

**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 Auditor's Report and Financial Statements  
December 31, 2012 and 2011



**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, 2012 and 2011**

**Contents**

<b>Independent Auditor's Report on Financial Statements and Supplementary Information .....</b>	<b>1</b>
<b>Management's Discussion and Analysis .....</b>	<b>3</b>
<b>Financial Statements</b>	
Balance Sheets .....	10
Statements of Revenues, Expenses and Changes in Net Position .....	11
Statements of Cash Flows .....	12
Notes to Financial Statements .....	14
<b>Supplementary Information</b>	
Schedules of Net Patient Service Revenues .....	26
Schedules of Contractual Allowances and Other Revenue .....	27
Schedules of Operating Expenses.....	28

## **Independent Auditor's 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 financial statements 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, which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

### ***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 provisions of 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 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 South Central Kansas Medical Center d/b/a South Central Kansas Medical Center as of December 31, 2012 and 2011, and 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.

***Required Supplementary Information***

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.

***Supplementary Information***

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the 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 applied in the audits of the financial statements and certain additional 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*

Wichita, Kansas  
April 16, 2013

**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, 2012 and 2011**

***Introduction***

This management discussion and analysis of the financial performance of South Central Kansas Regional Medical Center d/b/a South Central Kansas Medical Center (Hospital) provides an overview of the Hospital's financial activities for the years ended December 31, 2012 and 2011. 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 \$540,996 or (24)% from \$2,296,821, the balance at the end of 2011, to \$1,755,825 on December 31, 2012. The previous year showed a decrease in cash of \$1,724,422 or (43)%.
- The Hospital's net position decreased \$503,391 in 2012. In 2011, net position decreased \$1,789,589.
- The Hospital reported an operating profit of \$246,706 in 2012. In 2011, the Hospital reported an operating loss of \$908,753.
- Medicaid Disproportionate Share (DSH) payments of approximately \$60,000 were received in 2012, \$52,000 in 2011 and approximately \$108,000 in 2010.

***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 position; 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 Position***

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 position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. 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 position – 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 position 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 Position***

The Hospital's net position is the difference between its assets and liabilities reported in the balance sheet. The Hospital's net position decreased by \$503,391 in 2012 and decreased \$1,789,589 in 2011, as shown in Table 1.

**Table 1: Assets, Liabilities and Net Position**

	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>Assets</b>			
Cash, cash equivalents and short-term certificate of deposit	\$ 1,755,825	\$ 2,296,821	\$ 4,021,243
Sales tax funds - held by City	623,346	475,587	438,639
Patient accounts receivable, net	2,080,553	1,987,412	2,326,114
Other current assets	1,734,769	1,490,734	1,173,558
Restricted noncurrent cash and other assets held by City	2,417,730	2,442,762	6,944,306
Capital assets, net	26,163,783	27,505,993	23,844,088
Other noncurrent assets	358,752	372,730	386,707
<b>Total assets</b>	<b>\$ 35,134,758</b>	<b>\$ 36,572,039</b>	<b>\$ 39,134,655</b>
<b>Liabilities</b>			
Long-term debt	\$ 24,390,121	\$ 25,340,653	\$ 26,048,046
Other current liabilities	1,650,964	1,634,322	1,699,956
<b>Total liabilities</b>	<b>26,041,085</b>	<b>26,974,975</b>	<b>27,748,002</b>
<b>Net Position</b>			
Net investment in capital assets	3,901,548	4,307,204	4,522,750
Restricted - expendable for			
Debt service	628,249	628,182	504,849
Capital acquisitions	100,000	100,000	100,000
Unrestricted	4,463,876	4,561,678	6,259,054
<b>Total net position</b>	<b>9,093,673</b>	<b>9,597,064</b>	<b>11,386,653</b>
<b>Total liabilities and net position</b>	<b>\$ 35,134,758</b>	<b>\$ 36,572,039</b>	<b>\$ 39,134,655</b>

### ***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, 2012 and 2011, are primarily related to the bond reserve and unspent construction funds.

### ***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 2012, the Hospital invested over \$313,000 in equipment, which included \$127,000 in new technology to become a certified Meaningful User. The Hospital spent almost \$160,000 in 2011 in these technologies as well. Other equipment purchases included items for our new OB/GYN as well as a surgical microscope, a dose calibrator for radiology and an infusion pump for anesthesia.

In 2011, the Hospital purchased many new items to equip the new facility that was finished on March 17, 2011. Some of the items included new dietary equipment, patient beds, bassinets, surgery tables, patient furniture, stretchers and new computers throughout the facility. Bariatric items were also purchased for surgery and other areas in the Hospital as well as a new radiology equipment including the Open MRI and 64-slice CT scanner.

In 2010, the Hospital invested over \$340,000 in new equipment that consisted of upgrades to the software server, a sterilizer in surgery, a coag analyzer in lab, an anesthesia machine and a glidescope video laryngoscope used for intubation in surgery.

### ***Debt***

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 the 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.

The Hospital'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, 2012 and 2011, the Hospital had \$24,390,121 and \$25,340,653, respectively, of capital lease obligations outstanding.

### ***Operating Results and Changes in the Hospital's Net Position***

The first component of the overall change in the Hospital's net position 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 \$1,606,367 over 2011, which is a 10% increase. Revenues increased \$366,457 from 2010 to 2011 or 2%. Total operating income increased in 2012 by \$1,155,459 largely due to increased revenues that included Electronic Health Record incentives. Operating income decreased in 2011 and 2010 by \$602,787 and \$596,833, respectively, largely due to increased wages and benefits that exceeded the increased revenues as described above.
- In 2012, the Hospital received approximately \$60,000 in DSH payments. This is an increase of 13% from 2011 with DSH payments at approximately \$52,000. DSH payments were \$108,000 in 2010. 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 \$118,954 or 1% in 2012 due to an increase in patient volumes related to the employment of a highly productive, experienced OB/GYN in late June 2012. 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 \$326,709. Also included in benefits is workers' compensation and state unemployment for a total of \$193,264. The mutual workers' compensation fund had a one-time special assessment in 2012. Salaries and benefits increased approximately \$363,084 or 4% from 2010 to 2011 due to wage rate increases to retain staff and additional volume with the addition of a surgeon.
- In 2012, purchased services and professional fees increased 1% or \$12,406. In 2011, these services increased 4% or \$92,320 as compared to 2010. In 2010, the Hospital used agency nursing staff more frequently.
- Other expenses include supplies, utilities, rentals, and repairs and maintenance. In 2012, these figures increased 6% or \$194,858. In 2011, these expenses decreased 9% or \$316,484.
- The Hospital receives no ad valorem taxes through intergovernmental transfers from the City of Arkansas City.



**Table 2: Operating Results and Changes in Net Position**

	2012	2011	2010
<b>Operating Revenues</b>			
Net patient service revenue	\$ 14,774,794	\$ 15,087,290	\$ 14,788,758
Electronic Health Records revenue	2,055,185	-	-
Other operating revenues	103,422	239,744	171,819
Total operating revenues	16,933,401	15,327,034	14,960,577
<b>Operating Expenses</b>			
Salaries and wages and employee benefits	9,135,993	9,017,039	8,653,955
Purchased services and professional fees	2,355,250	2,342,844	2,250,524
Other operating expenses	3,525,702	3,330,844	3,647,328
Depreciation and amortization	1,669,750	1,545,060	714,736
Total operating expenses	16,686,695	16,235,787	15,266,543
<b>Operating Income (Loss)</b>	246,706	(908,753)	(305,966)
<b>Nonoperating Revenues (Expenses)</b>			
Interest income	58,626	55,547	48,990
Interest expense	(1,597,928)	(1,226,657)	(15,585)
Sales tax revenue	773,371	786,948	762,446
Noncapital grants and gifts	15,834	50,822	35,606
Transfer to City of Arkansas City	-	(547,496)	-
Total nonoperating revenues	(750,097)	(880,836)	831,457
<b>Increase (Decrease) in Net Position</b>	\$ (503,391)	\$ (1,789,589)	\$ 525,491

**Nonoperating Revenues and Expenses**

Nonoperating revenues and expenses has consisted primarily of investment income and interest expense. Interest income increased \$3,079 from 2011 to 2012 and increased \$6,557 from 2010 to 2011. A half cent sales tax supports the Hospital's operations 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 2012, the Hospital was also awarded a grant under The Small Hospital Improvement Program (SHIP). This grant awarded funds to purchase education, training and software to help rural communities support a sustainable health care delivery system. This grant is offered by the Kansas Department and Health and Environment and can be renewed annually.

## ***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 2012, 2011 and 2010, as discussed earlier. Net cash provided by the operating and noncapital financing activities of the Hospital were used to purchase capital equipment and pay debt service.

## ***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. The Hospital bases the value of 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 2012, 2011 and 2010, the Hospital invested nearly \$313,000, \$3,400,000 and \$340,000, 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 2012, we attributed 16% of our inpatients as Medicaid recipients as was the same percentage in 2011. Medicaid recipients totaled 14% of our patients in 2010. This is in contrast to the national average of 2%.
- **Charity Care** – \$316,524, \$401,368 and \$196,000 was written off in 2012, 2011 and 2010, 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.
- **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** – We are 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. Also, 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.
- **Health Information** – Multiple seminars, classes and health announcements are provided every year by the Hospital. With the addition of our OB/GYN, special women's health programs have been presented. Seminars continue to be given on weight loss and surgical interventions available in this area of health improvement. Multiple session prenatal classes are held various times throughout the year. We are actively working to integrate some of our health information delivery into our online efforts, as this is emerging as an effective way to reach a younger audience. The Hospital is also involved in employer health fairs, dedicated to providing health information to local employers' staff.

- **Online Resource** – The Hospital continues to make a significant investment in the development of our website and in responsible participation in social media. We have worked to integrate our electronic communication strategies to reach a broad demographic. 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' inboxes.
- **Social and Health Services** – The Hospital offers assistance before, during and after a health need occurs. The variety of services we provide include financial counseling, assistance in program enrollment for benefits to which the patient may be entitled and social services. The efforts are expended to ensure 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, 2012 and 2011**

**Assets**

	<b>2012</b>	<b>2011</b>
<b>Current Assets</b>		
Cash	\$ 1,127,576	\$ 1,668,639
Restricted cash - held under bond indenture	628,249	628,182
Sales tax funds - held by City	623,346	475,587
Patient accounts receivable, net of allowance; 2012 - \$1,390,000, 2011 - \$1,034,000	2,080,553	1,987,412
Estimated amounts due from third-party payers	650,483	340,000
Other receivables	14,439	124,423
Supplies	739,991	702,316
Sales tax receivable	138,231	138,231
Prepaid expenses and other	191,625	185,764
Total current assets	<u>6,194,493</u>	<u>6,250,554</u>
<b>Noncurrent Cash and Assets</b>		
Capital lease interest in unexpended bond proceeds	2,317,730	2,342,762
Held under bond indenture for capital acquisitions - cash	100,000	100,000
Total noncurrent cash and assets	<u>2,417,730</u>	<u>2,442,762</u>
<b>Capital Assets, Net</b>	<u>26,163,783</u>	<u>27,505,993</u>
<b>Other Assets</b>		
Debt issuance costs, net of amortization	<u>358,752</u>	<u>372,730</u>
Total assets	<u><u>\$ 35,134,758</u></u>	<u><u>\$ 36,572,039</u></u>

## Liabilities and Net Position

	2012	2011
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 984,232	\$ 962,565
Accounts payable	505,439	461,112
Accrued expenses	1,130,773	1,067,593
Deferred revenues - third-party payers	-	87,072
Deferred grant revenue	14,752	18,545
Total current liabilities	2,635,196	2,596,887
<b>Long-term Debt</b>	23,405,889	24,378,088
Total liabilities	26,041,085	26,974,975
<b>Net Position</b>		
Net investment in capital assets	3,901,548	4,307,204
Restricted - expendable for		
Debt service	628,249	628,182
Capital acquisitions	100,000	100,000
Unrestricted	4,463,876	4,561,678
Total net position	9,093,673	9,597,064
Total liabilities and net position	\$ 35,134,758	\$ 36,572,039

**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 Position  
Years Ended December 31, 2012 and 2011**

	<b>2012</b>	<b>2011</b>
<b>Operating Revenues</b>		
Net patient service revenue, net of provision for uncollectible accounts; 2012 - \$783,807, 2011 - \$803,895	\$ 14,774,794	\$ 15,087,290
Electronic Health Records Incentive revenue	2,055,185	-
Other	103,422	239,744
	<hr/>	<hr/>
Total operating revenues	16,933,401	15,327,034
	<hr/>	<hr/>
<b>Operating Expenses</b>		
Salaries and wages	7,527,745	7,559,342
Employee benefits	1,608,248	1,457,697
Purchased services and professional fees	2,355,250	2,342,844
Supplies and other	3,525,702	3,330,844
Depreciation and amortization	1,669,750	1,545,060
	<hr/>	<hr/>
Total operating expenses	16,686,695	16,235,787
	<hr/>	<hr/>
<b>Operating Income (Loss)</b>	246,706	(908,753)
	<hr/>	<hr/>
<b>Nonoperating Revenues (Expenses)</b>		
Interest income	58,626	55,547
Interest expense	(1,597,928)	(1,226,657)
Sales tax revenue	773,371	786,948
Noncapital grants and gifts	15,834	50,822
Transfer to City of Arkansas City	-	(547,496)
	<hr/>	<hr/>
Total nonoperating revenues (expenses)	(750,097)	(880,836)
	<hr/>	<hr/>
<b>Decrease in Net Position</b>	(503,391)	(1,789,589)
	<hr/>	<hr/>
<b>Net Position, Beginning of Year</b>	9,597,064	11,386,653
	<hr/>	<hr/>
<b>Net Position, End of Year</b>	<u>\$ 9,093,673</u>	<u>\$ 9,597,064</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 Cash Flows  
Years Ended December 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>Operating Activities</b>		
Receipts from and on behalf of patients	\$ 14,394,082	\$ 14,975,160
Payments to suppliers and contractors	(5,880,161)	(5,630,282)
Payments to employees and on behalf of employees	(9,072,813)	(9,010,968)
Other receipts, net	2,158,607	296,396
	<u>1,599,715</u>	<u>630,306</u>
<b>Noncapital Financing Activities</b>		
Sales tax funds	773,371	786,948
Noncapital grants and gifts	12,041	69,367
	<u>785,412</u>	<u>856,315</u>
<b>Capital and Related Financing Activities</b>		
Proceeds from the disposal of capital assets	-	120,000
Principal paid on long-term debt	(950,532)	(707,393)
Interest paid on long-term debt	(1,597,928)	(1,602,043)
Purchase of capital assets	(288,530)	(1,040,206)
	<u>(2,836,990)</u>	<u>(3,229,642)</u>
<b>Investing Activities</b>		
Interest income	58,626	55,547
	<u>58,626</u>	<u>55,547</u>
<b>Decrease in Cash</b>	(393,237)	(1,687,474)
<b>Cash, Beginning of Year</b>	<u>2,872,408</u>	<u>4,559,882</u>
<b>Cash, End of Year</b>	<u><u>\$ 2,479,171</u></u>	<u><u>\$ 2,872,408</u></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 Cash Flows (Continued)  
Years Ended December 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>Reconciliation of Cash to the Balance Sheets</b>		
<b>Current Assets</b>		
Cash	\$ 1,127,576	\$ 1,668,639
Restricted cash - held under bond indenture	628,249	628,182
Sales tax funds - held by City	623,346	475,587
<b>Noncurrent Cash and Assets</b>		
Held under bond indenture for capital acquisitions - cash	<u>100,000</u>	<u>100,000</u>
Total cash	<u><u>\$ 2,479,171</u></u>	<u><u>\$ 2,872,408</u></u>
<b>Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by (used in) Operating Activities</b>		
Operating income (loss)	\$ 246,706	\$ (908,753)
Depreciation and amortization	1,669,750	1,545,060
Loss on sale/disposal of assets	-	56,652
Changes in operating assets and liabilities		
Patient accounts receivable, net	(93,141)	338,702
Estimated amounts due to/from third-party payers	(397,555)	(460,000)
Other receivables	109,984	9,168
Supplies and prepaid expenses	(43,536)	13,656
Accounts payable and accrued expenses	<u>107,507</u>	<u>35,821</u>
Net cash provided by operating activities	<u><u>\$ 1,599,715</u></u>	<u><u>\$ 630,306</u></u>
<b>Supplemental Cash Flows Information</b>		
Transfer to City of Arkansas City	\$ -	\$ 547,496
Capitalized interest	\$ -	\$ 375,386



**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, 2012 and 2011**

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

***Nature of Operations and Reporting Entity***

South Central Kansas Regional Medical Center d/b/a South Central Kansas 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 position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position 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).

***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, 2012 and 2011, there were no cash equivalents.

Pursuant to legislation enacted in 2010, the FDIC fully insured all noninterest-bearing transaction accounts beginning December 31, 2010 through December 31, 2012, at all FDIC-insured institutions. This legislation expired on December 31, 2012. Beginning January 1, 2013, noninterest-bearing transaction accounts are subject to the \$250,000 limit on FDIC insurance per covered institution.

**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, 2012 and 2011**

***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 4.9% in 2012 and 5.5% in 2011 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 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

**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, 2012 and 2011**

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:

	<b>2012</b>	<b>2011</b>
Total interest expense incurred on borrowings for project during construction phase	\$ -	\$ 378,637
Interest income from investment of proceeds of borrowings for project	-	3,251
Net interest cost capitalized	<u>\$ -</u>	<u>\$ 375,386</u>
Interest capitalized	\$ -	\$ 375,386
Interest charged to expense	<u>1,597,928</u>	<u>1,226,657</u>
Total interest incurred	<u>\$ 1,597,928</u>	<u>\$ 1,602,043</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  
Notes to Financial Statements  
December 31, 2012 and 2011**

***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 Position***

Net position of the Hospital is classified in three components. Net investment in capital assets 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 position 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 position are remaining assets less remaining liabilities that do not meet the definition of net investment in capital assets 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.

**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, 2012 and 2011**

***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 completed the first-year requirements under the Medicare and Medicaid programs and has recorded revenue of \$2,055,185 and \$0 in the years ended December 31, 2012 and 2011, respectively.

***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.

***Subsequent Events***

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

**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.

**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, 2012 and 2011**

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 \$60,000 in 2012 and \$52,000 in 2011.

Approximately 44% and 47% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2012 and 2011, 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.

***Patient Protection and Affordable Care Act***

The *Patient Protection and Affordable Care Act* (PPACA) will substantially reform the United States health care system. The legislation impacts multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. Starting in 2014, the legislation requires the establishment of health insurance exchanges, which will provide individuals without employer provided health care coverage the opportunity to purchase insurance. It is anticipated that some employers currently offering insurance to employees will opt to have employees seek insurance coverage through the insurance exchanges. It is possible that the reimbursement rates paid by insurers participating in the insurance exchanges may be substantially different than rates paid under current health insurance products. Another significant component of the PPACA is the expansion of the Medicaid program to a wide range of newly eligible individuals. In anticipation of this expansion, payments under certain existing programs, such as Medicare disproportionate share, will be substantially decreased. Each state's participation in an expanded Medicaid program is optional.

**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, 2012 and 2011**

The state of Kansas has not yet indicated whether or not it will participate in the expansion of the Medicaid program. The legislature has passed HCR 5013 indicating it does not intend to pursue Medicaid expansion, however, that is not yet law as of the date of this report. The impact of that decision on the overall reimbursement to the Hospital cannot be quantified at this point.

The PPACA is extremely complex and may be difficult for the federal government and each state to implement. While the overall impact of the PPACA cannot currently be estimated, it is possible that it will have a negative impact on the Hospital's net patient service revenue. Additionally, it is possible the Hospital will experience payment delays and other operational challenges during PPACA's implementation.

**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, 2012 and 2011, none of the Hospital's bank balances were exposed to custodial credit risk.

***Summary of Carrying Values***

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

	<b>2012</b>	<b>2011</b>
Carrying value		
Deposits	\$ 1,855,000	\$ 2,395,996
Petty cash	825	825
	<u>\$ 1,855,825</u>	<u>\$ 2,396,821</u>
Included in the following balance sheet captions		
Cash	\$ 1,127,576	\$ 1,668,639
Restricted cash - held under bond indenture	628,249	628,182
Held under bond indenture for capital acquisitions - cash	<u>100,000</u>	<u>100,000</u>
	<u>\$ 1,855,825</u>	<u>\$ 2,396,821</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**

**Notes to Financial Statements**

**December 31, 2012 and 2011**

**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, 2012 and 2011, consisted of:

	<b>2012</b>	<b>2011</b>
Medicare	\$ 477,366	\$ 522,368
Medicaid	208,535	171,715
Other third-party payers	965,869	943,593
Patients	<u>1,818,783</u>	<u>1,383,736</u>
	3,470,553	3,021,412
Less allowance for uncollectible accounts	<u>1,390,000</u>	<u>1,034,000</u>
	<u><u>\$ 2,080,553</u></u>	<u><u>\$ 1,987,412</u></u>

**Note 5: Capital Assets**

Capital assets activity for the years ended December 31, 2012 and 2011, was:

	<b>2012</b>			
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>
Land	\$ 150,000	\$ -	\$ -	\$ -
Land improvements	75,047	912	-	-
Buildings	20,972,241	3,651	-	-
Fixed equipment	243,190	7,634	-	-
Major moveable equipment	10,389,013	301,365	-	-
Construction in progress	-	-	-	-
	<u>31,829,491</u>	<u>313,562</u>	<u>-</u>	<u>-</u>
	32,143,053			
Less accumulated depreciation				
Land improvements	6,254	7,581	-	-
Buildings	345,743	419,570	-	-
Fixed equipment	17,052	24,824	-	-
Major moveable equipment	<u>3,954,449</u>	<u>1,203,797</u>	<u>-</u>	<u>-</u>
	4,323,498	1,655,772	-	-
	<u>5,979,270</u>			
Capital Assets, Net	<u><u>\$27,505,993</u></u>	<u><u>\$(1,342,210)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
	\$26,163,783			



**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, 2012 and 2011**

	<b>2011</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Ending Balance</b>
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
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)	-
	<u>35,371,111</u>	<u>5,917,136</u>	<u>(9,458,756)</u>	<u>-</u>	<u>31,829,491</u>
Less accumulated depreciation					
Land improvements	96,154	9,347	(99,247)	-	6,254
Buildings	4,473,825	368,592	(4,496,674)	-	345,743
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
	<u>11,527,023</u>	<u>1,531,083</u>	<u>(8,734,608)</u>	<u>-</u>	<u>4,323,498</u>
Capital Assets, Net	<u>\$23,844,088</u>	<u>\$ 4,386,053</u>	<u>\$ (724,148)</u>	<u>\$ -</u>	<u>\$27,505,993</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, 2012 and 2011:

	<b>2012</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Payments</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Long-term debt					
Capital lease obligations	<u>\$ 25,340,653</u>	<u>\$ -</u>	<u>\$ 950,532</u>	<u>\$24,390,121</u>	<u>\$ 984,232</u>

  

	<b>2011</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Payments</b>	<b>Ending Balance</b>	<b>Current Portion</b>
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>

**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, 2012 and 2011**

***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, 2012, 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, 2012 and 2011, totaled \$24,125,234 and \$26,142,826, respectively, net of accumulated depreciation of \$2,017,592 and \$890,535, 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, 2012:

Year Ending December 31,	
2013	\$ 2,559,639
2014	2,562,513
2015	2,536,225
2016	1,886,935
2017	1,884,685
2018-2022	9,429,950
2023-2027	9,427,913
2028-2032	9,436,450
2033-2037	9,429,000
2038	1,886,287
Total minimum lease payments	51,039,597
Less amount representing interest	26,649,476
Present value of future minimum lease payments	<u>\$ 24,390,121</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  
Notes to Financial Statements  
December 31, 2012 and 2011**

**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 Position**

At December 31, 2012 and 2011, \$979,521 and 979,521, respectively, of unrestricted net position have been designated by the Hospital's Board of Trustees for capital acquisitions. Designated assets remain under the control of the Board of Trustees, which may at its discretion later use these 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.

**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, 2012 and 2011**

***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 8.34%, 7.74% and 7.14% of annual covered payroll for 2012, 2011 and 2010, respectively. The Hospital's contributions to the plan for 2012, 2011 and 2010, were \$558,491, \$479,249 and \$451,107, 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**  
**d/b/a South Central Kansas Medical Center**  
**A Component Unit of the City of Arkansas City, Kansas**  
**Schedules of Net Patient Service Revenues**  
**Years Ended December 31, 2012 and 2011**

	<b>2012</b>		
	<b>Inpatient</b>	<b>Outpatient</b>	<b>Total</b>
<b>Nursing Services</b>			
Nursing, dietary and room services	\$ 1,851,703	\$ -	\$ 1,851,703
Observation	-	277,011	277,011
Intensive care	266,065	-	266,065
Nursery	290,283	-	290,283
Skilled swing-bed	348,841	-	348,841
	<u>2,756,892</u>	<u>277,011</u>	<u>3,033,903</u>
<b>Other Professional Services</b>			
Operating room	825,079	2,992,890	3,817,969
Delivery room	825,263	108,837	934,100
Anesthesiology	108,403	285,858	394,261
Radiology	101,472	792,581	894,053
CT scans	146,040	1,476,505	1,622,545
Magnetic resonance imaging	30,629	1,148,129	1,178,758
Nuclear medicine	6,856	160,680	167,536
Ultrasound	102,410	510,106	612,516
Laboratory	1,058,560	2,464,225	3,522,785
Intravenous therapy	885,362	542,694	1,428,056
Respiratory therapy	565,656	151,408	717,064
Physical therapy	181,012	583,200	764,212
Occupational therapy	36,871	23,084	59,955
Speech therapy	6,573	18,177	24,750
Electrocardiology	27,588	128,294	155,882
Cardiac rehab	-	-	-
Central supply	1,330,295	1,737,500	3,067,795
Pharmacy	1,280,280	1,365,052	2,645,332
Outpatient surgery	-	12,461	12,461
Sleep study revenue	-	109,641	109,641
Emergency room	399,328	2,910,526	3,309,854
Home health	-	-	-
Physician clinics	-	2,406,987	2,406,987
	<u>7,917,677</u>	<u>19,928,835</u>	<u>27,846,512</u>
	<u>\$ 10,674,569</u>	<u>\$ 20,205,846</u>	<u>30,880,415</u>
<b>Provision for Uncollectible Accounts</b>			783,807
<b>Contractual and Other Adjustments</b>			<u>15,321,814</u>
<b>Net Patient Service Revenue</b>			<u>\$ 14,774,794</u>

2011		
Inpatient	Outpatient	Total
\$ 2,063,761	\$ -	\$ 2,063,761
-	246,388	246,388
290,066	-	290,066
154,301	-	154,301
377,625	-	377,625
<u>2,885,753</u>	<u>246,388</u>	<u>3,132,141</u>
897,846	2,634,858	3,532,704
541,612	78,708	620,320
219,098	492,934	712,032
112,845	797,093	909,938
179,195	1,854,947	2,034,142
51,923	1,046,019	1,097,942
11,114	168,083	179,197
142,536	499,372	641,908
1,071,407	2,446,932	3,518,339
870,167	484,786	1,354,953
557,047	120,593	677,640
168,107	563,081	731,188
54,344	12,477	66,821
10,052	10,449	20,501
38,476	112,312	150,788
-	840	840
1,424,999	1,459,179	2,884,178
1,279,321	1,263,191	2,542,512
-	3,047	3,047
-	61,395	61,395
497,201	3,492,582	3,989,783
-	327,247	327,247
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
		803,895
		<u>14,066,979</u>
		<u>\$ 15,087,290</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  
Schedules of Contractual Allowances and Other Revenue  
Years Ended December 31, 2012 and 2011**

**Contractual Allowances**

	<b>2012</b>	<b>2011</b>
Medicare	\$ 7,010,495	\$ 6,377,871
Medicaid	3,264,104	2,853,025
Medicaid – Disproportionate share adjustment	(59,755)	(52,230)
Blue Cross	2,100,165	1,672,040
Commercial	2,112,180	2,176,092
Charity care	453,627	573,477
Other	440,998	466,704
	<u>\$ 15,321,814</u>	<u>\$ 14,066,979</u>

**Other Revenue**

	<b>2012</b>	<b>2011</b>
Cafeteria sales	\$ 56,641	\$ 79,498
Employee pharmacy sales	4,792	4,567
Rental income	18,460	17,000
Gain on sale/disposal of assets	100	121,150
Miscellaneous	23,429	17,529
	<u>\$ 103,422</u>	<u>\$ 239,744</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  
Schedules of Operating Expenses  
Years Ended December 31, 2012 and 2011**

	<b>2012</b>			<b>2011</b>		
	<b>Salaries</b>	<b>Other</b>	<b>Total</b>	<b>Salaries</b>	<b>Other</b>	<b>Total</b>
<b>Nursing Services</b>						
Nursing service	\$ 997,726	\$ 89,552	\$ 1,087,278	\$1,045,382	\$ 117,354	\$ 1,162,736
Intensive care	220,053	5,436	225,489	234,417	7,133	241,550
	<u>1,217,779</u>	<u>94,988</u>	<u>1,312,767</u>	<u>1,279,799</u>	<u>124,487</u>	<u>1,404,286</u>
<b>Other Professional Services</b>						
Operating room	350,551	108,637	459,188	371,702	127,805	499,507
Delivery room	324,607	47,400	372,007	265,256	32,952	298,208
Anesthesiology	380,194	225,071	605,265	370,397	232,922	603,319
Radiology	606,758	232,490	839,248	576,522	143,713	720,235
CT scans	-	148,212	148,212	-	26,284	26,284
Magnetic resonance imaging	-	15,216	15,216	-	69,290	69,290
Nuclear medicine	-	15,683	15,683	-	21,008	21,008
Ultrasound	-	10,558	10,558	-	10,847	10,847
Laboratory	474,269	504,426	978,695	460,064	469,363	929,427
Intravenous therapy	-	115	115	-	237	237
Respiratory therapy	251,885	48,192	300,077	255,165	40,254	295,419
Physical therapy	285,421	23,649	309,070	292,328	27,096	319,424
Occupational therapy	-	15,169	15,169	-	13,671	13,671
Electrocardiology	-	4,350	4,350	-	3,675	3,675
Cardiac rehab	10,938	317	11,255	16,211	184	16,395
Central supply	19,885	949,479	969,364	21,334	905,764	927,098
Pharmacy	186,354	688,320	874,674	189,701	694,204	883,905
Outpatient surgery	93,383	5,811	99,194	99,394	8,007	107,401
Sleep study lab	-	21,871	21,871	-	14,860	14,860
Emergency room	828,148	663,369	1,491,517	829,247	652,076	1,481,323
Home health	1,184	55	1,239	177,665	26,119	203,784
Physician clinic	412,186	19,052	431,238	366,518	10,104	376,622
	<u>4,225,763</u>	<u>3,747,442</u>	<u>7,973,205</u>	<u>4,291,504</u>	<u>3,530,435</u>	<u>7,821,939</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  
Schedules of Operating Expenses (Continued)  
Years Ended December 31, 2012 and 2011**

	<b>2012</b>			<b>2011</b>		
	<b>Salaries</b>	<b>Other</b>	<b>Total</b>	<b>Salaries</b>	<b>Other</b>	<b>Total</b>
<b>General Services</b>						
Plant operation	\$ 149,734	\$ 394,665	\$ 544,399	\$ 147,748	\$ 385,125	\$ 532,873
Laundry	47,050	10,947	57,997	37,928	10,990	48,918
Housekeeping	124,490	41,160	165,650	131,647	48,149	179,796
Dietary	213,899	219,358	433,257	228,984	231,783	460,767
	<u>535,173</u>	<u>666,130</u>	<u>1,201,303</u>	<u>546,307</u>	<u>676,047</u>	<u>1,222,354</u>
<b>Administration Services</b>						
Administration and general	728,928	647,482	1,376,410	592,869	580,977	1,173,846
Business office	265,798	339,864	605,662	259,499	316,625	576,124
Purchasing	67,161	35,647	102,808	69,976	35,545	105,521
Nursing administration	242,535	13,219	255,754	272,233	10,048	282,281
Medical records	172,179	135,007	307,186	172,006	131,607	303,613
Public relations	72,429	201,173	273,602	75,149	267,917	343,066
	<u>1,549,030</u>	<u>1,372,392</u>	<u>2,921,422</u>	<u>1,441,732</u>	<u>1,342,719</u>	<u>2,784,451</u>
<b>Employee Benefits</b>		<u>1,608,248</u>	<u>1,608,248</u>		<u>1,457,697</u>	<u>1,457,697</u>
<b>Depreciation</b>		<u>1,669,750</u>	<u>1,669,750</u>		<u>1,545,060</u>	<u>1,545,060</u>
	<u>\$7,527,745</u>	<u>\$9,158,950</u>	<u>\$16,686,695</u>	<u>\$7,559,342</u>	<u>\$8,676,445</u>	<u>\$16,235,787</u>