

**South Central Kansas Regional Medical Center
d/b/a South Central Kansas Medical Center
A Component Unit of the City of Arkansas City, Kansas**
Independent Accountants' Report and Financial Statements
December 31, 2011 and 2010



**South Central Kansas Regional Medical Center
d/b/a South Central Kansas Medical Center
A Component Unit of the City of Arkansas City, Kansas
December 31, 2011 and 2010**

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees
South Central Kansas Regional Medical Center
d/b/a South Central Kansas Medical Center
Arkansas City, Kansas

We have audited the accompanying balance sheets of South Central Kansas Regional Medical Center d/b/a South Central Kansas Medical Center, a component unit of the City of Arkansas City, Kansas, as of December 31, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. 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 Kansas Municipal Audit Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of South Central Kansas Regional Medical Center d/b/a South Central Kansas Medical Center as of December 31, 2011 and 2010, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not 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 audits 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.

Board of Trustees
South Central Kansas Regional Medical Center
d/b/a South Central Kansas Medical Center
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Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary schedules for Net Patient Service Revenue, Contractual Allowances and Other Revenues and Schedule of Operating Expenses as listed in the table of contents are presented for purposes of additional analysis and are 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 financial statements. The information has been subjected to the auditing procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

BKD, LLP

April 20, 2012

**South Central Kansas Regional Medical Center
d/b/a South Central Kansas Medical Center
A Component Unit of the City of Arkansas City, Kansas
Management's Discussion and Analysis
Years Ended December 31, 2011 and 2010**

Introduction

This management discussion and analysis of the financial performance of South Central Kansas Medical Center (the Hospital) provides an overview of the Hospital's financial activities for the years ended December 31, 2011 and 2010. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash and short-term certificates of deposit decreased by \$1,724,422 or (43)% from \$4,021,243, the balance at the end of 2010, to \$2,296,821 on December 31, 2011. The previous year showed a decrease in cash of \$1,462,687 or (27)%.
- The Hospital's net assets decreased \$1,789,589 in 2011. In 2010, net assets increased \$525,491.
- The Hospital reported an operating loss of \$908,753 in 2011. In 2010, the Hospital reported an operating loss of \$305,966.
- Medicaid Disproportionate Share payments of approximately \$52,000 were received in 2011, \$108,000 in 2010 and approximately \$308,000 in 2009.

Using This Annual Report

The Hospital's financial statements consist of three statements – a balance sheet; a statement of revenues, expenses and changes in net assets; and a statement of cash flows. These statements provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Assets

One of the most important questions asked about any Hospital's finances is "Is the Hospital as a whole better or worse off as a result of the year's activities?" The balance sheet and the statement of revenues, expenses and changes in net assets report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Hospital's total net assets – the difference between assets and liabilities – is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net assets are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Hospital.

The Statement of Cash Flows

The statement of cash flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of 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 and cash equivalents during the reporting period.

The Hospital's Net Assets

The Hospital's net assets are the difference between its assets and liabilities reported in the balance sheet. The most significant change in the Hospital's assets is the \$3,661,905 increase in capital assets due to the construction completion of a new facility. The Hospital's net assets decreased by \$1,789,589 in 2011 and increased \$525,491 in 2010, as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	2011	2010	2009
Assets			
Cash, cash equivalents and short-term certificate of deposit	\$ 2,296,821	\$ 4,021,243	\$ 5,483,930
Sales tax funds - held by City	475,587	438,639	442,190
Patient accounts receivable, net	1,987,412	2,326,114	1,650,291
Other current assets	1,490,734	1,173,558	1,045,408
Restricted noncurrent cash and other assets held by City	2,442,762	6,944,306	21,748,266
Capital assets, net	27,505,993	23,844,088	4,993,822
Other noncurrent assets	372,730	386,707	400,684
Total assets	\$ 36,572,039	\$ 39,134,655	\$ 35,764,591
Liabilities			
Long-term debt	\$ 25,340,653	\$ 26,048,046	\$ 23,452,277
Other current liabilities	1,634,322	1,699,956	1,451,152
Total liabilities	26,974,975	27,748,002	24,903,429
Net Assets			
Invested in capital assets, net of related debt	4,307,204	4,522,750	3,085,646
Restricted expendable for			
Debt service	628,182	504,849	504,849
Capital acquisitions	100,000	100,000	100,000
Unrestricted	4,561,678	6,259,054	7,170,667
Total net assets	9,597,064	11,386,653	10,861,162
Total liabilities and net assets	\$ 36,572,039	\$ 39,134,655	\$ 35,764,591

Restricted Cash and Noncurrent Assets

Under an agreement between the Hospital and the City of Arkansas City (City) related to the 2009 Hospital Revenue Bond issue (Capital Lease Obligation), the City's Public Building Commission (PBC) is acting as the trustee of the bond proceeds and pays contractor invoices as submitted. Funds held by the PBC as of December 31, 2010, are presented as capital lease interest in unexpended bond proceeds. Approximately \$18.4 million of these funds were spent on the construction of the new facility. Other funds have been set aside in accordance with funding provisions in the pledge of revenues agreement to fund amounts due under the capital lease obligation.

Other Noncurrent Assets

The costs associated with the issuance of the bonds is capitalized and amortized over the life of the bond.

Capital Assets

In 2009, the Hospital began construction of its new facility, which was completed in 2011. Capital assets increased approximately \$19 million due to the construction and equipment costs primarily related to the new facility. These amounts were primarily funded through capital lease arrangements with the City and an equipment manufacturer. The equipment purchases included an infant warmer, EKG machine, a gamma probe, video laryngoscope used for airway management, a sterilizer for surgery, an anesthesia machine and a coagulation analyzer for lab. The Hospital substantially upgraded its radiology department as well by purchasing an open 1.0 Tesla MRI, low dose 64-slice CT scanner, dual-head nuclear medicine machine, fluoroscopy machine and general x-ray equipment that allows the Hospital to perform additional procedures that were not possible before. All of the imaging equipment is now equipped to handle large weight capacities.

In 2009, the Hospital invested in new equipment which totaled \$417,493. The majority of the new equipment consisted of new patient beds, a new ultrasound machine, a cautery unit for surgery, an infant warmer, a hospital van, a lab ABG analyzer and a hood for pharmacy.

In 2008, the Hospital invested a large portion of cash to upgrade equipment. Purchases totaling \$743,244 include several new patient beds for the acute care floor, ICU and the birthing unit; a medication dispensing unit for all patient care areas and pharmacy; a washer for sterilization of surgical equipment and tools; and a microbiology analyzer. Many other less expensive pieces of equipment were also purchased. Our commitment to upgrading the equipment to meet our patients' needs is one of our primary goals.

Debt

During 2009, the Hospital, in conjunction with the City Manager of Arkansas City and Arkansas City Commission, obtained \$23,205,000 in Revenue Bonds, which is being administered through a Public Building Commission (PBC). All funds are being maintained and disbursed through the PBC for construction costs related to the new facility. The debt is recorded as a capital lease obligation on the Hospital's books.

During 2008, the community of Arkansas City passed a half-cent sales tax to support the construction of this new facility that will remain in effect through 2018. The replacement facility will allow the Hospital to expand the services they offer the community by taking advantage of a modern and efficient design which combines cutting edge technology with the highest quality of health care available.

In 2000, 168 acres of land were hand-picked by our local physicians, and generously donated to be used for the site of the replacement hospital. The regional accessibility and availability of resources allow not only room for the Hospital to expand over time, but to also develop the entire property as a complete medical campus. The campus master plan includes space for independent businesses such as senior living facilities, a dialysis center, medical supply companies, pharmacies, physician offices, a cancer center and more.

South Central Kansas Medical Center's new 37-bed facility was envisioned to reflect the community's current and future medical needs. The facility allows for maximum flexibility for increasing outpatient services while providing for reduced acute care populations. Concurrently, the new facility also allows for expansion in the current areas that demand growth, such as obstetrics and general surgery.

Construction began in mid 2009; the project was completed on March 17, 2011.

As of December 31, 2010 and 2009, the Hospital had \$25,340,653 of capital lease obligations outstanding. As of December 31, 2010 and 2009, the Hospital had \$26,048,046 and \$23,452,277, respectively, of capital lease obligations outstanding.

Operating Results and Changes in the Hospital's Net Assets

The first component of the overall change in the Hospital's net assets is its operating income or loss, generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services.

Operating Margins

The following are the major components of those changes.

- Total operating revenues increased \$366,457 over 2010, which is a 2% increase. Revenues increased \$611,818 from 2009 to 2010 or 4%.
- In 2011, the Hospital received approximately \$52,000 in DSH payments. This is a decrease of 52% from 2010 with DSH payments at approximately \$108,000. DSH payments were \$308,000 in 2009. These payments are based on financial and statistical criteria and are related to costs incurred providing obstetrics and other services to low-income patients.
- Salaries and benefits increased approximately \$363,000 or 4% in 2011 due to an increase in patient volumes related to the addition of a surgeon to our staff in 2008 that has continued to bring in additional business. The Hospital continues to pay for 50% of employee premiums for health insurance as well as a portion of dental premiums for a total cost of \$344,513. Also included in benefits is workers' compensation and state unemployment for a total of \$107,503. Salaries and benefits increased approximately \$442,000 or 5% from 2009 to 2010 due to wage rate increases to retain staff and additional volume with the addition of a surgeon.
- In 2011, purchased services and professional fees increased 4% or \$92,320. In 2010, these services increased 30% or \$525,742 as compared to 2009. In 2010, we used agency nursing staff more frequently, whereas in 2009, these individuals were staff and part of the salary expense.
- Other expenses include supplies, utilities, rentals, and repairs and maintenance. In 2011, these figures increased 9% or \$316,484. In 2010, these expenses increased 8% or \$266,107.
- Total operating income decreased in 2011, 2010 and 2009 by \$602,787, \$596,833 and \$727,905, largely due to increased wages and benefits that exceeded the increased revenues as described above.

The Hospital receives no ad valorem taxes through intergovernmental transfers from the City of Arkansas City.

Table 2: Operating Results and Changes in Net Assets

	2011	2010	2009
Operating Revenues			
Net patient service revenue	\$ 15,087,290	\$ 14,788,758	\$ 14,204,010
Other operating revenues	239,744	171,819	144,749
Total operating revenues	<u>15,327,034</u>	<u>14,960,577</u>	<u>14,348,759</u>
Operating Expenses			
Salaries and wages and employee benefits	9,017,039	8,653,955	8,212,115
Purchased services and professional fees	2,342,844	2,250,524	1,724,782
Other operating expenses	3,330,844	3,647,328	3,381,221
Depreciation and amortization	1,545,060	714,736	739,774
Total operating expenses	<u>16,235,787</u>	<u>15,266,543</u>	<u>14,057,892</u>
Operating Loss	<u>(908,753)</u>	<u>(305,966)</u>	<u>290,867</u>
Nonoperating Revenues (Expenses)			
Interest income	55,547	48,990	97,162
Interest expense	(1,226,657)	(15,585)	(27,233)
Sales tax revenue	786,948	762,446	564,424
Noncapital grants and gifts	50,822	35,606	12,957
Transfer to City of Arkansas City	(547,496)	-	-
Total nonoperating revenues	<u>(880,836)</u>	<u>831,457</u>	<u>647,310</u>
Increase (decrease) in Net Assets	<u>\$ (1,789,589)</u>	<u>\$ 525,491</u>	<u>\$ 938,177</u>

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses has consisted primarily of investment income and interest expense. Interest income decreased from 2009 due to lower interest rates within the market. Interest income increased \$6,557 from 2010 to 2011 and decreased \$48,172 from 2009 to 2010. In 2008, a half cent sales tax was passed to help support the Hospital as it constructed a new facility and make debt payments as they came due related to the bond issuance, which funded the new facility construction. The sales tax did not go into effect until April 1, 2009, and are being collected and maintained by the City until a transfer to the Hospital is needed.

Capital Grants and Gifts

The Hospital regularly receives gifts from the Hospital Auxiliary for capital purchases. Memorial funds and gifts through the 'Building A Future of Excellence Campaign' have also been designated for the Hospital's use. The Hospital receives a bioterrorism grant to purchase items necessary for a disaster in the area from the Kansas Hospital Education and Research Foundation which is renewed annually.

In 2011, the Hospital was also awarded two new grants. The Small Hospital Improvement Program (SHIP) grant awarded funds to purchase education, training and software to help rural communities support a sustainable healthcare delivery system. This grant is offered by the Kansas Department and Health and Environment and can be renewed annually. The hospital was also awarded a grant from the Kansas Foundation for Medical Care on behalf of the Kansas Department of Health and Environment to enhance our infection prevention with surveillance programs for hospital acquired infection reporting purposes.

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in operating income and nonoperating revenues and expenses for 2011, 2010 and 2009, as discussed earlier. Net cash provided by the operating and noncapital financing activities of the Hospital were used to purchase capital equipment or invested in money market accounts so it could be available for future projects.

Community Benefit

It is commonly believed that a health care provider benefits the community which they serve. However, the definition of that benefit can vary greatly from one facility to the next. At South Central Kansas Medical Center, we base the value of our community benefit by measuring a variety of factors.

- Facility Reinvestment – Health care facilities must continually make investments in equipment to stay on top of the current and emerging health care needs of their communities. In 2010, 2009 and 2008, the Hospital invested nearly \$3,400,000, \$420,000 and \$750,000, respectively, in new equipment. In addition to the new equipment, the Hospital has constructed a new facility that will better serve the residents of the community as described in the debt section above.
- Percentage of Medicaid Patients Served – In 2011, we attributed 16% of our inpatients as Medicaid recipients. Medicaid recipients totaled 14% of our patients in 2010 and 2009. This is in contrast to the national average of 2%.
- Charity Care – \$401,368, \$196,000 and \$287,000 was written off in 2011, 2010 and 2009, respectively, for patients qualifying for approval through committee review. In general, our policy does not allow a charity care recipient to have an annual income of greater than two times the federal poverty guidelines. Our goal is to identify more patients who qualify for charity care so those services can be properly classified as charity care and not reflected in our bad debt that is annually over \$1,000,000.
- Meals on Wheels – Approximately 4,400 meals were delivered in 2011 and nearly 7,300 meals were delivered in 2010, with each meal being compensated for a financial loss.
- Community Event Participation – The Hospital participates in multiple events throughout the year, providing health information and free medical services such as mammograms, blood pressure checks and other free screenings for infants. The hospital also sponsors the 2K run at the annual fall festival and provides bottled water for parade participants and attendees. We also sponsor various recreation league activities in the local community. Blood drives are also hosted five times a year at the hospital and open to the community.
- Educational Opportunities – As a partner in the county's health careers program, the Hospital provides hands-on experience for high school students interested in pursuing health care careers. We are also a training site for multiple college nursing programs as well as Physician Assistant training. We also are a partner with our local college volunteer program,

- Health Information – Multiple seminars, classes and health announcements are provided every year by SCKMC. Seminars are given quarterly on weight loss and surgical intervention. Multiple session pre-natal classes are held various times throughout the year. Each month a new health topic is discussed over the air on each of the local radio stations. The hospital is also involved in employer health fairs, dedicated to providing health information to local employers' staff.
- Online Resource – SCKMC made a significant investment in the development of our website. Key features of the site include an online health directory, drug encyclopedia, health research assistance tool, general health information and information about resources available at the facility. An e-newsletter is also sent out to deliver health information directly to users' inbox.
- Social and Health Services – The Hospital offers assistance before, during and after a health need occurs. We provide a variety of services including financial counseling, assistance in program enrollment and social services. These services are provided to patients in need, ensuring that everyone who enters the facility's doors will be discharged to a safe environment and are aware of the programs available.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances. Questions about this report and requests for additional financial information should be directed to the Hospital administration by telephoning 620.442.2500.

**South Central Kansas Regional Medical Center
d/b/a South Central Kansas Medical Center
A Component Unit of the City of Arkansas City, Kansas
Balance Sheets
December 31, 2011 and 2010**

Assets

	2011	2010
Current Assets		
Cash	\$ 1,668,639	\$ 3,516,394
Restricted cash - held under bond indenture	628,182	504,849
Sales tax funds - held by City	475,587	438,639
Patient accounts receivable, net of allowance; 2011 - \$1,034,000, 2010 - \$1,385,000	1,987,412	2,326,114
Estimated amounts due from third-party payers	340,000	-
Other receivables	124,423	133,591
Supplies	702,316	722,253
Sales tax receivable	138,231	138,231
Prepaid expenses and other	185,764	179,483
	6,250,554	7,959,554
Noncurrent Cash and Assets		
Capital lease interest in unexpended bond proceeds	2,342,762	6,844,306
Held under bond indenture for capital acquisitions - cash	100,000	100,000
	2,442,762	6,944,306
	27,505,993	23,844,088
Capital Assets, Net		
	372,730	386,707
Other Assets		
Debt issuance costs, net of amortization	372,730	386,707
	372,730	386,707
	\$ 36,572,039	\$ 39,134,655

Liabilities and Net Assets

	<u>2011</u>	<u>2010</u>
Current Liabilities		
Current maturities of long-term debt	\$ 962,565	\$ 703,127
Accounts payable	461,112	431,362
Accrued expenses	1,067,593	1,061,522
Estimated amounts due to third-party payers	-	120,000
Deferred revenues - third-party payers	87,072	87,072
Deferred grant revenue	18,545	-
	<u>2,596,887</u>	<u>2,403,083</u>
Long-term Debt	<u>24,378,088</u>	<u>25,344,919</u>
Total liabilities	<u>26,974,975</u>	<u>27,748,002</u>
Net Assets		
Invested in capital assets, net of related debt	4,307,204	4,522,750
Restricted - expendable for		
Debt service	628,182	504,849
Capital acquisitions	100,000	100,000
Unrestricted	4,561,678	6,259,054
	<u>9,597,064</u>	<u>11,386,653</u>
Total net assets	<u>9,597,064</u>	<u>11,386,653</u>
Total liabilities and net assets	<u>\$ 36,572,039</u>	<u>\$ 39,134,655</u>

**South Central Kansas Regional Medical Center
d/b/a South Central Kansas Medical Center
A Component Unit of the City of Arkansas City, Kansas
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended December 31, 2011 and 2010**

	2011	2010
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2011 - \$803,895, 2010 - \$967,657	\$ 15,087,290	\$ 14,788,758
Other	239,744	171,819
Total operating revenues	15,327,034	14,960,577
Operating Expenses		
Salaries and wages	7,559,342	7,213,683
Employee benefits	1,457,697	1,440,272
Purchased services and professional fees	2,342,844	2,250,524
Supplies and other	3,330,844	3,647,328
Depreciation and amortization	1,545,060	714,736
Total operating expenses	16,235,787	15,266,543
Operating Loss	(908,753)	(305,966)
Nonoperating Revenues (Expenses)		
Interest income	55,547	48,990
Interest expense	(1,226,657)	(15,585)
Sales tax revenue	786,948	762,446
Noncapital grants and gifts	50,822	35,606
Transfer to City of Arkansas City	(547,496)	-
Total nonoperating revenues (expenses)	(880,836)	831,457
Increase (Decrease) in Net Assets	(1,789,589)	525,491
Net Assets, Beginning of Year	11,386,653	10,861,162
Net Assets, End of Year	\$ 9,597,064	\$ 11,386,653

**South Central Kansas Regional Medical Center
d/b/a South Central Kansas Medical Center
A Component Unit of the City of Arkansas City, Kansas
Statements of Cash Flows
Years Ended December 31, 2011 and 2010**

	2011	2010
Operating Activities		
Receipts from and on behalf of patients	\$ 14,975,160	\$ 14,009,462
Payments to suppliers and contractors	(5,630,282)	(5,709,717)
Payments to employees and on behalf of employees	(9,010,968)	(8,601,966)
Other receipts, net	296,396	116,102
Net cash provided by (used in) operating activities	630,306	(186,119)
Noncapital Financing Activities		
Sales tax funds	786,948	746,449
Noncapital grants and gifts	69,367	35,606
Net cash provided by noncapital financing activities	856,315	782,055
Capital and Related Financing Activities		
Proceeds from the disposal of capital assets	120,000	125,387
Principal paid on long-term debt	(707,393)	(342,057)
Interest paid on long-term debt	(1,226,657)	(15,585)
Purchase of capital assets	(1,415,592)	(1,878,909)
Net cash used in capital and related financing activities	(3,229,642)	(2,111,164)
Investing Activities		
Interest income	55,547	48,990
Net cash provided by investing activities	55,547	48,990
Decrease in Cash	(1,687,474)	(1,466,238)
Cash, Beginning of Year	4,559,882	6,026,120
Cash, End of Year	\$ 2,872,408	\$ 4,559,882

**South Central Kansas Regional Medical Center
d/b/a South Central Kansas Medical Center
A Component Unit of the City of Arkansas City, Kansas
Statements of Cash Flows (Continued)
Years Ended December 31, 2011 and 2010**

	2011	2010
Reconciliation of Cash to the Balance Sheet		
Current Assets		
Cash	\$ 1,668,639	\$ 3,516,394
Restricted cash - held under bond indenture	628,182	504,849
Sales tax funds - held by City	475,587	438,639
Noncurrent Cash and Assets		
Held under bond indenture for capital acquisitions - cash	100,000	100,000
Total cash	\$ 2,872,408	\$ 4,559,882
 Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by (used in) Operating Activities		
Operating loss	\$ (908,753)	\$ (305,966)
Depreciation and amortization	1,545,060	714,736
(Gain) loss on sale/disposal of assets	56,652	(55,717)
Changes in operating assets and liabilities		
Patient accounts receivable, net	338,702	(675,823)
Estimated amounts due to/from third-party payers	(460,000)	30,000
Other receivables	9,168	(133,473)
Supplies and prepaid expenses	13,656	21,320
Accounts payable and accrued expenses	35,821	218,804
Net cash provided by (used in) operating activities	\$ 630,306	\$ (186,119)
 Supplemental Cash Flows Information		
Capital lease obligation incurred for property and equipment	\$ -	\$ 2,937,826
Transfer to City of Arkansas City	\$ 547,496	\$ -

**South Central Kansas Regional Medical Center
d/b/a South Central Kansas Medical Center
A Component Unit of the City of Arkansas City, Kansas
Notes to Financial Statements
December 31, 2011 and 2010**

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

South Central Kansas Regional Medical Center (Hospital) is an acute care hospital located in Arkansas City, Kansas. The Hospital is a component unit of the City of Arkansas City (City), and the Board of City Commissioners appoints members to the Board of Trustees of the Hospital. The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in south central Kansas. The Hospital also operates a home health agency in the same geographic area.

Basis of Accounting and Presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place. Operating revenues and expenses include exchange transactions. Investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The Hospital prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, and do not conflict with or contradict GASB pronouncements.

Use of Estimates

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

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2011 and 2010, there were no cash equivalents.

Effective July 21, 2010, the FDIC's insurance limits were permanently increased to \$250,000.

**South Central Kansas Regional Medical Center
d/b/a South Central Kansas Medical Center
A Component Unit of the City of Arkansas City, Kansas
Notes to Financial Statements
December 31, 2011 and 2010**

Pursuant to legislation enacted in 2010, the FDIC will fully insure all noninterest-bearing transaction accounts beginning December 31, 2010 through December 31, 2012, at all FDIC-insured institutions.

Sales Tax

In 2008, the community of Arkansas City passed a half-cent sales tax to support the construction of the new Hospital facility, purchase of equipment and general operations of the Hospital. The sales tax will be in effect from January 1, 2009 through December 31, 2018. The Hospital received approximately 6% in 2011 and 5% in 2010 of its financial support from the sales tax.

Sales tax revenue is recognized based on sales tax collected by the County's retailers in the Hospital's accounting period.

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than workers' compensation claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Workers' compensation coverage is provided through a fund managed by the Kansas Hospital Association. The workers' compensation premiums are subject to retrospective adjustment based upon overall performance of the fund. Management believes adequate reserves are in place within the plan to cover claims incurred but not reported, and no additional reserves have been accrued.

Patient Accounts Receivable

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectibility of accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payer has not yet paid, or for payers who are known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for

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part of the bill), the Hospital records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated or provided by policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

Supplies

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method, or market.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Hospital:

Land improvements	10 – 20 years
Buildings and improvements	5 – 50 years
Fixed equipment	3 – 25 years
Major moveable equipment	3 – 20 years

The Hospital capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. Total interest capitalized and incurred was:

	2011	2010
Total interest expense incurred on borrowings for project during construction phase	\$ 378,637	\$ 1,514,547
Interest income from investment of proceeds of borrowings for project	3,251	86,583
Net interest cost capitalized	\$ 375,386	\$ 1,427,964
Interest capitalized	\$ 375,386	\$ 1,427,964
Interest charged to expense	1,226,657	15,585
Total interest incurred	\$ 1,602,043	\$ 1,443,549

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Debt Issuance Costs

Debt issuance costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the straight-line method.

Compensated Absences

Hospital policies permit most employees to accumulate vacation, holiday, personal and sick leave benefits that may be realized as paid time off or as a cash payment. Expense and the related liability are recognized as paid time off benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Net Assets

Net assets of the Hospital are classified in three components. Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Hospital, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt or restricted expendable.

Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

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Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. Payment under both programs are contingent on the hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Hospital recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

The Hospital has not yet completed the first-year requirements under either the Medicare and Medicaid programs and no amounts are recorded as revenue in the years ended December 31, 2011 and 2010.

Income Taxes

As an essential government function of the City, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law.

Reclassifications

Certain reclassifications have been made to the 2010 financial statements to conform to the 2011 presentation. The reclassification had no effect on the changes in financial position.

Subsequent Events

Subsequent events have been evaluated through the date of the Independent Accountants' Report, which is the date the financial statements were available to be issued.

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Note 2: Net Patient Service Revenue

The Hospital recognizes patient service revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates for services provided. On the basis of historical experience, a significant portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Hospital records a significant provision for bad debts related to uninsured patients in the period the services are provided.

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. These payment arrangements include:

Medicare. Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge or per billable service unit. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient skilled nursing services (skilled swing-bed) are paid at prospectively determined per diem rates that are based on the patients' acuity. Home health services are paid on a per episode basis using clinical, diagnostic and other factors. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Administrative Contractor.

Medicaid. Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a prospective reimbursement methodology. Due to certain financial and clinical criteria, the Hospital also receives Medicaid disproportionate share (DSH) funding. Medicaid DSH payments were approximately \$52,000 in 2011 and \$108,000 in 2010.

Approximately 59% and 55% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2011 and 2010, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Hospital has also entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

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Note 3: Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Hospital's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Kansas; bonds of any city, county, school district or special road district of the state of Kansas; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

At December 31, 2011 and 2010, respectively, \$2,115,170 and \$3,916,524 of the Hospital's bank balances of \$2,370,141 and \$4,171,491 were exposed to custodial credit risk as follows:

	2011	2010
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the Hospital's name	\$ 2,115,170	\$ 3,916,524

Summary of Carrying Values

The carrying values of deposits shown above are included in the balance sheets as follows:

	2011	2010
Carrying value		
Deposits	\$ 2,395,996	\$ 4,119,273
Petty cash	825	1,970
	\$ 2,396,821	\$ 4,121,243
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 1,668,639	\$ 3,516,394
Restricted cash - held under bond indenture	628,182	504,849
Held under bond indenture for capital acquisitions - cash	100,000	100,000
	\$ 2,396,821	\$ 4,121,243

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Note 4: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at December 31, 2011 and 2010, consisted of:

	2011	2010
Medicare	\$ 522,368	\$ 749,160
Medicaid	171,715	137,577
Other third-party payers	943,593	948,549
Patients	1,383,736	1,875,828
	3,021,412	3,711,114
Less allowance for uncollectible accounts	1,034,000	1,385,000
	\$ 1,987,412	\$ 2,326,114

Note 5: Capital Assets

Capital assets activity for the years ended December 31, 2011 and 2010, was:

	2011				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 252,389	\$ -	\$ (102,389)	\$ -	\$ 150,000
Land improvements	99,247	75,047	(99,247)	-	75,047
Buildings	4,617,658	291,724	(4,617,658)	20,680,517	20,972,241
Fixed equipment	2,398,717	240,314	(2,395,841)	-	243,190
Major moveable equipment	7,135,648	5,310,051	(2,243,621)	186,935	10,389,013
Construction in progress	20,867,452	-	-	(20,867,452)	-
	35,371,111	5,917,136	(9,458,756)	-	31,829,491
Less accumulated depreciation					
Land improvements	96,154	9,347	(99,247)	-	6,254
Buildings	4,473,825	368,592	(4,496,674)	-	345,743
Fixed equipment	1,892,129	98,387	(1,973,464)	-	17,052
Major moveable equipment	5,064,915	1,054,757	(2,165,223)	-	3,954,449
	11,527,023	1,531,083	(8,734,608)	-	4,323,498
Capital Assets, Net	\$23,844,088	\$ 4,386,053	\$ (724,148)	\$ -	\$27,505,993

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	2010				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 322,059	\$ -	\$ (69,670)	\$ -	\$ 252,389
Land improvements	99,247	-	-	-	99,247
Buildings	4,617,658	-	-	-	4,617,658
Equipment	2,417,116	-	(18,399)	-	2,398,717
Major moveable equipment	9,467,133	340,262	(2,671,747)	-	7,135,648
Construction in progress	1,587,019	19,280,433	-	-	20,867,452
	<u>18,510,232</u>	<u>19,620,695</u>	<u>(2,759,816)</u>	<u>-</u>	<u>35,371,111</u>
Less accumulated depreciation					
Land improvements	91,843	4,311	-	-	96,154
Buildings	4,444,247	29,578	-	-	4,473,825
Equipment	1,825,376	85,152	(18,399)	-	1,892,129
Major moveable equipment	7,154,944	581,718	(2,671,747)	-	5,064,915
	<u>13,516,410</u>	<u>700,759</u>	<u>(2,690,146)</u>	<u>-</u>	<u>11,527,023</u>
Capital Assets, Net	<u>\$ 4,993,822</u>	<u>\$18,919,936</u>	<u>\$ (69,670)</u>	<u>\$ -</u>	<u>\$23,844,088</u>

Note 6: Long-term Debt

The following is a summary of long-term debt transactions for the Hospital for the years ended December 31, 2011 and 2010:

	2011				
	Beginning Balance	Additions	Payments	Ending Balance	Current Portion
Long-term debt					
Capital lease obligations	<u>\$ 26,048,046</u>	<u>\$ -</u>	<u>\$ 707,393</u>	<u>\$25,340,653</u>	<u>\$ 962,565</u>

	2010				
	Beginning Balance	Additions	Payments	Ending Balance	Current Portion
Long-term debt					
Capital lease obligations	<u>\$ 23,452,277</u>	<u>\$ 2,937,826</u>	<u>\$ 342,057</u>	<u>\$26,048,046</u>	<u>\$ 703,127</u>

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Capital Lease Obligations

In 2009, the Hospital entered into an agreement with the Public Building Commission (PBC) of the City of Arkansas City, Kansas to issue bonds to finance construction of a replacement facility. The bonds bear interest ranging from 4.00% to 7.00% and are due semi-annually in increasing principal amounts with final bonds maturing September 1, 2038. The Hospital, acting as its own trustee, is required to maintain specific principal and interest accounts. The PBC holds the required bond reserve account. The actual principal and interest payments are then made to the PBC which remits the payments to the State Treasurer's office and then the bondholders are paid by the State. Accordingly, the facility and bond indebtedness have been included in the financial statements as assets and liabilities of the Hospital. The bonds are secured by a first and prior lien upon the gross revenues of the Hospital. This agreement is accounted for as a capital lease obligation by the Hospital. All covenants within the agreements must be met primarily by the Hospital.

Bonds issued may be redeemed in advance of their maturity at 100% of face value.

The bond indentures require certain covenants be met during each year. Those covenants require income available for future debt service of 1.0, the facility must be maintained and insured, and monthly deposits must be made to the trustee account. As of December 31, 2011, the Hospital did meet the debt service coverage covenant.

The Hospital is also obligated under other capital leases for building improvements and equipment. All assets under capital leases at December 31, 2011 and 2010, totaled \$26,142,826 and \$27,006,422, respectively, net of accumulated depreciation of \$890,535 and \$532,286, respectively. The following is a schedule by year of future minimum lease payments under the capital leases including interest at rates of 4.00% to 7.00% together with the present value of the future minimum lease payments as of December 31, 2011:

Year Ending December 31,	
2012	\$ 2,559,639
2013	2,559,839
2014	2,562,513
2015	2,536,225
2016	1,888,185
2017-2021	9,430,023
2022-2026	9,427,825
2027-2031	9,434,587
2032-2036	9,430,888
2037-2038	3,770,962
Total minimum lease payments	<u>53,600,686</u>
Less amount representing interest	<u>28,260,033</u>
Present value of future minimum lease payments	<u><u>\$ 25,340,653</u></u>

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Note 7: Medical Malpractice Claims

The Hospital purchases medical malpractice insurance which provides \$200,000 of coverage for each medical incident and \$600,000 of aggregate coverage for each policy year. The policy is a claims-made policy, which means the policy only covers claims made and reported to the insurer during the policy term, regardless of when the incident giving rise to the claim occurred. The Kansas Health Care Stabilization Fund provides an additional \$800,000 of coverage for each medical incident and \$2,400,000 of aggregate coverage for each policy year.

Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Note 8: Board Designated Net Assets

At December 31, 2011 and 2010, \$979,521 and 979,521, respectively, of unrestricted net assets have been designated by the Hospital's Board of Trustees for capital acquisitions. Designated net assets remain under the control of the Board of Trustees, which may at its discretion later use these net assets for other purposes.

Note 9: Pension Plan

Plan Description

The Hospital contributes to the Kansas Public Employees Retirement System (KPERS) Employee Pension Plan, a cost-sharing multiple-employer defined benefit pension plan administered by the KPERS Board of Trustees. Pension expense is recorded for the amount the Hospital is contractually required to contribute for the year. The plan provides retirement and disability benefits, including annual cost-of-living adjustments and death benefits to plan members and their beneficiaries. The Kansas Legislature, with concurrence of the Governor, has the authority to establish and amend benefit provisions. The plan issues a publicly available financial report that includes financial statements and required supplementary information for the plan. The report may be obtained by writing to the plan at Kansas Public Employees Retirement System, 611 South Kansas Avenue, Suite 100, Topeka, Kansas 66603-3803, or by calling 1.888.275.5737.

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Funding Policy

The authority to establish and amend requirements of plan members and the Hospital is set forth by the Kansas Legislature with the concurrence of the Governor. Plan members are required to contribute 4% of their annual covered salary. The Hospital is required to contribute at an actuarially determined rate; the rate was 7.74%, 7.14% and 6.54% of annual covered payroll for 2011, 2010 and 2009, respectively. The Hospital's contributions to the plan for 2011, 2010 and 2009, were \$479,249, \$451,107 and \$327,349, respectively, which equaled the required contributions for each year. State law limits the Hospital's future contribution rate increases to a maximum of 0.6%.

Note 10: Current Economic Conditions

The current protracted economic decline continues to present hospitals with difficult circumstances and challenges, which in some cases have resulted in large and unanticipated declines in the fair value of investments and other assets, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Hospital.

Current economic conditions, including the rising unemployment rate, have made it difficult for certain of the Hospital's patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Hospital's future operating results. Further, the effect of economic conditions on the government may have an adverse effect on cash flows related to the Medicare and Medicaid program.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in allowances for accounts receivable that could negatively impact the Hospital's ability to meet debt covenants or maintain sufficient liquidity.

Supplementary Information

**South Central Kansas Regional Medical Center
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Schedules of Net Patient Service Revenues
Years Ended December 31, 2011 and 2010**

	2011		
	Inpatient	Outpatient	Total
Nursing Services			
Nursing, dietary and room services	\$ 2,063,761	\$ -	\$ 2,063,761
Observation	-	246,388	246,388
Intensive care	290,066	-	290,066
Nursery	154,301	-	154,301
Skilled swing-bed	377,625	-	377,625
	<u>2,885,753</u>	<u>246,388</u>	<u>3,132,141</u>
Other Professional Services			
Operating room	897,846	2,634,858	3,532,704
Delivery room	541,612	78,708	620,320
Anesthesiology	219,098	492,934	712,032
Radiology	112,845	797,093	909,938
CT scans	179,195	1,854,947	2,034,142
Magnetic resonance imaging	51,923	1,046,019	1,097,942
Nuclear medicine	11,114	168,083	179,197
Ultrasound	142,536	499,372	641,908
Laboratory	1,071,407	2,446,932	3,518,339
Intravenous therapy	870,167	484,786	1,354,953
Respiratory therapy	557,047	120,593	677,640
Physical therapy	168,107	563,081	731,188
Occupational therapy	54,344	12,477	66,821
Speech therapy	10,052	10,449	20,501
Electrocardiology	38,476	112,312	150,788
Cardiac rehab	-	840	840
Central supply	1,424,999	1,459,179	2,884,178
Pharmacy	1,279,321	1,263,191	2,542,512
Outpatient surgery	-	3,047	3,047
Sleep study revenue	-	61,395	61,395
Emergency room	497,201	3,492,582	3,989,783
Home health	-	327,247	327,247
Physician clinic	156,580	612,028	768,608
	<u>8,283,870</u>	<u>18,542,153</u>	<u>26,826,023</u>
	<u>\$ 11,169,623</u>	<u>\$ 18,788,541</u>	29,958,164
Provision for Uncollectible Accounts			803,895
Contractual and Other Adjustments			<u>14,066,979</u>
Net Patient Service Revenue			<u>\$ 15,087,290</u>

2010		
Inpatient	Outpatient	Total
\$ 2,000,179	\$ -	\$ 2,000,179
-	263,326	263,326
381,756	-	381,756
212,421	-	212,421
371,975	-	371,975
<u>2,966,331</u>	<u>263,326</u>	<u>3,229,657</u>
1,252,225	2,395,449	3,647,674
621,267	71,448	692,715
286,898	499,160	786,058
140,466	721,159	861,625
255,286	2,024,755	2,280,041
25,847	748,300	774,147
23,357	180,763	204,120
104,055	452,915	556,970
1,247,017	2,288,469	3,535,486
934,044	402,186	1,336,230
442,634	153,227	595,861
226,800	612,728	839,528
14,464	20,779	35,243
7,486	3,734	11,220
36,386	110,664	147,050
813	-	813
1,982,133	1,351,915	3,334,048
1,217,255	1,140,997	2,358,252
-	2,866	2,866
-	77,151	77,151
481,861	3,179,389	3,661,250
-	321,772	321,772
202,497	641,147	843,644
<u>9,502,791</u>	<u>17,400,973</u>	<u>26,903,764</u>
<u>\$ 12,469,122</u>	<u>\$ 17,664,299</u>	30,133,421
		967,657
		<u>14,377,006</u>
		<u>\$ 14,788,758</u>

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Schedules of Contractual Allowances and Other Revenue
Years Ended December 31, 2011 and 2010**

Contractual Allowances

	<u>2011</u>	<u>2010</u>
Medicare	\$ 6,377,871	\$ 6,974,249
Medicaid	2,853,025	3,000,234
Medicaid – Disproportionate share adjustment	(52,230)	(108,232)
Blue Cross	1,672,040	1,588,428
Commercial	2,176,092	2,163,205
Charity care	573,477	340,169
Other	466,704	418,953
	<u>\$ 14,066,979</u>	<u>\$ 14,377,006</u>

Other Revenue

	<u>2011</u>	<u>2010</u>
Cafeteria sales	\$ 79,498	\$ 86,746
Employee pharmacy sales	4,567	6,249
Rental income	17,000	14,912
Gain on sale/disposal of assets	121,150	55,717
Miscellaneous	17,529	8,195
	<u>\$ 239,744</u>	<u>\$ 171,819</u>

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Schedules of Operating Expenses
Years Ended December 31, 2011 and 2010**

	2011			2010		
	Salaries	Other	Total	Salaries	Other	Total
Nursing Services						
Nursing service	\$ 1,045,382	\$ 117,354	\$ 1,162,736	\$ 1,000,488	\$ 92,981	\$ 1,093,469
Intensive care	234,417	7,133	241,550	258,717	8,102	266,819
	1,279,799	124,487	1,404,286	1,259,205	101,083	1,360,288
Other Professional Services						
Operating room	371,702	127,805	499,507	389,122	118,403	507,525
Delivery room	265,256	32,952	298,208	276,532	27,825	304,357
Anesthesiology	370,397	232,922	603,319	234,645	403,075	637,720
Radiology	576,522	143,713	720,235	479,719	110,057	589,776
CT scans	-	26,284	26,284	-	89,763	89,763
Magnetic resonance imaging	-	69,290	69,290	-	228,610	228,610
Nuclear medicine	-	21,008	21,008	-	30,411	30,411
Ultrasound	-	10,847	10,847	-	9,842	9,842
Laboratory	460,064	469,363	929,427	421,855	475,267	897,122
Intravenous therapy	-	237	237	-	9,550	9,550
Respiratory therapy	255,165	40,254	295,419	236,821	17,901	254,722
Physical therapy	292,328	27,096	319,424	281,218	29,892	311,110
Occupational therapy	-	13,671	13,671	-	6,434	6,434
Electrocardiology	-	3,675	3,675	-	-	-
Cardiac rehab	16,211	184	16,395	16,170	6,430	22,600
Central supply	21,334	905,764	927,098	22,124	1,065,691	1,087,815
Pharmacy	189,701	694,204	883,905	168,693	682,579	851,272
Outpatient surgery	99,394	8,007	107,401	95,088	8,018	103,106
Sleep study lab	-	14,860	14,860	-	58,345	58,345
Emergency room	829,247	652,076	1,481,323	763,450	647,082	1,410,532
Home health	177,665	26,119	203,784	203,882	23,811	227,693
Physician clinic	366,518	10,104	376,622	315,282	2,951	318,233
	4,291,504	3,530,435	7,821,939	3,904,601	4,051,937	7,956,538

**South Central Kansas Regional Medical Center
d/b/a South Central Kansas Medical Center
A Component Unit of the City of Arkansas City, Kansas
Schedules of Operating Expenses (Continued)
Years Ended December 31, 2011 and 2010**

	2011			2010		
	Salaries	Other	Total	Salaries	Other	Total
General Services						
Plant operation	\$ 147,748	\$ 385,125	\$ 532,873	\$ 144,571	\$ 351,558	\$ 496,129
Laundry	37,928	10,990	48,918	40,427	21,794	62,221
Housekeeping	131,647	48,149	179,796	171,210	29,269	200,479
Dietary	228,984	231,783	460,767	235,424	237,613	473,037
	546,307	676,047	1,222,354	591,632	640,234	1,231,866
Administration Services						
Administration and general	592,869	580,977	1,173,846	643,093	527,330	1,170,423
Business office	259,499	316,625	576,124	237,437	260,539	497,976
Purchasing	69,976	35,545	105,521	67,221	19,594	86,815
Nursing administration	272,233	10,048	282,281	300,503	8,458	308,961
Medical records	172,006	131,607	303,613	135,437	135,163	270,600
Public relations	75,149	267,917	343,066	74,554	153,514	228,068
	1,441,732	1,342,719	2,784,451	1,458,245	1,104,598	2,562,843
Employee Benefits		1,457,697	1,457,697		1,440,272	1,440,272
Depreciation		1,545,060	1,545,060		714,736	714,736
	\$7,559,342	\$8,676,445	\$16,235,787	\$7,213,683	\$8,052,860	\$15,266,543