Central Peninsula General Hospital (A Component Unit of the Kenai Peninsula Borough)

Basic Financial Statements, Supplementary Information, Single Audit Reports and Other Information Years Ended June 30, 2016 and 2015



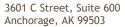
(A Component Unit of the Kenai Peninsula Borough)

Basic Financial Statements, Supplementary Information, Single Audit Reports and Other Information Years Ended June 30, 2016 and 2015

Central Peninsula General Hospital (A Component Unit of the Kenai Peninsula Borough)

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Independent Auditor's Report

To the Honorable Mayor and Members of the Kenai Peninsula Borough Assembly, and Central Peninsula General Hospital, Inc. Operating Board Soldotna, Alaska

Report on the Financial Statements

We have audited the accompanying financial statements of Central Peninsula General Hospital (the "Hospital"), a component unit of the Kenai Peninsula Borough, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Central Peninsula General Hospital, as of June 30, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6-13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Central Peninsula General Hospital's basic financial statements. The supplemental schedules of patient service revenues, schedules of operating expenses - by function, schedules of revenue and expenses - budget and actual, and the schedule of state financial assistance are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of state financial assistance is required by the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits.*

The supplementary 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. Such 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 auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

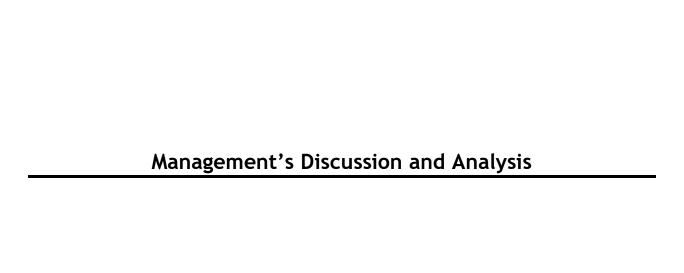
In accordance with Government Auditing Standards, we have also issued our report dated November 16, 2016 on our consideration of the Central Peninsula General Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Central Peninsula General Hospital's internal control over financial reporting and compliance.

Anchorage, Alaska

BDO USA, LLP

November 16, 2016

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(A Component Unit of the Kenai Peninsula Borough)

Management's Discussion and Analysis

Introduction

The following discussion and analysis presents the highlights of Central Peninsula General Hospital ("the Hospital") financial activities and financial position. The analysis focuses on significant financial issues and major financial activities and the resulting changes in financial position, as well as comparisons to the operating budget approved by the Hospital's Board of Directors.

Financial Statements

The Hospital is a discretely presented component unit of the Kenai Peninsula Borough. As an enterprise activity, the Hospital's financial statements are prepared using proprietary fund accounting that focuses on the determination of changes in net position, financial position and cash flows in a manner similar to a private-sector business. The financial statements are prepared on an accrual basis of accounting which recognizes revenue when earned and expenses when incurred. The basic financial statements include statements of net position, statements of revenues, expenses and changes in net position, and statements of cash flows, followed by notes to the basic financial statements.

The statements of net position present information on the Hospital's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may indicate whether the financial position of the Hospital is improving or deteriorating.

The statements of revenues, expenses and changes in net position present both the operating revenues and expenses and non-operating revenues and expenses along with other changes in net position for the year. This statement is an indication of the success of the Hospital's operations over the past year.

The statements of cash flows present the change in cash and cash equivalents for the year resulting from operating activities, non-capital financing activities, capital and related financing activities, and investing activities. The primary purpose of this statement is to provide information about the Hospital's cash receipts and cash payments during the year.

Financial Highlights - 2016

- The Hospital's 2016 Net Position increased over the 2015 by \$24.0 million or 18.7%.
- The Hospital's cash and cash equivalents decreased by approximately \$590 thousand while non-current cash and investments increased by \$17.2 million.
- The Hospital issued \$3.0 million in new revenue bonds to fund the construction of a specialty medical office building.
- Operating income increased by approximately \$6.1 million in 2016 compared to 2015.

Financial Highlights - 2015

- The Hospital's 2015 Net Position increased over 2014 by \$17.2 million or 15%.
- The Hospital's cash and cash equivalents increased by approximately \$2.1 million while non-current cash and investments increased by \$2.4 million.
- The Hospital issued \$3.2 million in new revenue bonds to fund the construction of a specialty medical office building.

Financial Highlights - 2014

(A Component Unit of the Kenai Peninsula Borough)

Management's Discussion and Analysis

- The Hospital's 2014 Net Position increased over 2013 by \$13.2 million or 13.5%.
- The Hospital's cash and cash equivalents increased by approximately \$163 thousand while non-current cash and investments increased by \$5.1 million.
- The Hospital issued \$32.5 million in new revenue bonds to fund the construction of a specialty medical office building.

The Hospital's Net Position

Summarized financial information of the Hospital's Statements of Net Position as of June 30, 2016, 2015, and 2014 are as follows:

	In Thousands		
	2016	2015	2014
Assets and Deferred Outflows			
Cash and cash equivalents	\$ 37,049	\$ 37,639	\$ 35,509
Patient accounts receivable, net	29,633	28,180	23,521
Other current assets	8,650	7,386	7,281
Non-current cash and investments	36,558	19,339	16,948
Bond reserves	4,726	4,569	4,193
Unspent bond proceeds	1,675	18,469	31,276
Deferred outflows	2,833	3,376	1,850
Capital assets, net	109,253	93,151	71,388
Total Assets and Deferred Outflows	\$ 230,377	\$ 212,109	\$ 191,966
Liabilities	*		*
Current liabilities	\$ 19,952	\$ 23,154	\$ 18,192
Long-term debt, net of current portion	57,978	60,544	62,540
Total Liabilities	77,930	83,698	80,732
Net Position			
Net investment in capital assets	48,960	46,444	37,382
Restricted	8,124	6,034	4,693
Unrestricted	95,363	75,933	69,159
Onlestricted	73,303	73,733	07,137
Total Net Position	152,447	128,411	111,234
Total Liabilities and Net Position	\$ 230,377	\$ 212,109	\$ 191,966

The most noteworthy changes in the Hospital's net position during 2016 are the increases in noncurrent cash and investments and capital assets, and the decrease in cash and unspent bond proceeds.

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Management's Discussion and Analysis

Noncurrent cash and investments increased by \$17.2 million during 2016 as a result of transfers from Hospital operating cash into the Plant Replacement and Expansion Fund in excess of \$22.7 million during the fiscal year. In accordance with the Lease and Operating Agreement between the Hospital and the Kenai Peninsula Borough, all cash in excess of 90-days operating cash must be transferred to a Plant Replacement and Expansion fund at the Kenai Peninsula Borough.

Capital assets increased by over \$16.1 million during 2016 due to continued construction and completion of the Specialty Physician clinics building. Total project costs were approximately \$42.0 million. As a result of project completion, unspent bond proceeds as of 2016 were \$16.8 million lower than in 2015.

Cash and cash equivalents decreased by approximately \$590 thousand due to a \$1.3 million reduction in Borough Service Area cash and a \$749 thousand increase in Operating cash since the previous year.

The net position of the Hospital increased from \$128.4 million as of June 30, 2015 to \$152.4 million as of June 30, 2016, reflecting the overall performance for fiscal year 2016 of a \$24.0 million increase in net position. The \$24.0 million increase in net position from 2015 to 2016 is primarily the result of increased patient volumes in adult and pediatric acute care, emergency services, and lab, as well as the opening of two new physician clinics during 2016.

The most noteworthy changes in the Hospital's net position during 2015 and 2014 were the increase in patient accounts receivable and noncurrent cash and investments, the changes in unspent bond proceeds, and the increase in capital assets and current liabilities.

A \$31.3 million increase in bond proceeds occurred during 2014 as a result of the issuance of \$34.9 million in revenue bonds for the construction of a specialty medical office building. A corresponding increase of \$30.4 million in long-term debt and \$2.0 million in short-term debt also resulted from that issuance. In accordance with debt service requirements of this bond issuance, a \$4.2 million increase in bond reserves occurred during 2014.

A \$12.8 million decrease in bond proceeds occurred during 2015 as a result of \$22.9 million in construction costs minus accrued invoices and the issuance of \$3.2 million in additional revenue bonds for the specialty medical office building. A corresponding increase of \$21.8 million in capital assets and \$5.2 million in current liabilities also resulted from this construction project. Construction in progress for the specialty physician clinic project increased by \$22.9 million during 2015. Meanwhile, accounts payable for the project rose to \$4.5 million as of June 30, 2015 explaining the increase in current liabilities.

Non-current cash and investments increased by \$2.4 and \$5.1 million during 2015 and 2014, respectively, due to transfers of cash in excess of 90 days of operating cash into the plant replacement and expansion fund less capital project costs. Transfers of cash into the fund are governed by a lease and operating agreement between the Hospital and the Kenai Peninsula Borough.

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Management's Discussion and Analysis

The net position of the Hospital increased from \$111.2 million as of June 30, 2014 to \$128.4 million as of June 30, 2015, reflecting the overall performance for fiscal year 2015 of a \$17.2 million increase in net position. The \$17.2 million increase in net position from 2014 to 2015 is primarily the result of increased patient volumes in adult and pediatric acute care and surgery, as well as the opening of two new physician clinics during 2015 and the purchase of an outpatient imaging facility.

Operating Results and Changes in the Hospital's Net Position

Summarized financial information of the Hospital's Statements of Revenues, Expenses and Changes in Net Position for the years ended June 30, 2016, 2015, and 2014 are as follows:

In Thousands

	In Thousands			
		2016	2015	2014
Operating Revenues				
Net patient revenue (net of bad debt)	\$	154,704	\$ 138,498	\$ 122,384
Other revenue	<u> </u>	5,213	5,511	4,330
Total Operating Revenue		159,917	144,009	126,714
Operating Expenses				
Salaries, wages, and benefits		79,081	74,618	67,176
Supplies and drugs		26,082	23,516	20,460
Purchased services and professional fees		17,562	16,199	14,100
Depreciation and amortization		10,153	8,472	8,067
Other		2,427	2,734	2,628
Total Operating Expenses		135,305	125,539	112,431
Operating Income		24,612	18,470	14,283
Non-Operating Revenues (Expenses)				
Property taxes		51	49	96
Investment income		553	248	257
Other non-operating expenses		(1,789)	(1,597)	(1,424)
Total Non-Operating Expenses		(1,185)	(1,300)	(1,071)
Capital Grants		609	7	15
Increase in Net Position	\$	24,036	\$ 17,177	\$ 13,227

The Hospital's net patient revenue for fiscal year 2016 and 2015 showed an increase of \$16.2 and \$16.1 million, respectively.

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Management's Discussion and Analysis

The 12% increase in 2016 net patient revenues over the previous year was the result of; an 8% increase in acute care patient days, an 8% increase in emergency room visits, and an 11% increase in lab procedures, as well as annual charge increases. The Hospital also opened two new physician clinics, Kenai Medical Center, and Central Peninsula Women's Health. The \$36.3 million increase in total net patient revenue created by added patient volumes, services, and charge adjustments was reduced by a \$22.9 million increase in contractual write-offs, and a \$2.9 million decrease in the provision for bad debts.

The 13% increase in 2015 net patient revenues over the previous year was the result of; a 2% increase in acute care patient days, an 11% increase in surgical cases, a 7% increase in emergency room visits, a 10% increase in imaging procedures, as well as annual charge increases. The Hospital also opened a foot & ankle clinic, a urology clinic, and an outpatient imaging facility during 2015. The \$38.6 million increase in total patient revenue created by added patient volumes, services, and charge adjustments was reduced by a \$21.3 million increase in contractual write-offs, and a \$1.2 million increase in the provision for bad debts.

Operating expenses increased by 8% or \$9.8 million from fiscal year 2015 to 2016, and by 11.6% or \$13.1 million from fiscal year 2014 to 2015. The 2016 increase in operating expenses was largely due to increases in salaries and benefits, depreciation, and supplies. The 2015 increase in operating expenses was due to increases in salaries and benefits, contract labor, and supplies.

Salaries expense for 2016 increased by 5% or \$2.9 million over the previous year. A wage increase of 3% of salaries for non-union employees, a 3% increase in staffing, as well as the renegotiation of existing physician employment contracts caused this change. Pharmacy drug costs increased by 17% over the previous year due to an 8% increase in acute care patient volumes and an 8% increase in emergency room volumes coupled with inflationary drug cost adjustments. Employee benefits costs increased by 8% in 2016 due to an increase in employee health plan expenses. The Hospital experienced an increase of \$1.7 million in 2016 employee health insurance costs over the 2015 plan year. Comparatively, health plan costs increased by \$1.4 million between 2015 and 2014.

Salaries expense for 2015 increased by 10% or \$5.2 million over the previous year. A wage increase of 3% of salaries for non-union employees, a 3% increase in staffing, the addition of two new specialty physicians, as well as the renegotiation of existing physician employment contracts caused this change. Pharmacy drug costs increased by 13% over the previous year due to a 2% increase in acute care patient volumes and a 7% increase in emergency room volumes coupled with inflationary drug cost adjustments. Employee benefits costs increased by 14% in 2015 due to an increase in employee health plan expenses and worker's compensation expenses. The Hospital experienced an increase of \$1.3 million in 2015 employee health insurance costs over the 2014 plan year. Meanwhile, health plan costs declined by \$1.2 million between 2014 and 2013. Changes to the health plan in 2016 and 2015 included increases in employee premiums, co-pays, and deductibles as well as the addition of new preferred providers. These changes, in addition to employee education about health plan choices, helped to contain costs for the plan year 2014.

Non-operating revenues and expenses consist primarily of interest expense, investment income, and impairments of long-lived assets. Investment income increased by over \$305 thousand during 2016 due to an increase in Plant Replacement Funds from \$18.8 million in 2015 to \$36.1 million in 2016. These funds are invested in the Kenai Peninsula Borough Investment Pool.

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Management's Discussion and Analysis

Investment income remained relatively consistent in 2015 compared to 2014 due to investment earnings for deposits held in the Kenai Peninsula Borough Central Treasury. Another notable increase occurred in non-operating expenses from the previous year due to the 2015 impairment of goodwill recorded after the purchase of Providence Outpatient Imaging.

Budget Comparison

The following schedule presents a comparison of actual results to budget for the year ended June 30, 2016:

	In Thousands			
	Actual	Budget	Variance	
Operating Revenues				
Net patient revenue	\$ 154,704	\$ 145,794	\$ 8,910	
Other revenue	5,213	5,316	(103)	
Total Operating Revenue	159,917	151,110	8,807	
Operating Expenses	135,305	132,863	2,442	
Operating Income	24,612	18,247	6,365	
Non-Operating Revenues (Expenses)	(1,185)	(1,896)	711	
Capital Grants	609	-	609	
Increase in Net Position	\$ 24,036	\$ 16,351	\$ 7,685	

Net patient revenue exceeded budget by \$8.9 million in 2016 due to several patient care departments which exceeded their gross patient revenue budgets, such as; Med/Surg, ICU, Swing bed, Emergency Services, Laboratory, Imaging, and Respiratory Care. Although deductions from revenue were also higher than budgeted during the year, Bad Debt write-offs came in \$6.3 million below budget due to Medicaid expansion and the Healthcare Reform Act.

Operating expenses exceeded budget by \$2.4 million or 2% in 2016. Employee benefit expenses were \$1.2 million over budget due to greater than expected employee health claims. Contract labor also continues to exceed budget due to a shortage of qualified staffing in nursing, sterile processing, physical therapy, information services, and medical records. Physician fees exceeded budget due to the staffing of the new Women's Health Clinic with locums providers for the entirety of 2016. Drugs & IV solutions exceeded budget by 10% due to both increased patient volumes and inflationary drug costs. Insurance expenses increased due to the accrual of \$450 thousand for the deductible on a malpractice claim. Finally, depreciation expense exceeded budget by \$178 thousand due to uncertainty relating to the final placed in service date for the new \$42 million Specialty Physician clinic building.

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Management's Discussion and Analysis

Capital Assets Discussion

2016

Capital asset additions of \$47.4 million were placed in service during fiscal year 2016, while construction in progress decreased by \$21.0 million. Significant additions to property, plant, and equipment included the completion of the Specialty Physician clinic building and related equipment, totaling nearly \$42 million. Other significant additions include new video and booms for the operating room, data center expansion, the purchase of a transitional youth housing building, and medical office building. The additions to construction in progress for 2016 are mainly related to the construction of the specialty physician clinic building and the new Epic software conversion. Retirements of \$4.1 million during 2016 included an obsolete loading dock and generator added in 1999 and 2000, Hospital remodels, and the Meditech bedside medication verification system which were all fully depreciated. An impairment loss was also recorded after the early trade in of a 2013 MRI purchased in 2015 and exchanged in 2016 for a newer model.

2015

Capital asset additions of \$8.6 million were placed in service during fiscal year 2015, while construction in progress increased by \$21.6 million. Significant additions to property, plant, and equipment included the placement of the CT Expansion project into service which included the purchase of a new 128-slice CT scanner. Additionally, the Hospital purchased Providence Outpatient Imaging, including \$720 thousand in medical equipment. The Hospital also purchased a medical office building, and various medical office equipment and furniture from a retiring physician. The building was immediately placed into service as a new specialty physician clinic offering urological services. Other significant additions include parking lot improvements, server upgrades, surgical software, and medical office renovations. The additions to construction in progress for 2015 are mainly related to the construction of the specialty medical office building which is scheduled to be completed in January 2016. Retirements of \$2.9 million during 2015 included a security access control system added in 2010, MRI upgrades, and the Meditech order entry system which were all fully depreciated. An impairment loss was recorded along with the retirement of video colonoscopies and gastroscopies as these items were removed from service early.

2014

Capital asset additions of \$6.8 million were placed in service during fiscal year 2014, while construction in progress increased by \$8.6 million. Significant additions to property, plant, and equipment included the placement of a new building into service for use by our Kenai Physical medicine department. The building was purchased from Frontier Physical Therapy during 2013 and underwent renovations before it was placed in service during 2014. Other significant additions include building renovations for obstetrics, oncology, wound care, and imaging. An X-ray room and related equipment were added to the spine clinic, and a new ultrasound system was purchased for the Hospital. The additions to construction in progress for 2014 are mainly related to the construction of a specialty medical office building and an upgrade to our current information systems network. Retirements of \$6.4 million during 2014 included patient monitoring equipment, a building remodel from 1984, MRI upgrades, medical records automation systems, and a breast biopsy system which were all fully depreciated. A partial impairment of a generator project from 2000 was also recorded as part of the system has been removed from service.

Debt

(A Component Unit of the Kenai Peninsula Borough)

Management's Discussion and Analysis

As of June 30, 2016 the Hospital had \$34.7 million in revenue bonds and \$23.3 million in refunding bonds outstanding as detailed in *Note 6* to the basic financial statements. Principal payments totaling \$4.6 million and interest payments of \$2.3 million were made on long-term debt during 2016. Revenue bonds issued during 2016 and 2015 are for the purpose of building a specialty medical office building. There have been no changes in the Hospital's debt ratings in the past two years.

As of June 30, 2015 the Hospital had \$33.9 million in revenue bonds and \$25.7 million in refunding bonds outstanding as detailed in *Note 6* to the basic financial statements. Principal payments totaling \$4.0 million and interest payments of \$2.4 million were made on long-term debt during 2015. Revenue bonds issued during 2015 and 2014 are for the purpose of building a specialty medical office building.

Contacting the Hospital's Financial Management

This 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 250 Hospital Place, Soldotna, Alaska 99669.

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Basic Financial Statements

Central Peninsula General Hospital (A Component Unit of the Kenai Peninsula Borough)

Statements of Net Position

Statements of Net Position		
June 30,	2016	2015
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and cash equivalents	\$ 32,654,348	\$ 31,905,467
Equity in Central Treasury of Borough	4,394,414	5,732,944
Total cash and equity in Central Treasury of Borough	37,048,762	37,638,411
Patient receivables	37,082,892	35,101,291
Less estimated uncollectibles	(7,450,229)	(6,921,010)
Net patient receivables	29,632,663	28,180,281
Property taxes receivable	2,123	2,779
Less estimated uncollectible taxes	(219)	(40)
Net property taxes receivable	1,904	2,739
Other receivables	843,717	804,522
Prepaid expenses	1,967,254	1,409,211
Inventory	5,837,172	5,169,890
Total Current Assets	75,331,472	73,205,054
	73,331, 172	73,203,031
Assets Whose Use is Limited		
Plant replacement funds	36,058,619	18,838,950
Other reserved funds	500,000	500,000
Bond reserves held by BNY	3,585,067	3,280,066
Bond reserves held by escrow agent	1,140,767	1,288,971
Unspent bond proceeds	1,675,220	18,468,485
Total Assets Whose Use is Limited	42,959,673	42,376,472
Property, Plant and Equipment		
Buildings	100,134,816	79,481,040
Equipment	63,646,379	41,324,069
Land and land improvements	4,975,346	4,654,429
Construction in progress	6,207,528	27,190,019
Leasehold improvements	562,002	567,520
Less accumulated depreciation and amortization	(66,272,903)	(60,066,030)
Total Property, Plant and Equipment, Net	109,253,168	93,151,047
Total Noncurrent Assets	152,212,841	135,527,519
Deferred Outflows of Resources		
Deferred loss on bond refunding	1,060,301	1,206,550
Excess consideration paid for acquisition	1,772,446	2,169,698
Total Deferred Outflows of Resources	2,832,747	3,376,248
Total Assets and Deferred Outflows of Resources	\$ 230,377,060	\$ 212,108,821
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Central Peninsula General Hospital (A Component Unit of the Kenai Peninsula Borough)

Statements of Net Position, continued

June 30,	2016	2015
Liabilities and Net Position		
Current Liabilities		
Accounts and contracts payable	\$ 3,966,082	\$ 8,209,222
Accrued liabilities	6,440,168	5,992,403
Claims payable	3,513,562	2,615,806
Due to third party payors	150,000	852,751
Unearned revenue	12,906	11,005
Bond interest payable	766,343	792,737
Current portion of bonds payable	5,023,000	4,575,000
Current portion of capital leases	27,993	56,231
Other current liabilities	51,984	48,246
Total Current Liabilities	19,952,038	23,153,401
Long-term Liabilities		
Bonds payable, net of current portion	53,012,000	54,985,000
Capital leases, net of current portion	-	33,180
Premium on bonds payable	4,965,998	5,525,954
Total Long-term Liabilities	57,977,998	60,544,134
Total Liabilities	77,930,036	83,697,535
Net Position		
Net investment in capital assets	48,959,698	46,444,167
Restricted	8,124,318	6,034,112
Unrestricted	95,363,008	75,933,007
Oill esti icted	73,303,000	73,733,007
Total Net Position	152,447,024	128,411,286
Total Liabilities and Net Position	\$ 230,377,060	\$ 212,108,821

(A Component Unit of the Kenai Peninsula Borough)

Statements of Revenues, Expenses and Changes in Net Position

For the Years Ended June 30,	2016	2015
Operating Revenues		
Patient service revenue (net of contractual allowances and charity)	\$ 164,641,296	\$ 151,309,495
Provision for bad debts	(9,937,048)	(12,811,570)
Net patient service revenue less provision for bad debts	154,704,248	138,497,925
Other operating revenue	5,212,882	5,511,640
Total Operating Revenues	159,917,130	144,009,565
Operating Expenses		
Salaries	59,586,770	56,727,459
Employee benefits	19,494,509	17,890,326
Medical supplies	10,739,516	10,174,149
Depreciation	10,152,657	8,471,959
Other supplies	9,016,098	8,093,771
Other professional fees	5,712,821	5,970,748
Drugs and IV solutions	6,326,537	5,247,811
Repairs and maintenance	4,512,281	3,846,329
Utilities	3,330,434	3,112,916
Physician fees	1,782,859	1,357,950
Insurance	1,466,731	1,136,309
Leases and rentals	756,132	775,652
Other	2,427,284	2,734,020
Total Operating Expenses	135,304,629	125,539,399
Income from operations	24,612,501	18,470,166
Non-Operating Revenues (Expenses)		
General property taxes	51,278	48,694
Investment income	553,256	248,205
Interest expense	(1,194,176)	(969,176)
Other expenses	(596,285)	(628, 179)
Total Non-Operating Revenues (Expenses)	(1,185,927)	(1,300,456)
Income before contributions	23,426,574	17,169,710
Capital contributions	609,164	7,260
Change in net position	24,035,738	17,176,970
Net Position, beginning of year	128,411,286	111,234,316
Net Position, end of year	\$ 152,447,024	\$ 128,411,286

(A Component Unit of the Kenai Peninsula Borough)

Statements of Cash Flows

For the Years Ended June 30,	2016	2015
Cash Flows from Operating Activities		
Receipts from patients and users	\$ 157,761,997	\$ 139,411,957
Payments to suppliers	(51,011,621)	(39,018,934)
Payments to employees	(78,298,752)	(73,730,901)
Tayments to employees	(70,270,732)	(73,730,701)
Net cash flows from operating activities	28,451,624	26,662,122
Cash Flows from Non-Capital Financing Activities		
Receipts from property taxes	54,014	50,023
Grants and other non-operating sources	(37,120)	(90,132)
Net cash flows (for) from non-capital financing activities	16,894	(40,109)
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	(26,416,840)	(30,257,276)
Proceeds from issuance of bonds	3,050,000	3,177,132
Principal paid on capital debt	(4,636,269) 609,164	(4,099,542) 7,260
Capital contributions from grants	•	•
Interest paid on capital debt	(1,634,277)	(1,443,136)
Net cash flows for capital and related financing activities	(29,028,222)	(32,615,562)
Cash Flows from Investing Activities		
Change in assets whose use is limited	(583,201)	10,040,267
Investment income received	553,256	248,205
Acquisition of a business	-	(2,164,955)
, requisition of a submost		(=,::::,;:::)
Net cash flows from (for) investing activities	(29,945)	8,123,517
Net increase (decrease) in cash and cash equivalents	(589,649)	2,129,968
Cash and Cash Equivalents and Equity in Central Treasury, beginning of year	37,638,411	35,508,443
Cash and Cash Equivalents and Equity in Central Treasury, end of year	\$ 37,048,762	\$ 37,638,411

Central Peninsula General Hospital (A Component Unit of the Kenai Peninsula Borough)

Statements of Cash Flows, continued

For the Years Ended June 30,	2016	2015
Reconciliation of Income from Operations to Net		
Cash Flows from Operating Activities		
Income from operations	\$ 24,612,501	\$ 18,470,166
Adjustments to reconcile income from operations		
to net cash from operating activities:		
Depreciation expense	10,152,657	8,471,959
Provision for bad debts	9,937,048	12,811,570
Changes in assets and liabilities:		
Patient receivables	(11,389,430)	(17,470,558)
Other receivables	(39,195)	430,202
Inventory	(667,282)	(681,205)
Prepaid expenses	(558,043)	145,793
Accounts and contracts payable	(4,243,140)	3,589,013
Accrued liabilities	447,765	763,754
Claims payable	897,756	63,529
Due to third party payors	(702,751)	61,380
Other current liabilities	3,738	6,519
Total adjustments	3,839,123	8,191,956
Net cash flows from operating activities	\$ 28,451,624	\$ 26,662,122

(A Component Unit of the Kenai Peninsula Borough)

Notes to Basic Financial Statements

1. The Reporting Entity

The Central Peninsula General Hospital (the "Hospital) is a component unit of the Kenai Peninsula Borough, which was incorporated as a second-class borough on January 1, 1964, under provisions of the State of Alaska Borough Act of 1961. Effective December 14, 1992, the Borough entered into a lease and operating agreement with Central Peninsula General Hospital, Inc., an Alaskan nonprofit corporation under Internal Revenue Code (IRC) section 501(c)3, to operate the facility. The agreement, which was renewed January 1, 2008 and is effective through December 31, 2017, requires the Kenai Peninsula Borough to provide funds to the Hospital for operating purposes, payment of general obligation bonds, and for additions and replacements of property, plant and equipment as needed.

2. Summary of Significant Accounting Policies

Enterprise Accounting

Enterprise activities accounting is used to account for government operations that are financed and operated in a manner similar to private business enterprises where the intent of the Hospital is that the costs (expenses, including depreciation) 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, the issuance of general obligation bonds by the Kenai Peninsula Borough on behalf of the Hospital, and State grants.

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

Deferred Inflows and Deferred Outflows

Certain items previously reported as assets and liabilities are now categorized as deferred inflows or deferred outflows. A deferred outflow represents the consumption of the Hospital's net position that is applicable to a future reporting period. A deferred inflow represents the acquisition of net position that is applicable to a future reporting period.

Cash Equivalents

For purposes of the statement of cash flows, the Hospital considers all highly liquid investments with a maturity of less than three months when purchased and deposits in the Kenai Peninsula Borough Central Treasury to be cash equivalents, except those included in assets whose use is limited.

(A Component Unit of the Kenai Peninsula Borough)

Notes to Basic Financial Statements

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 more efficient investment of the combined assets. Each fund or entity whose monies are deposited in the Central Treasury, therefore, has equity therein.

Assets Whose Use is Limited

Assets whose use is limited are assets set aside by the Board for future capital improvements or other uses over which the Board retains control and may, at its discretion, use for other purposes, except for Bond Funds which must be used for hospital expansion. These investments are recorded at fair value and are included in unrestricted net assets.

Inventory

Inventory is stated at the lower of cost (first-in, first-out method) or market.

Prepaid Expenses

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

Property, Plant and Equipment

Property, plant and equipment acquisitions greater than \$2,500 are stated at cost less accumulated depreciation. Depreciation is charged to operations by use of the straight-line method over the useful lives of the assets, estimated to be thirty (30) years for buildings and generally five (5) to fifteen (15) years for equipment in accordance with the standards used by the American Hospital Association. Land is not depreciated. Expenditures for renewals and betterments greater than \$2,500 which increase the value or useful life of existing assets are capitalized. Maintenance and repairs are expensed when incurred. Gains and losses upon asset disposal are reflected in other non-operating income. Interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets. Interests costs incurred after the period of construction are reported as other non-operating expenses. Equipment under a capital lease obligation is amortized on the straight-line method over the lease term or the estimated useful life of the equipment, whichever period is shorter. Such amortization is included with depreciation in the accompanying statements of revenues, expenses and changes in net position.

Excess Consideration Paid for Acquisition

The Hospital has recognized goodwill as a result of acquiring various businesses (see Note 12 regarding acquisitions). The Hospital evaluates the carrying value of goodwill annually and amortizes the remaining balance over a 5 year period using the present value of net flows.

(A Component Unit of the Kenai Peninsula Borough)

Notes to Basic Financial Statements

Deferred Loss on Bond Refunding

The Hospital reissued bonds in September 2011 (See Note 6 regarding Long-Term Debt) resulting in a deferred loss on bond refunding. The unamortized balance as of June 30, 2016 and 2015 was \$1,060,301 and \$1,206,550, respectively.

Bad Debts

Bad debt provisions are made for the amount of revenue that will not be collected from patients to whom services were billed but not paid. The Hospital has determined these patients are neither medically nor financially indigent and do not qualify for the Hospital's charity care program. Bad debt provisions are determined by management's assessment with consideration of business and economic conditions, changes and trends in healthcare coverage, and other collection indicators. The adequacy of this provision is periodically reviewed and further modified based upon the accounts receivable payor composition and aging, and historical write-off experience by payor category.

Operating Income and Expense

Operating income includes any revenue generated by the Hospital's core business purpose of providing healthcare services to the public. Other operating income includes grants and subsidies that also support operations. Operating expenses represent all expenses incurred to generate operating income such as labor, supplies, and facility expense.

Non-Operating Income/Expense

Income and expenses not attributed to the Hospital's core business purpose of providing healthcare services are assigned to non-operating income. The most commonly found items in this account are property tax revenue, investment income, interest expense, and non-operating grants.

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and other services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors, charity care adjustments, and the provision for bad debt. 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. 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 Central Peninsula General Hospital Service Area.

(A Component Unit of the Kenai Peninsula Borough)

Notes to Basic Financial Statements

Unearned Revenue

Unearned revenue consists of payments received as of June 30, for property taxes due September 15. Such deferred property tax revenues are for the support of the following fiscal year's operations.

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.

Reclassifications

Certain reclassifications which have no impact on change in net position have been made to the 2015 financial statements to conform to current year classifications.

3. Charity Care

The Hospital provides care to patients regardless of their ability to pay. Patients must meet certain criteria to receive care without charge or at amounts less than its established rates through the charity care program. The charity care policy classifies a charity patient as a patient who is unable to pay based on income level, financial analysis, and/or further healthcare needs based on diagnosis. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not included in net revenue. The following information provides the graduated scale in which no payment or reduced payment is determined based upon the Federal Poverty Income Guidelines, published by the Department of Health and Human Services:

Federal Poverty Level	% of Financial Assistance	
100 - 200%	100%	
201 - 250%	70%	
251 - 300%	50%	

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(A Component Unit of the Kenai Peninsula Borough)

Notes to Basic Financial Statements

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services and supplies furnished under its charity care policy, the estimated cost of those services and supplies and equivalent service statistics. The following information measures the level of charity care provided and the estimated net cost of charity care services provided, calculated using a cost to charge ratio methodology during the years ended June 30, 2016 and 2015:

	2016	2015
Charges Forgone, Based On Established Rates	\$ 5,924,414	\$ 6,296,352
Net Cost Of Charity Care Services Provided	\$ 2,509,960	\$ 3,317,548

4. Deposits and Investments

Deposits and investments consisted of the following at June 30:

	2016		2	2015
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
Deposits				
Bank accounts Petty cash	\$ 32,649,068 5,280	33,475,935	\$ 31,900,642 4,825	\$ 31,688,440 -
Total Deposits	32,654,348	33,475,935	31,905,467	31,688,440
Investment				
Certificates of deposit	500,000	500,000	500,000	500,000
Total Deposits And Investments	\$ 33,154,348	33,975,935	\$ 32,405,467	\$ 32,188,440

The Hospital's deposits and investments are recorded on the statement of net position at June 30, 2016 and 2015 as follows:

	2016	2015
Cash and cash equivalents Assets whose use is limited -	\$ 32,654,348	\$ 31,905,467
Other reserved funds	500,000	500,000
	\$ 33,154,348	\$ 32,405,467

Use of a portion of these investments is limited under restrictions placed by the Board of Directors, the Kenai Peninsula Borough, and the Alaska Municipal Bond Bank. U.S. Government Securities and government agency securities held by the Hospital's agent in the Hospital's name is in the lowest risk category. Money market funds are not categorized as to risk. All funds held by the Hospital's and the Kenai Peninsula Borough's financial institutions are public fund accounts and are fully collateralized in accordance with the Borough's investment policy.

(A Component Unit of the Kenai Peninsula Borough)

Notes to Basic Financial Statements

The Hospital holds a \$500,000 certificate of deposit to back a letter-of-credit whose beneficiary is Steadfast Insurance Company. This letter of credit could be exercised by Steadfast Insurance should any unpaid claims for Professional and General Liability occur. The balance of the certificate of deposit was \$500,000 as of June 30, 2016 and 2015.

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 statement of net position as follows at June 30, 2016 and 2015:

	2016	2015
Current Assets	¢ 4 204 414	Ć E 722 044
Equity in Central Treasury of Borough Assets Whose Use is Limited	\$ 4,394,414	\$ 5,732,944
Plant replacement funds	36,058,619	18,838,950
	\$ 40,453,033	\$ 24,571,894

5. Capital Assets

A summary of the changes in property, plant and equipment during fiscal year 2016 follows:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
-	July 1, 2013	Additions	Detections	Julie 30, 2010
Land and land improvements	\$ 4,654,429	\$ 572,292	\$ (251,375)	. , ,
Buildings	79,481,040	22,604,355	(1,950,579)	100,134,816
Equipment	41,324,069	24,222,684	(1,900,374)	63,646,379
Leasehold improvements	567,520	-	(5,518)	562,002
Construction in progress	27,190,019	23,702,964	(44,685,455)	6,207,528
Total property, plant and				· · · · · ·
equipment	153,217,077	71,102,295	(48,793,301)	175,526,071
Less accumulated depreciation for:				
Land and land improvements	(991,981)	(234,968)	242,057	(984,892)
Buildings	(39,022,214)	(4,032,990)	1,950,579	(41,104,625)
Equipment	(19,753,689)	(5,831,994)	1,749,316	(23,836,367)
Leasehold improvements	(298,146)	(52,705)	3,832	(347,019)
Total accumulated depreciation	(60,066,030)	(10,152,657)	3,945,784	(66,272,903)
Net Property, Plant And				
Equipment	\$ 93,151,047	\$ 60,949,638	\$ (44,847,517)	\$ 109,253,168

(A Component Unit of the Kenai Peninsula Borough)

Notes to Basic Financial Statements

6. Long-term Debt

Issuance of New Debt

The Assembly of the Kenai Peninsula Borough authorized the issuance of \$43,000,000 of Central Peninsula General Hospital Service Area Revenue bonds on October 22, 2013. The bond proceeds will be used to fund the construction costs of a specialty medical office building. In February 2014, the Borough issued \$32,490,000 of 15-year bonds in two different series with a premium of \$2,509,563. Series one, 2014A Serial bonds are tax-exempt with an average coupon rate of 4.78% and mature in 2029. Series two, the 2014B Serial bonds are taxable with an average coupon rate of 2.22% and mature in 2022.

In June 2015, the Borough issued an additional \$3,200,000 of 8-year 2015A Series A taxable bonds with an average coupon rate of 1.69% which mature in March 2023. During the construction phase of the specialty medical office building, all interest on the 2014 and 2015 revenue bonds was capitalized. The amount of interest capitalized during 2016 and 2015 was \$915,867 and \$347,061, respectively.

In June 2016, the Borough issued an additional \$3,050,000 of 7-year 2016 Series A taxable bonds with an average coupon rate of 2.43% which mature in April 2023. After this third issuance of bonds, \$4,260,000 remains authorized and unissued. The construction phase of the specialty medical office building was complete prior to issuance of the 2016 bonds. As such, no interest will be capitalized from this bond issuance.

2014, 2015, and 2016 Revenue Bond Covenants

The revenue bond covenants require the Hospital to establish a bond reserve account, and a debt service reserve account. The bond reserve account is held in escrow and is comprised of monthly payments in the amount of \$283,017. An additional monthly escrow payment of \$45,000 will begin in July 2016 and will change to \$42,000 in April 2017. The monthly payments were calculated to equal the maximum annual debt service requirement for the bond issuances, and from this escrow account all future debt service payments on these issuances will be paid. The bond reserve account has \$1,140,767 in escrow as of June 30, 2016. Additionally, a debt service reserve account is required in an amount equal to 125% of the maximum annual debt service payments. The debt service reserve amount of \$3,585,067 is being held by Bank of New York and will be distributed as the final debt service payment on each issuance. The remaining \$1,223,264 of the debt service reserve account is being held by the Kenai Peninsula Borough out of the Hospital's Plant Replacement and Expansion Fund. The bond reserve and debt service reserve accounts meet the required amounts as of June 30, 2016.

2011-Series Hospital Refunding Bonds

The voters of the Central Peninsula General Hospital Service Area authorized the sale of \$49,900,000 in general obligation (G.O.) bonds on October 7, 2003. The bond proceeds were used to fund the construction costs of the hospital expansion project. The 20-year bonds were issued at a premium on December 18, 2003 with an average coupon rate of 4.86% with payments due semi-annually.

(A Component Unit of the Kenai Peninsula Borough)

Notes to Basic Financial Statements

In September 2011, the Borough issued Central Peninsula Hospital Refunding Bonds of \$27,905,000. These bonds were used to retire \$29,615,000 in outstanding debt from the 2003 G.O. bond issuance. The refunding bonds were issued at a premium of \$4,711,814 and after paying issuance costs of \$199,549, the present value of the savings on the debt service was \$2,397,813. A deferred loss on the refunding of \$1,754,982 was recognized and is being amortized over the remaining life of the bonds using the straight-line method. The balance of the deferred loss on refunding is \$1,060,301 as of June 30, 2016.

Defeasance is authorized by the Kenai Peninsula Borough Assembly and Central Peninsula Hospital Service Area Board contingent upon meeting certain savings thresholds.

Bonds payable consisted of the following as of June 30:

	Balance July 1, 2015	Additions	R	Retirements	,	Balance June 30,2016	Due Within One Year
2011-Series Hospital Refunding Bonds	\$ 25,670,000	\$ -	\$	2,340,000	\$	23,330,000	\$ 2,445,000
2014 Revenue Bonds	30,690,000	-		1,840,000		28,850,000	1,850,000
2015 Revenue Bonds	3,200,000	-		395,000		2,805,000	383,000
2016 Revenue Bonds	-	3,050,000		-		3,050,000	345,000
Total Bonds Payable	\$ 59,560,000	\$ 3,050,000	\$	4,575,000	\$	58,035,000	\$ 5,023,000

The remaining annual requirements to amortize bond debt outstanding as of June 30, 2016, are as follows:

Year Ending June 30:	Principal	Interest	Total
	4		
2017	\$ 5,023,000	\$ 2,290,001	\$ 7,313,001
2018	5,257,000	2,149,581	7,406,581
2019	5,432,000	1,974,207	7,406,207
2020	5,613,000	1,795,212	7,408,212
2021	5,816,000	1,596,691	7,412,691
2022-2026	22,839,000	4,382,447	27,221,447
2027-2029	8,055,000	818,500	8,873,500
Total	\$ 58,035,000	\$ 15,006,639	\$ 73,041,639

(A Component Unit of the Kenai Peninsula Borough)

Notes to Basic Financial Statements

Capital Leases

In November 2010, the Hospital entered into two capital leases for equipment. Future minimum lease payments and present values of the net minimum lease payments under these capital leases as of June 30, 2016, are as follows:

Year	Endin	g June	30:
------	-------	--------	-----

2017	\$ 28,220
Total minimum lease payments Less amount representing interest	28,220 (227)
Present value of net minimum lease payments Less current portion	27,993 (27,993)
Capital Leases Payable, net of current portion	\$ -

7. Functional Expenses

Operating expenses grouped according to function are as follows:

_	2016	2015
Operating Expenses		
Nursing expenses	\$ 36,672,732	\$ 35,749,953
Other professional services	36,422,943	31,957,227
General services	11,055,116	9,806,636
Administrative and fiscal services	41,001,181	39,553,624
Provision for depreciation	10,152,657	8,471,959
Total Operating Expenses	\$ 135,304,629	\$ 125,539,399

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(A Component Unit of the Kenai Peninsula Borough)

Notes to Basic Financial Statements

8. Third-Party Payor Programs

The Hospital has agreements with third-party payors that provide 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 payors. A summary of the basis of reimbursement with major third-party payers follows:

Medicare

Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient non-acute services, outpatient services, and certain defined capital and medical education costs related to Medicare beneficiaries are paid based upon a cost reimbursement method. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports and audits by the Medicare fiscal intermediary. Final cost report settlements have been issued through June 30, 2011.

Medicaid

Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed based on prospective payment rates. Inpatient stays are paid on a per day rate with limits based on diagnosis. Outpatient services are reimbursed as a percentage of charges.

9. Pension Plan

Employees of the Hospital are eligible to participate in the Central Peninsula General Hospital Employee Pension Plan, a defined contribution single-employer pension plan under IRC 403(b), established on July 1, 1995. There are no other participating employers or non-employer contributing entities. Plan membership for the years ended June 30, 2016 and 2015 consisted of 810 and 759, active or former Hospital employees, at the end of each year, respectively. The Hospital's Board of Directors has authority to establish, amend, or terminate the Plan at any time.

After the first year of employment, and at the next open enrollment period, employees who work 1,000 hours or more are eligible to participate in the Plan. The Hospital will contribute 2% of an employee's eligible salary for all eligible employees. In addition, the Hospital will match the employee's voluntary contribution up to 3% of gross pay, should the employee elect to participate. As of January 1, 2015 the Hospital's total contribution for each employee was not to exceed \$5,848. On August 29, 2016 the Hospital increased its 2016 maximum contribution for each employee to \$5,972. The employee may contribute an additional amount above the 2% voluntary contribution. The additional amount shall not exceed the lesser of 18% of their eligible salary, or \$24,000 for employees over the age of fifty, and \$18,000 for all others. Participants are fully vested in their contributions and after five years, are 100% vested in the Hospital's matching contribution.

(A Component Unit of the Kenai Peninsula Borough)

Notes to Basic Financial Statements

The Hospital's matching contributions vest in accordance with the following schedule based on years of service:

1 year	20%
2 years	40%
3 years	60%
4 years	80%
5 years	100%

The Hospital's covered payroll for the years ended June 30, 2016 and 2015 was \$46,750,120 and \$43,879,082, respectively. Total payroll for the years ended June 30, 2016 and 2015 was \$59,436,450 and \$56,293,151, respectively.

Employee contributions to the Plan for the years ended June 30, 2016 and 2015 were \$3,088,467 and \$2,862,049, respectively. Employer contributions were \$1,664,375 and \$1,577,734 for the same periods. Total contributions to the Plan were 10.2% of covered payroll for June 30, 2016 and 10.1% for June 30, 2015.

10. 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 purchases commercial insurance for risks of loss except as described below.

Self-Insured Health Plan

The Hospital is self-insured for employee health insurance claims. The health plan was administered by ODS. 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 June 30, 2016 and 2015 has been recorded based on claims lag reports from the plan administrator.

	2016	2015
Health Insurance Claims Payable, beginning of year Current year claims incurred and changes in estimates for	\$ 1,594,958	\$ 1,471,828
claims incurred in prior years	14,348,203	11,673,915
Claims and expenses paid	(14,013,441)	(11,550,785)
Health Insurance Claims Payable, end of year	\$ 1,929,720	\$ 1,594,958

Professional and General Liability

The Hospital maintains malpractice insurance through a claims-made commercial insurance policy. As of March 2004, the policy deductible was increased to \$500,000 per occurrence and provided coverage up to \$1 million per occurrence and up to an aggregate of \$3 million for claims filed within the period of the policy term. The Hospital also has \$10 million of umbrella insurance coverage.

(A Component Unit of the Kenai Peninsula Borough)

Notes to Basic Financial Statements

The Hospital used actuarial studies performed by Milliman, Inc. dated September 8, 2016 to estimate its projected claims liabilities as of June 30, 2016 and a study dated June 23, 2015 to estimate liabilities which existed as of June 30, 2015. The liability that existed as of June 30, 2016 and 2015 is as follows:

	2016	2015
Malpractice Claims Payable, beginning of year Current year claims incurred and changes in estimates for	\$ 1,020,848	\$ 1,080,449
claims incurred in prior years	581,161	273,676
Claims and expense paid	(18,167)	(333,277)
Malpractice Claims Payable, end of year	\$ 1,583,842	\$ 1,020,848

11. Operating Leases

The Hospital is currently leasing facilities from several individual lessors to provide office, clinical, and storage necessary to meet Hospital operating needs. These lease agreements are classified as Operating Leases and expire before, or may be terminated in conjunction with the end of the Hospital's lease and operating agreement with the Kenai Peninsula Borough.

The following is a schedule by years of future minimum lease payments under the operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2016:

Year	End	ing .	June	30:
		••••		

2018 2019 2020		255,983 208,978 3,500
Total Minimum Lease Payments	ċ	756,601

Actual operating lease expense for the years ending June 30, 2016 and 2015 was \$421,442 and \$402,745, respectively.

In June, 2012 the Hospital entered into a lease arrangement with a medical services company to operate the Radiation Oncology Center on the Hospital campus. This non-cancelable lease will last 20 years starting on the commencement date, April 19, 2013. Monthly payments are \$15,538 for the first two years, increasing by 2.5% annually until year 11. For year 12 an appraiser will determine the fair market value of the rental payments as well as subsequent payment increases to occur annually until the next scheduled valuation takes place in year 16. The cost of the building is \$6,635,272 and the carrying amount is \$5,221,749, as of June 30, 2016. Total accumulated depreciation for the radiation oncology center is \$1,413,523 as of June 30, 2016. Future minimum lease revenues included in the schedule below are based on known payments occurring until the scheduled fair value adjustment in year 12.

(A Component Unit of the Kenai Peninsula Borough)

Notes to Basic Financial Statements

In June 2013, the Hospital entered into a lease arrangement with a local surgeon to operate a spine center from medical office space owned by the Hospital. This 2-year operating lease covering 65% of the total square footage of the building started on the commencement date, June 10, 2013. Monthly payments were \$8,498 for the first year with a provision to adjust the rental payment to a commercially reasonable fair market value at the beginning of year 2. A one year lease renewal commenced on June 10, 2015 with an adjusted monthly payment \$9,081. The lease was then cancelled in April 2016 to allow the tenant to lease space within the newly completed Specialty Physician Clinics Building. The cost of the medical office building in its entirety is \$1,614,260 and the carrying amount is \$1,347,503 as of June 30, 2016. Total accumulated depreciation for the building is \$266,757 as of June 30, 2016.

The following is a schedule by years of future minimum lease revenues under the operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2016:

Year	Ending	June	<i>30:</i>
------	--------	------	------------

2017	\$ 509,09	99
2018	478,75	54
2019	457,38	34
2020	437,15	58
2021	290,52	29
Thereafter	664,04	40
Total Minimum Lease Payments	\$ 2,836,96	54

12. Acquisition of Business

In fiscal year 2015, the Hospital purchased the assets of an outpatient imaging center for consideration of \$2,894,000. The following table summarizes the consideration paid and the amounts of assets acquired:

Equipment Excess consideration paid for acquisition	\$ 729,045 2,164,955
Fair Value of Invested Capital	\$ 2,894,000

Subsequent to the purchase, management determined that the equipment and goodwill was impaired resulting in a write off of \$335,200 in 2015. The balance of goodwill is to be amortized over a 5 year period based on the present value of net cash flows. The carrying amount of the remaining goodwill as of June 30, 2016 and 2015 is \$1,565,389 and \$1,829,755, respectively. Amortization expense for 2016 and 2015 was \$264,366 and \$335,200, respectively.

In fiscal year 2013, the Hospital purchased the assets of an outpatient physical therapy business for consideration of \$1,185,000. The carrying amount of the remaining goodwill as of June 30, 2016 and 2015 is \$207,057 and \$339,943, respectively. Goodwill is being amortized over a 5 year period based on the present value of net cash flows. Amortization expense for 2016 and 2015 was \$132,886 and \$157,719, respectively.

(A Component Unit of the Kenai Peninsula Borough)

Notes to Basic Financial Statements

13. New Accounting Pronouncements

The Governmental Accounting Standards Board has passed several new accounting standards with upcoming implementation dates. Management has not fully evaluated the potential effects of these statements, but believes that they will have minimal impact. However, actual impacts have not yet been determined:

GASB 73 - Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68 - This statement contains certain clarifications and amendments to GASB 67 and 68 as well as establishing requirements for both defined benefit and defined contribution pensions not within the scope of GASB 68. Effective for fiscal year end June 30, 2016—except those provisions that address employers and governmental non-employer contributing entities for pensions that are not within the scope of Statement 68, which are effective for financial statements for year ending June 30, 2017.

GASB 77 - Tax Abatement Disclosures - Effective for year-end June 30, 2017, with earlier application encouraged - This statement requires local governments to provide financial disclosures relating to tax abatements affecting the government. This includes information about abatement agreements entered into directly by the government, including conditions and criteria under which taxes can be abated, the type and dollar amount of the tax. In addition, the statement requires disclosure of tax abatements issued by other governments that affect the local government's revenue recognition and reporting.

14. Subsequent Events

On September 10, 2016, the Hospital changed its Patient Care software system from Meditech to Epic Community Connect. At the same time, its financial software systems were changed from Meditech to Lawson. The total project costs are estimated at \$6,340,044.

Supplementary Information

(A Component Unit of the Kenai Peninsula Borough)

Schedules of Patient Service Revenues

For the Years Ended June 30,	2016	2015
Daily Patient Services		
Adults and pediatrics	\$ 26,206,848	\$ 22,564,864
Skilled nursing	10,186,953	10,273,635
Intensive care unit	7,442,508	6,015,969
Total Daily Patient Services	43,836,309	38,854,468
Other Nursing Services		
Operating room	36,572,199	35,422,830
Emergency	40,117,487	31,867,015
Central services and supply	32,207,892	29,596,378
Recovery room	2,702,914	2,774,132
Oncology/infusion	1,567,250	1,323,113
Total Other Nursing Services	113,167,742	100,983,468
Other Professional Services		
Imaging	55,616,458	46,894,484
Laboratory	25,455,276	20,324,017
Clinic	19,183,607	18,629,589
Pharmacy	14,409,564	12,768,818
Physical therapy	10,279,646	9,632,685
Respiratory therapy	9,641,845	7,993,652
Anesthesia	7,369,515	7,028,231
Intravenous therapy	2,085,681	2,137,232
Chemical dependency	2,208,211	2,018,789
Electro cardiology	2,214,717	1,947,866
Total Other Professional Services	148,464,520	129,375,363
Total Patient Service Revenues	305,468,571	269,213,299
Contractual Adjustments		
Medicare	(74,032,765)	(63,075,360)
Medicaid	(32,174,022)	(21,162,889)
Other contractual	(28,696,074)	(27,369,203)
Total Contractual Adjustments	(134,902,861)	(111,607,452)
Uncompensated Care		
Charity discounts	(5,924,414)	(6,296,352)
Net Patient Service Revenue	\$ 164,641,296	\$ 151,309,495

(A Component Unit of the Kenai Peninsula Borough)

Schedules of Operating Expenses - By Function

		2016			2015	
		Supplies			Supplies	
		and Other			and Other	
For the Years Ended June 30,	Salaries	Expenses	Total	Salaries	Expenses	Total
Nursing Services						
Emergency	\$ 6,963,761	\$ 496,975	\$ 7,460,736	\$ 7,177,400	\$ 310,912	\$ 7,488,312
Adults and pediatrics	6,117,028	862,783	6,979,811	5,838,636	832,509	6,671,145
Skilled nursing	3,151,713	161,023	3,312,736	3,080,259	173,949	3,254,208
Operating room	2,980,664	2,002,815	4,983,479	2,857,019	2,149,212	5,006,231
Intensive care unit	1,521,754	541,094	2,062,848	1,523,679	362,423	1,886,102
Recovery room	669,326	118,501	787,827	626,253	156,526	782,779
Oncology / infusion	508,484	33,385	541,869	429,267	24,163	453,430
Central services and supply	112,455	9,729,656	9,842,111	83,752	9,423,426	9,507,178
Hospitalist program	-	701,315	701,315	-	700,568	700,568
Total Nursing Services	22,025,185	14,647,547	36,672,732	21,616,265	14,133,688	35,749,953
Other Professional Services						
Clinic	8,666,774	2,313,336	10,980,110	7,791,809	1,444,321	9,236,130
Physical therapy	2,730,407	302,031	3,032,438	2,530,489	272,691	2,803,180
Anesthesiology	2,683,220	67,231	2,750,451	2,382,561	98,129	2,480,690
Imaging	2,719,261	2,160,192	4,879,453	2,275,058	2,087,926	4,362,984
Laboratory	1,656,391	3,238,597	4,894,988	1,654,746	2,714,144	4,368,890
Pharmacy	1,203,097	5,783,327	6,986,424	1,168,451	4,870,839	6,039,290
Respiratory therapy	981,469	364,421	1,345,890	1,021,789	194,999	1,216,788
Chemical dependency	934,692	306,427	1,241,119	912,279	247,887	1,160,166
Electro cardiology	754,072	50,831	50,831	712,277	91,040	91,040
Intravenous therapy	-	261,239	261,239	-	198,069	198,069
Total Other Professional Services	21,575,311	14,847,632	36,422,943	19,737,182	12,220,045	31,957,227
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General Services						
Dietary	1,728,736	1,935,340	3,664,076	1,702,823	1,954,130	3,656,953
Operation of plant	1,264,122	3,791,341	5,055,463	1,110,032	3,111,366	4,221,398
Housekeeping	1,329,717	464,537	1,794,254	1,076,962	379,400	1,456,362
Laundry and linen services	353,168	188,155	541,323	330,180	141,743	471,923
Total General Services	4,675,743	6,379,373	11,055,116	4,219,997	5,586,639	9,806,636
Administrative and Fiscal Services						
Administrative and general	8,381,798	8,896,585	17,278,383	8,296,813	9,173,009	17,469,822
Medical records and library	1,818,102	1,280,051	3,098,153	1,925,761	1,327,254	3,253,015
Nursing administration	1,110,631	19,505	1,130,136	931,441	9,020	940,461
Employee benefits	-	19,494,509	19,494,509	-	17,890,326	17,890,326
Total Administrative and Fiscal Services	11,310,531	29,690,650	41,001,181	11,154,015	28,399,609	39,553,624
Depreciation	-	10,152,657	10,152,657	-	8,471,959	8,471,959
Total Operating Expenses	\$ 59,586,770	\$ 75,717,859	\$ 135,304,629	\$ 56,727,459	\$ 68,811,940	\$ 125,539,399

(A Component Unit of the Kenai Peninsula Borough)

Comprehensive Behavioral Health Prevention & Early Intervention Services DHSS Grant Number 602-207-1614

Schedule of Revenue and Expenses - Budget and Actual

For Year Ended June 30, 2016	Budget	Actual	(Variance Positive (Negative)
Revenue - State of Alaska	\$ 150,680	\$ 150,680	\$	-
Expenses:				
Personal services	60,272	60,272		-
Travel	1,328	1,328		-
Facility	5,200	5,200		-
Supplies	4,687	4,687		-
Equipment	850	850		-
Other costs	78,343	78,343		-
Total Expenses	\$ 150,680	\$ 150,680	\$	-

(A Component Unit of the Kenai Peninsula Borough)

Serenity House Residential Treatment Center DHSS Grant Number 602-208-1637 Schedule of Revenue and Expenses - Budget and Actual

For Year Ended June 30, 2016	Budget	Actual	Variance Positive (Negative)
Revenue - State of Alaska	\$ 351,749	\$ 351,749	\$ <u>-</u>
Expenses:			
Personal services	349,365	349,365	-
Other costs	2,384	2,384	
Total Expenses	\$ 351,749	\$ 351,749	\$ -

(A Component Unit of the Kenai Peninsula Borough)

Serenity House Diamond Willow Program DHSS Grant Number 602-208-1604 Schedule of Revenue and Expenses - Budget and Actual

For Year Ended June 30, 2016	Budget	Actual	Variance Positive (Negative)
Revenue - State of Alaska	\$ 145,303	\$ 145,303	\$ -
Expenses:			
Personal services	145,000	145,000	-
Travel	303	303	-
Total Expenses	\$ 145,303	\$ 145,303	\$ -

Central Peninsula General Hospital (A Component Unit of the Kenai Peninsula Borough)

Schedule of State Financial Assistance Year Ended June 30, 2016

State Grantor/	Grant	Award	
Program Title	Number	Number Amount	
Department of Health & Social Services Division of Alcoholism & Drug Abuse:			
 Comprehensive Behavioral Health Treatment and Recovery Program 	602-208-1604	\$ 145,303	\$ 145,303
 Comprehensive Behavioral Health Treatment and Recovery Program Comprehensive Behavioral Health Prevention and 	602-208-1637	351,749	351,749
Early Intervention Services * Comprehensive Behavioral Health Prevention and	602-207-1514	150,680	10,452
Early Intervention Services	602-207-1614	150,680	150,680
Total Department of Health & Social Services			658,184
Total State Financial Assistance			\$ 658,184

^{*} Denotes state major program

Note 1. Basis of Presentation

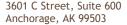
The above Schedule of State Financial Assistance (the "Schedule") includes the state grant activity of Central Peninsula General Hospital under programs of the State of Alaska for the year ended June 30, 2016. The information in this schedule is presented in accordance with the requirements of the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Because the Schedule presents only a portion of the operations of Central Peninsula General Hospital, it is not intended to and does not present the financial position, changes in net position or cash flows of Central Peninsula General Hospital.

Note 2. Summary of Significant Accounting Policies

Expenses reported on the Schedule are reported on the accrual basis of accounting. Such expenses are recognized following the cost principles contained in OMB Circular A-87, Cost Principles for State and Local Governments, wherein certain types of expenses are not allowable or are limited as to reimbursement.

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Single Audit Section





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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

To the Honorable Mayor and Members of the Kenai Peninsula Borough Assembly, and Central Peninsula General Hospital, Inc. Operating Board Soldotna, 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 Central Peninsula General Hospital ("the Hospital"), as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Central Peninsula General Hospital's basic financial statements, and have issued our report thereon dated November 16, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Central Peninsula General 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Anchorage, Alaska November 16, 2016

BDO USA, LLP



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Independent Auditor's Report on Compliance for Each Major State Program and Report on Internal Control Over Compliance Required by the State of Alaska Audit Guide and Compliance Supplement for State Single Audits

To the Honorable Mayor and Members of the Kenai Peninsula Borough Assembly, and Central Peninsula General Hospital, Inc. Operating Board Soldotna, Alaska

Report on Compliance for Each Major State Program

We have audited Central Peninsula General Hospital's ("the Hospital") compliance with the types of compliance requirements described in the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* that could have a direct and material effect on each of the Hospital's major state programs for the year ended June 30, 2016. The Hospital's major state programs are identified in the accompanying schedule of state financial assistance.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Hospital's major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the State of Alaska Audit Guide and Compliance Supplement for State Single Audits. Those standards and the State of Alaska Audit Guide and Compliance Supplement for State Single Audits require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the Hospital's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state program. However our audit does not provide a legal determination of the Hospital's compliance.

Opinion on Each Major State Program

In our opinion, Central Peninsula General Hospital complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2016.

Report on Internal Control over Compliance

Management of the Hospital is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Hospital's internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Hospital's 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 state program on a timely basis. A material weakness in internal control over compliance is a deficiency, or 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 state 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 state 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Accordingly, this report is not suitable for any other purpose.

Anchorage, Alaska November 16, 2016

BDO USA, LLP

(A Component Unit of the Kenai Peninsula Borough)

Schedule of Findings and Questioned Costs Year Ended June 30, 2016

Section I - Summary of Auditor's Results				
Financial Statements				
Type of auditor's report issued:	Unmodified			
Internal control over financial reporting: Material weakness(es) identified? Significant deficiency(ies) identified? Noncompliance material to financial statements noted?	yes yes yes	X no X (none reported) X no		
State Financial Assistance				
Type of auditor's report issued on compliance for major programs:	Unmodified			
Internal control over major programs: Material weakness(es) identified? Significant deficiency(ies) identified?	yes yes	X no X (none reported)		
Dollar threshold used to determine a state major program		\$ 50,000		
Section II - Financial Statement Findings Required to	be Reported in	Accordance with		

Government Auditing Standards

There were no findings related to the financial statements which are required to be reported in accordance with *Government Auditing Standards*.

Section III - State Award Findings and Questioned Costs

There were no findings and questioned costs for State awards (as defined in the State of Alaska Audit Guide and Compliance Supplement for State Single Audits) that are required to be reported.

Central Peninsula General Hospital (A Component Unit of the Kenai Peninsula Borough)

Summary Schedule of Prior Year Audit Findings Year Ended June 30, 2016

There were no prior year findings.

Central Peninsula General Hospital (A Component Unit of the Kenai Peninsula Borough)

Corrective Action Plan Year Ended June 30, 2016

There are no current year findings; therefore, no corrective action plan is required.

Other Information



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Independent Auditor's Report on Compliance with Bond Covenants Based on the Audit of the Financial Statements

To the Honorable Mayor and Members of the Kenai Peninsula Borough Assembly, and Central Peninsula General Hospital, Inc. Operating Board Soldotna, Alaska

Report on Compliance with Bond Covenants Based on the Audit of the Financial Statements

We have audited the accompanying financial statements of the Central Peninsula General Hospital (the "Hospital"), a component unit of the Kenai Peninsula Borough as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents and have issued our report thereon dated November 16, 2016.

Other Reporting Matters

In connection with our audit, nothing came to our attention that caused us to believe that the Central Peninsula General Hospital failed to comply with the terms, covenants, provisions, or conditions of the following sections of Resolution 2013-072 (amended by Resolution 2014-008) from the Kenai Peninsula Borough relating to the Central Kenai Peninsula Hospital Service Area Specialty Clinic Building Revenue Bonds, 2014 Series A and Series B, 2015 Series A and 2016 Series A:

However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

Anchorage, Alaska November 16, 2016

BDO USA, LLP