2022 are as follows:

	General Obligation Bonds		
Year Ending June 30,2022	Principal	Interest	Total
2023	$ 1,785,000	$ 430,219	$ 2,215,219
2024	1,850,000	359,294	2,209,294
2025	1,195,000	297,669	1,492,669
2026	1,250,000	237,919	1,487,919
2027	1,315,000	175,419	1,490,419
2028-2032	2,855,000	186,100	3,041,100
	$ 10,250,000	$ 1,686,620	$ 11,936,620

7. Deferred Charge on Bonds

The Hospital issued bonds in 2007, which were refunded in 2015 and 2017 (see Note 6 regarding long-term debt) resulting in a deferred charge on bonds. The unamortized balance as of June 30, 2022 and 2021 was $345,927 and $406,974, respectively, for the 2016 refunding. The unamortized balance as of June 30, 2022 and 2021 was $8,839 and $19,203, respectively, for the 2018 refunding. Combined amortization expense for the years ending June 30, 2022 and 2021 was $71,411.

8. Restricted Net Position

The Hospital has restricted net position of $59,345 at June 30, 2022 and $63,366 in 2021. This is the unspent interest earnings on bond funds which must be used for the purposes allowed by the bonds.

9. Restated Net Position - Adoption New Accounting Pronouncements

The Hospital has retroactively implemented GASB Statement Number 87, *Leases* (GASB 87) effective for the fiscal year beginning July 1, 2020. GASB 87 establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB 87, a lessee is required to recognize a lease liability and an intangible right-to-use asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about leasing activities.

The effects of reporting GASB 87 in the Hospital's financial statements for the year ended June 30, 2021 are as follows:

	As Previously Reported	Effect of Adoption of GASB 87	As Restated
Assets			
Capital assets	$ 41,740,348	$ 2,463,807	$ 44,204,155
Liabilities			
Lease payable	34,909	2,555,344	2,590,253
Net Position	82,986,125	(91,537)	82,894,588
Operating expenses	87,908,560	91,537	88,000,097

The notes to the financial statements for the year ended June 30, 2021 have been restated to reflect the adoption of GASB 87.

10. Leases

During the current year, the Hospital entered into multiple-year lease agreements as a lessee for various nonfinancial assets. As of June 30, 2022, the outstanding balance on the leases was $2,540,628. The Hospital is required to make monthly principal and interest payments. The Hospital used their incremental borrowing rate of 5.25% as the discount rate for the leases. 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, 2022, was $3,179,176 and had accumulated amortization of $750,616.

Year Ending June 30, 2022	Principal	Interest	Total
2023	$ 375,821	$ 121,911	$ 497,732
2024	375,595	102,794	478,389
2025	389,015	83,265	472,280
2026	323,800	64,617	388,417
2027	284,448	49,431	333,879
Thereafter	791,949	57,162	849,111
Total	$ 2,540,628	$ 479,180	$ 3,019,808

11. Functional Expenses

Operating expenses grouped according to function are as follows for the years ended June 30, 2022 and 2021:

	2022	2021
Operating Expenses		
Healthcare services	$ 81,591,744	$ 67,855,746
Fiscal, administrative and facility services	20,013,932	16,588,721
Provision for depreciation and amortization	3,959,366	3,555,630
Total Operating Expenses	$ 105,565,042	$ 88,000,097

12. 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 Hospitals' 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.

Balances due to third-party payers are as follows for the years ended June 30, 2022 and 2021:

	2022	2021
Due to Medicare	$ 1,212,604	$ 1,376,416
Total Due to Third-Party Payers	$ 1,212,604	$ 1,376,416

Composition of payers of gross patient receivables and revenues is approximated as follows for the year ended June 30, 2022:

	Revenues	Patient Receivables
Commercial	31%	34%
Medicare	40	33
Medicaid	25	16
Self-pay and other	4	17
	100%	100%

Composition of payers of gross patient receivables and revenues is approximated as follows for the year ended June 30, 2021:

	Revenues	Patient Receivables
Commercial	31%	32%
Medicare	41	33
Medicaid	24	13
Self-pay and other	4	22
	100%	100%

13. 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 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, 2022 and 2021, respectively, the following employees were covered by the benefit terms:

	2022	2021
Inactive employees or beneficiaries currently receiving benefits	62	58
Inactive employees entitled to, but not yet receiving benefits	76	75
Active employees	166	177
	304	310

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, 2022 and 2021, respectively, the Hospital's average contribution rate was 21.71% and 33.96% percent of annual payroll.

Net Pension Asset

The Hospital's net pension asset was measured as of June 30, 2022 and 2021, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of January 1, 2022 and 2021.

Actuarial Assumptions

The total pension liability in the June 30, 2022 and 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.0% to 2.5%, annually
Salary increases	2.50%, average, including inflation
Investment rate of return	7.00%

Mortality rates for June 30, 2022 were based on the Pri-2012 White Collar Mortality, projected with MP-2021 for plan funding. Mortality rates for June 30, 2021 were based on the Pri-2012 White Collar Mortality, projected with MP-202- for plan funding.

The actuarial assumptions used in the June 30, 2022 valuation were based on the results of an actuarial experience study for the period January 1, 2021 to December 31, 2021. The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period January 1, 2020 to December 31, 2020.

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	36%	5.75%
International equity	14	5.85
Fixed income	47	3.50
Cash	3	2.00
Total	100%	

Discount Rate

The discount rate used to measure the total pension liability was 7.00 percent. 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.

Net Pension Liability (Asset)

	Total Pension Liability	Plan Net Position	Net Pension (Asset)
Balances at June 30, 2020	$ 17,634,703	$ 20,799,539	$ (3,164,836)
Charges for the year:			
Service cost	373,822	-	373,822
Interest	1,176,670	-	1,176,670
Difference between expected and actual experience	662,719	-	662,719
Assumption changes	467,682	-	467,682
Contributions – employer	-	2,925,000	(2,925,000)
Net investment income	-	5,191,769	(5,191,769)
Benefit payments	(1,676,959)	(1,676,959)	-
Net change for the year	1,003,934	6,439,810	(5,435,876)
Balances at June 30, 2021	$ 18,638,637	$ 27,239,349	$ (8,600,712)

Charges for the year:			
Service cost	$ 354,338	$ -	$ 354,338
Interest	1,303,668	-	1,303,668
Difference between expected and actual experience	1,103,860	-	1,103,860
Assumption changes	45,827	-	45,827
Contributions – employer	-	1,950,000	(1,950,000)
Net investment income	-	(3,067,310)	3,067,310
Benefit payments	(1,664,386)	(1,664,386)	-
Net change for the year	1,143,307	(2,781,696)	3,925,003
Balances at June 30, 2022	$ 19,781,944	$ 24,457,653	$ (4,675,709)

Sensitivity of the net pension asset to changes in the discount rate. The following presents the pension asset of the Hospital, calculated using the discount rate of 7.00 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 (6.00 percent) or 1-percentage-point higher (8.00 percent) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Net pension liability (asset) June 30, 2021	$ (6,273,145)	$ (8,600,712)	$ (10,549,608)
Net pension liability (asset) June 30, 2022	$ (2,081,158)	$ (4,675,709)	$ (6,845,644)

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.

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

For the year ended June 30, 2022 and 2021, the Hospital recognized pension expense of $550,479 and $(198,497), respectively.

At June 30, 2022, 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	$ -	$ 2,340,429
Changes in assumptions	93,314	350,591
Net difference between projected and actual earnings on pension investments	-	1,933,211
Total Deferred Outflows of Resources - Pension Related	$ 93,314	$ 4,624,231

At June 30, 2021, 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	$ -	$ 1,841,108
Changes in assumptions	111,833	424,278
Net difference between projected and actual earnings on pension investments	2,992,782	270,622
Total Deferred Outflows of Resources - Pension Related	$ 3,104,615	$ 2,536,008

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

Year Ending June 30,2022	
2023	$ 1,054,042
2024	1,031,841
2025	883,341
2026	1,345,197
2027	164,128
Remaining	52,368
Total	$ 4,530,917

14. 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.

15. 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, 2022 and 2021 follows:

	2022	2021
Medical claims reserve liabilities, beginning of year	$ 1,333,116	$ 1,781,435
Current year claims incurred and changes in estimates for claims incurred in prior years	13,249,221	9,025,776
Claims and expenses paid	(13,256,337)	(9,474,095)
Medical Claims Reserve Liabilities, end of year	$ 1,326,000	$ 1,333,116

16. COVID-19 Considerations

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the "COVID-19 outbreak") and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally, and Governor Dunleavy issued a public health disaster emergency for the State of Alaska.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on South Peninsula Hospital's (SPH) financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, SPH estimates the effects of the COVID-19 outbreak on its results of operations, financial condition, and liquidity for fiscal year 2022 at $4.3 million. SPH received funding in the amount of $4.3 million in FY22 from the following sources: HHS Stimulus Funds $3.1 million, State of Alaska $525 thousand in testing supplies, State of Alaska $297 thousand, Kenai Peninsula Borough Cares Act Support $159 thousand, City of Homer Cares Support $215 thousand, Other sources $12 thousand.

The impact of COVID-19 on financial reporting arises from the impacts on business activity, which include, among other possible impacts:

- Temporary cessation of elective procedures
- Decline in patient volumes for outpatient elective services and provider visits
- Decline in patient revenues
- Decline in cash receipts
- Increase in supply expenses
- Increase in labor costs
- Increase in capital equipment costs use for diagnostic tools to detect COVID-19

The impact of COVID-19 to SPH resulted in $6.6 million of lost net revenue in FY20, $1.9 million in FY21, and $1.1 million in FY22. Although SPH cannot estimate the length or gravity of the impact of the COVID-19 outbreak at this time, it may have a continued adverse effect on the SPH's results from future operations, financial position, and liquidity in fiscal year 2023.

On March 27, 2020, President Trump signed into law the "Coronavirus Aid, Relief and Economic Security (CARES) Act." The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations, increased limitations on qualified charitable contributions and technical corrections to tax depreciation methods for qualified improvement property. SPH did pursue deferral of employment tax payments. SPH did apply for and receive a Paycheck Protection Program loan in the amount of $6,528,631 through the Small Business Association, a provision of the CARES act, in FY21 that loan was forgiven.

In March 11, 2021, President Biden signed the American Rescue Plan Act of 2021 (ARPA) into law. ARPA was written to provide additional relief for individuals and businesses and tribal governments as well as education and COVID-19 testing, vaccination support, and research.

SPH continues to examine the impact that the ARPA may have on its operations. Currently, management is unable to determine the impact that the ARPA will have on SPH's financial condition, results of operation, or liquidity.

17. Paycheck Protection Program

In 2020, under the Paycheck Protection Program the Hospital received loans from the Small Business Administration (SBA). The loans held an interest rate of 1% and required monthly payments from April 2020 thru to the maturity in April 2022. The program required proceeds to be used mainly for employee wages. During 2021, the Hospital received notice that the loan was forgiven and payments are not required. As such the Hospital has reported a gain on forgiveness of debt of $6,528,631.

18. Accounting Changes and Prior Period Restatement

In fiscal year 2021, the Hospital adopted provisions of GASB Statement No. 84, Fiduciary Activities, which, among other items, requires the Hospital to address criteria for identifying and reporting fiduciary activities. The Hospital has determined that the South Peninsula Hospital Employee's Pension Plan and Trust, which was not included in the 2021 financial statements as a fiduciary activity, will now be reported as a fiduciary fund of the Hospital. As a result of a re-evaluation of the impacts of this statement, the Hospital has included the required Statements of Fiduciary Net Position and Statements of Changes in Fiduciary Net Position for the years ended December 31, 2021 and 2020.

19. Recently Issued Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has issued several new accounting standards with upcoming implementation dates (effective dates are adjusted for the issuance of GASB Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance). The following new accounting standards were implemented by the Hospital for 2022 reporting:

GASB Statement No. 87 – Leases – Effective for year-end June 30, 2022. The Hospital implemented this Statement for the current year, with restatements presented for the prior year, as detailed in Note 9.

GASB Statement No. 89 - Accounting for Interest Cost Incurred before the End of a Construction Period – Effective for year-end June 30, 2022. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The Hospital adjusted its policy for capitalization of interest as a result of implementation.

GASB Statement No. 92 - Omnibus 2020 – Provisions of this Statement related to the effective date of Statement No. 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance. The effective date for all other provisions of the Statement are to be implemented for year-end June 30, 2022. This Statement addresses a variety of topics such as leases, the applicability of Statement No. 73 and Statement No. 74 for reporting assets accumulated for postemployment benefits, the applicability of

Statement No. 84 to postemployment benefit arrangements, the measurements of liabilities and assets related to asset retirement obligations in a government acquisition, reporting of public entity risk pools, referencing to nonrecurring fair value measurements, and terminology used to refer to derivative instruments. The Hospital implemented the relevant provisions of this Statement for the current year. There were no significant financial statement impacts of adoption.

The GASB has issued several new accounting standards with upcoming implementation dates (effective dates adjusted for the issuance of GASB Statement No. 95). 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. 91 – Conduit Debt Obligations – Effective for year-end June 30, 2023. This Statement provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with commitments extended by issuers, arrangements associated with conduit obligations, and related note disclosures. This Statement clarifies the definition of a conduit debt obligation and establishes standards for related accounting and financial reporting.

GASB Statement No. 94 – Public-Private and Public-Public Partnerships and Availability Payment Arrangements – Effective for year-end June 30, 2023. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs) and also provides guidance for accounting and financial reporting for availability payment arrangements (APA).

GASB Statement No. 96 – Subscription-Based Information Technology Arrangements – Effective for year-end June 30, 2023. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users. This Statement, among other things, defines a SBITA, establishes that a SBITA results in a right-to-use subscription asset (an intangible asset) and a corresponding subscription liability, provides capitalization criteria for outlays other than subscription payments, and requires note disclosures regarding a SBITA.

GASB Statement No. 99 – Omnibus 2022 – Provisions of this Statement related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, classification of certain provisions in Statement No. 34, as amended, and terminology updates related to Statement No. 53 and Statement No. 63 are effective upon issuance. The effective date for the provisions of this Statement related to leases, PPPs, and SBITAs are to be implemented for year-end June 30, 2023. The effective date for the provisions of this Statement related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement No. 53, are to be implemented for year-end June 30, 2024.

GASB Statement No. 100 – Accounting Changes and Error Corrections – an amendment of GASB Statement No. 62 – Effective for year-end June 30, 2024. Earlier application is encouraged. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

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.

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

Years Ended June 30, 2022	2022	2021	2020	2019	2018	2017	2016	2015
Total Pension Liability								
Service costs	$ 354,338	$ 373,822	$ 402,959	$ 460,975	$ 552,945	$ 677,790	$ 685,421	$ 640,873
Interest	1,303,668	1,176,670	1,173,850	1,186,280	1,165,248	1,095,431	1,084,781	1,058,784
Changes in assumptions	45,827	467,682	(9,010)	(157,344)	24,287	23,460	22,728	304,145
Difference between expected and actual experience	1,103,860	662,719	496,583	493,686	89,493	646,237	151,435	38,465
Benefit payments, including refunds of employee contributions	(1,664,386)	(1,676,959)	(2,397,916)	(1,924,438)	(1,138,595)	(1,752,472)	(1,831,964)	(893,400)
Net Change in Total Pension Liability	1,143,307	1,003,934	(333,534)	59,159	693,378	690,446	112,401	1,148,867
Total Pension Liability - beginning of year	18,638,637	17,634,703	17,968,237	17,909,078	17,215,700	16,525,254	16,412,853	15,263,986
Total Pension Liability - end of year	$ 19,781,944	$ 18,638,637	$ 17,634,703	$ 17,968,237	$ 17,909,078	$ 17,215,700	$ 16,525,254	$ 16,412,853
Plan Fiduciary Net Position								
Contributions - employer	$ 1,950,000	$ 2,925,000	$ 2,250,000	$ 2,475,000	$ 2,990,000	$ 1,174,500	$ 681,750	$ 454,500
Additional investment return	(3,067,310)	5,191,769	1,032,801	1,181,078	1,070,126	1,518,194	144,855	(603,361)
Benefit payments, including refunds of employee contributions	(1,664,386)	(1,676,959)	(2,397,916)	(1,924,438)	(1,138,595)	(1,752,472)	(1,831,964)	(893,400)
Net Change in Plan Fiduciary Net Position	(2,781,696)	6,439,810	884,885	1,731,640	2,921,531	940,222	(1,005,359)	(1,042,261)
Plan Fiduciary Net Position - beginning of year	27,239,349	20,799,539	19,914,654	18,183,014	15,261,483	14,321,261	15,326,620	15,298,282
Plan Fiduciary Net Position - end of year	$ 24,457,653	$ 27,239,349	$ 20,799,539	$ 19,914,654	$ 18,183,014	$ 15,261,483	$ 14,321,261	$ 15,326,620
Hospital's Net Pension (Asset) Liability	$ (4,675,709)	$ (8,600,712)	$ (3,164,836)	$ (1,946,417)	$ (273,936)	$ 1,954,217	$ 2,203,993	$ 1,086,233
Plan fiduciary net position as a percentage of the total pension asset (liability)	123.64%	146.14%	117.90%	110.80%	101.50%	88.65%	86.66%	93.38%
Covered-employee payroll	$ 8,981,095	$ 8,612,159	$ 9,423,893	$ 10,864,897	$ 11,374,381	$ 18,456,466	$ 19,654,269	$ 17,884,004
Hospital's net pension (asset) liability as a percentage of covered-employee payroll	52.06%	99.87%	33.60%	-17.90%	-2.40%	10.59%	11.21%	6.07%

Notes to Schedule

Information presented for 2022 is based on Plan measurement date of June 30, 2022. This schedule is intended to present 10 years of information. Additional years information will be included as it becomes available.

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

Years Ended June 30, 2022	2022	2021	2020	2019	2018	2017	2016	2015
Actuarially determined contribution	$ -	$ -	$ 1,414,858	$ 1,722,750	$ 1,231,588	$ 1,386,433	$ 1,354,770	$ 816,458
Contributions in relation to the actuarially determined contribution	1,950,000	2,925,000	2,250,000	2,475,000	2,990,000	1,174,500	681,750	454,500
Contribution deficiency (excess)	$ (1,950,000)	$ (2,925,000)	$ (835,142)	$ (752,250)	$ (1,758,412)	$ 211,933	$ 673,020	$ 361,958
Covered-employee payroll	$ 8,981,095	$ 8,612,159	$ 9,423,893	$ 10,864,897	$ 11,374,381	$ 18,456,466	$ 19,654,269	$ 17,884,004
Contributions as a percentage of covered-employee payroll	21.71%	33.96%	23.88%	22.78%	26.29%	6.36%	3.47%	2.54%

Notes to Schedule

Valuation date: Actuarially determined contributions rates are calculated as of January 1, 2022. This schedule is intended to present 10 years of information. Additional years information will be included as it becomes available.

Methods and Assumptions Used to Determine Contribution Rates

Liability Interest Rate	7.00%
Administrative	Level percentage of payroll
Remaining Amortization Period	5 to 13.33 years
Asset Valuation Method	5-year smooth market
Inflation	2.50%
Salary Increases	2.5% annually
Investment Rate of Return	7%
Retirement Age	All participants are assumed to retire at age 70
Mortality	Pri-2012 White Collar Mortality, projected with MP-2021

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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 South Peninsula Hospital (the Hospital), a component unit of Kenai Peninsula Borough, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise South Peninsula Hospital's basic financial statements, and have issued our report thereon dated January 9, 2023.

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) 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2022-001 that we consider to be a material weakness.

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*.

South Peninsula Hospital's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Hospital's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Hospital's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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, LLP

Anchorage, Alaska
January 9, 2023

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Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited South Peninsula Hospital's (the Hospital's) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Hospital's major federal programs for the year ended June 30, 2022. The Hospital's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Hospital complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Hospital and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Hospital's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Hospital's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Hospital's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Hospital's compliance with the requirements of each major federal program as a whole.

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

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, 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 Hospital's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of the Hospital's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

BDO USA, LLP

Anchorage, Alaska
January 9, 2023

South Peninsula Hospital
(A Component Unit of the Kenai Peninsula Borough)
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2022

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	*Federal Assistance Listing Number*	*Pass-Through Entity Identifying Number*	*Provided to Subre-cipients*	*Total Federal Expenditures*
U.S. Department of the Treasury				
Passed through Alaska Hospital Association				
COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027	FY2022	$ -	$ 24,500
Passed through Alaska Department of Health and Social Services- COVID-19 Coronavirus Relief Fund	21.019	FY2022	-	12,000
Total U.S. Department of the Treasury			-	36,500
U.S. Department of Health and Human Services				
Direct:				
COVID-19 Provider Relief Fund and American Rescue Plan Rural Distribution	93.498	N/A	-	1,029,053
Passed through Kenai Peninsula Borough- COVID-19 Epidemiology and Laboratory Capacity of Infectious Diseases	93.323	KPB 02020-19-25	-	159,095
Passed through City of Homer- COVID-19 Epidemiology and Laboratory Capacity of Infectious Diseases	93.323	C0621-570-C	-	154,057
Total Assistance Listing Number 93.323			-	313,152
Passed through Alaska Department of Health and Social Services- COVID-19 Activities to Support State, Tribal, Local and Territorial (STLT) Health Department Response to Public Health or Healthcare Crisis	93.391	601-313-22015	-	51,282
Passed through Alaska Department of Health and Social Services- COVID-19 Emergency Grants to Address Mental and Substance Use Disorders During COVID-19	93.665	602-255-22015	-	75,228
Passed through Alaska Department of Health and Social Services- National Bioterrorism Hospital Preparedness Program	93.889	0621-021	-	20,845
Passed through Alaska Department of Health and Social Services- COVID-19 Rural Health Research Centers	93.155	C0621-583	-	258,376
Passed through Alaska Department of Health and Social Services- COVID-19 Small Rural Hospital Improvement Grant Program	93.301	0618-124	-	11,855
Total U.S. Department of Health and Human Services			-	1,759,791
Total Expenditures of Federal Awards			$ -	$ 1,796,291

The accompanying notes are an integral part of this schedule.

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of South Peninsula Hospital under programs of the federal government for the year ended June 30, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of South Peninsula Hospital, it is not intended to and does not present the financial position, changes in net position or cash flows of South Peninsula Hospital.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Indirect Cost Rate

South Peninsula Hospital has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

4. Provider Relief Fund (PRF) and American Rescue Plan (ARP) Rural Distribution Program

The total PRF Program expenditures on the Schedule includes $115,664 of out-of-period expenditures and $913,389 of lost revenues which are reported in accordance with the terms and conditions included in the Health Resources and Services Administration (HRSA) Post-Payment Notice of Reporting Requirements specific to the PRF Program.

Section I - Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified	
Internal control over financial reporting:		
Material weakness(es) identified?	X Yes	___ no
Significant deficiency(ies) identified?	___ Yes	X (none reported)
Noncompliance material to financial statements noted?	___ Yes	X no

Federal Awards

Internal control over major federal programs:		
Material weakness(es) identified?	___ Yes	X no
Significant deficiency(ies) identified?	___ Yes	X (none reported)
Type of auditor's report issued on compliance for major federal programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	___ yes	X no

Identification of major federal programs:

Assistance Listing Number	*Name of Federal Program or Cluster*	*Agency*
93.498	Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution	U.S. Department of Health and Human Services

Dollar threshold used to distinguish between Type A and Type B programs:		$ 750,000
Auditee qualified as low-risk auditee?	___ yes	X no

Section II - Financial Statement Findings Required to be Reported in Accordance with *Government Auditing Standards*

Finding 2022-001 **Fiduciary Fund Activity Assessment and Omission of Fiduciary Funds Statements – Internal Control Over Financial Reporting – Material Weakness**

Criteria *Government Accounting Standards* states management is responsible for establishing and maintaining effective internal control to help ensure that appropriate goals and objectives are met; using resources efficiently; economically, effectively, and equitably, and safeguarding resources; following laws and regulations; and ensuring that financial information is reliable and properly reported. Internal controls over financial reporting should allow management to prevent or detect and correct misstatements on a timely basis. GASB Statement No. 84, *Fiduciary Activities*, requires the reporting of a fiduciary fund for pension trusts that meet certain criteria.

Condition The Hospital did not identify the pension trust fund as a fiduciary activity. As a result, the financial statements did not initially include these activities as a fiduciary fund. During our audit, we performed an assessment of potential fiduciary activities noting the pension trust fund should be reported as a fiduciary activity.

Cause The Hospital's evaluation of the impacts of GASB 84 was incorrect in the prior year.

Effect or Potential Effect The pension trust fund was not identified as a fiduciary fund and was improperly excluded from the FY 2021 financial statements.

Recommendation The Hospital should implement processes and controls to ensure potential fiduciary activities are assessed and properly reported. The Hospital should implement processes and controls to ensure proper implementation of new accounting standards.

Views of Responsible Officials Management concurs with the finding. Management will implement processes and controls to ensure potential fiduciary activities are assessed and properly accounted for and ensure proper implementation of new accounting standards.

Section III - Federal Award Findings and Questioned Costs

There were no findings and questioned costs for federal awards (as defined in in 2 CFR 200.516(a)) that are required to be reported.

South Peninsula Hospital

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Interim CFO
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Finding 2022-001 Fiduciary Fund Activity Assessment and Omission of Fiduciary Funds Statements – Internal Control Over Financial Reporting – Material Weakness

Corrective Action

South Peninsula Hospital will meet with the Kenai Peninsula Borough Finance Director annually to review any new GASB pronouncements and discuss them together to both ensure that standards are implemented in tandem at the same time. This will ensure that we have discussed and reviewed and are in agreement for both timelines and implementation requirements.

Expected Completion Date:
Fiscal year 2023