

**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, 2019 and 2018

**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, 2019 and 2018**

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Independent Auditor's Report

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, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise South Central Kansas Regional Medical Center d/b/a South Central Kansas Medical Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the provisions of the Kansas Municipal Audit and Accounting 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 Regional Medical Center d/b/a South Central Kansas Medical Center as of December 31, 2019 and 2018, and the changes in its financial position and its cash flows for

the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the pension and other postemployment benefit information 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.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the South Central Kansas Regional Medical Center d/b/a South Central Kansas Medical Center's basic financial statements. The supplementary information listed in the table of contents is 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

**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, 2019 and 2018**

Assets and Deferred Outflows of Resources

	<u>2019</u>	<u>2018</u>
Current Assets		
Cash	\$ 858,689	\$ 142,559
Sales tax funds - held by City	-	1,460,272
Patient accounts receivable, net of allowance; 2019 - \$2,647,362, 2018 - \$1,790,998	3,445,026	3,060,009
Estimated amounts due from third-party payers	5,000	-
Supplies	571,832	705,960
City of Arkansas City - sales tax receivable	-	415,822
Prepaid expenses and other	<u>60,557</u>	<u>54,217</u>
Total current assets	<u>4,941,104</u>	<u>5,838,839</u>
Noncurrent Cash and Assets		
Capital lease interest in unexpended bond proceeds	-	1,946,194
Held under bond indenture for capital acquisitions - cash	<u>-</u>	<u>100,000</u>
Total noncurrent cash and assets	<u>-</u>	<u>2,046,194</u>
Capital Assets, Net	<u>20,708,821</u>	<u>21,381,826</u>
Total assets	<u>25,649,925</u>	<u>29,266,859</u>
Deferred Outflows of Resources		
Pension	647,399	816,984
Other postemployment benefits	<u>11,262</u>	<u>-</u>
Total deferred outflows of resources	<u>658,661</u>	<u>816,984</u>
Total assets and deferred outflows of resources	<u>\$ 26,308,586</u>	<u>\$ 30,083,843</u>

Liabilities, Deferred Inflows of Resources and Net Position

	<u>2019</u>	<u>2018</u>
Current Liabilities		
Current maturities of long-term debt	\$ 97,433	\$ 1,165,765
Accounts payable	1,680,710	1,652,599
Accrued expenses	722,534	987,962
Estimated amounts due to third-party payers	-	60,000
Unearned grant revenue	21,724	21,724
	<u>2,522,401</u>	<u>3,888,050</u>
Long-term Debt	129,830	23,128,617
Net Pension Liability	<u>4,064,495</u>	<u>4,606,964</u>
Total Other Postemployment Benefits Liability	<u>622,898</u>	<u>634,752</u>
	<u>7,339,624</u>	<u>32,258,383</u>
Deferred Inflows of Resources		
Pension	1,143,484	1,099,826
Other postemployment benefits	53,501	45,821
	<u>1,196,985</u>	<u>1,145,647</u>
Net Position (Deficit)		
Net investment in capital assets	22,327,717	2,274,449
Restricted - expendable for		
Capital acquisitions	-	100,000
Unrestricted (deficit)	<u>(4,555,740)</u>	<u>(5,694,636)</u>
	<u>17,771,977</u>	<u>(3,320,187)</u>
	<u>17,771,977</u>	<u>(3,320,187)</u>
Total liabilities, deferred inflows of resources and net position (deficit)	<u>\$ 26,308,586</u>	<u>\$ 30,083,843</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 Position
Years Ended December 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2019 - \$3,288,430, 2018 - \$1,468,608	\$ 19,369,783	\$ 19,294,999
340B drug savings program	1,215,950	530,018
Other	241,765	101,244
	<u>20,827,498</u>	<u>19,926,261</u>
Operating Expenses		
Salaries and wages	7,449,726	7,625,304
Employee benefits	1,348,836	1,173,784
Purchased services and professional fees	7,430,036	6,853,543
Supplies and other	3,489,437	3,694,146
Depreciation	973,179	1,144,307
	<u>20,691,214</u>	<u>20,491,084</u>
	<u>136,284</u>	<u>(564,823)</u>
Operating Income (Loss)		
Nonoperating Revenues (Expenses)		
Interest income	50,800	45,420
Interest expense	(717,764)	(1,373,986)
Gain on disposal of capital assets	-	800
Noncapital appropriations - City of Arkansas City - sales taxes	827,744	2,376,325
Noncapital grants and gifts	15,060	3,500
	<u>175,840</u>	<u>1,052,059</u>
	<u>312,124</u>	<u>487,236</u>
Income Before Debt Forgiveness		
Debt Forgiveness	<u>20,780,040</u>	<u>-</u>
Increase in Net Position	21,092,164	487,236
Net Deficit, Beginning of Year,	<u>(3,320,187)</u>	<u>(3,807,423)</u>
Net Position (Deficit), End of Year	<u>\$ 17,771,977</u>	<u>\$ (3,320,187)</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, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
Cash Flows From Operating Activities		
Receipts from and on behalf of patients	\$ 18,919,766	\$ 19,432,967
Payments to suppliers and contractors	(10,763,574)	(11,481,153)
Payments to employees and on behalf of employees	(9,408,652)	(9,235,424)
Other receipts, net	1,457,715	631,262
	<u>205,255</u>	<u>(652,348)</u>
Cash Flows From Noncapital Financing Activities		
Noncapital appropriations - City of Arkansas City - sales taxes	698,322	2,376,325
Noncapital grants and gifts	15,060	24,939
	<u>713,382</u>	<u>2,401,264</u>
Cash Flows From Capital and Related Financing Activities		
Proceeds from the disposal of capital assets	-	800
Release of funds held under capital lease due to forgiveness	(1,560,272)	-
Principal paid on long-term debt	(202,096)	(693,519)
Interest paid on long-term debt	(6,900)	(1,397,023)
Purchase of capital assets	(44,311)	(168,273)
	<u>(1,813,579)</u>	<u>(2,258,015)</u>
Cash Flows From Investing Activities		
Interest income	50,800	45,420
	<u>50,800</u>	<u>45,420</u>
Decrease in Cash	(844,142)	(463,679)
Cash, Beginning of Year	<u>1,702,831</u>	<u>2,166,510</u>
Cash, End of Year	<u><u>\$ 858,689</u></u>	<u><u>\$ 1,702,831</u></u>

**South Central Kansas Regional Medical Center
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A Component Unit of the City of Arkansas City, Kansas
Statements of Cash Flows (Continued)
Years Ended December 31, 2019 and 2018**

	2019	2018
Reconciliation of Cash to the Balance Sheets		
Current Assets		
Cash	\$ 858,689	\$ 142,559
Sales tax funds - held by City	-	1,460,272
Noncurrent Cash and Assets		
Held under bond indenture for capital acquisitions - cash	-	100,000
Total cash	\$ 858,689	\$ 1,702,831
Reconciliation of Operating Loss to Net		
Cash Provided by (Used in) Operating Activities		
Operating income (loss)	\$ 136,284	\$ (564,823)
Depreciation	973,179	1,144,307
Changes in operating assets and liabilities		
Patient accounts receivable, net	(385,017)	42,968
Estimated amounts due to/from third-party payers	(65,000)	95,000
Supplies and prepaid expenses	127,788	32,465
Accounts payable and accrued expenses	(237,317)	(1,028,045)
Net pension liability	(542,469)	(371,378)
Total other postemployment benefits liability	(11,854)	(34,250)
Deferred outflows of resources - pension and OPEB	158,323	242,180
Deferred inflows of resources - pension and OPEB	51,338	(210,772)
Net cash provided by (used in) operating activities	\$ 205,255	\$ (652,348)
Noncash Investing, Capital and Financing Activities		
Capital lease obligation incurred for property and equipment	\$ 255,863	\$ -
Debt forgiveness	\$ 20,780,040	\$ -

**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, 2019 and 2018**

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 (including geriatric psychiatric), outpatient and emergency care services to patients in south central Kansas. The Hospital also operates two rural health clinics in the same geographic area.

As required by accounting principles generally accepted in the United States of America, these financial statements include the Hospital and its component unit, SCKC, LLC. Although SCKC, LLC is legally separate from the Hospital, SCKC, LLC is reported as if it were part of the Hospital because the Hospital's Board of Trustees also serves as its governing body. SCKC, LLC is considered a component unit of the Hospital and is included in the financial statements of the Hospital using the blended method. All significant intercompany accounts and transactions have been eliminated. Separate financial statements for SCKC, LLC are not available.

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, liabilities and deferred inflows and outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated or voluntary nonexchange transactions (principally federal and state grants and county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated or voluntary nonexchange transactions. Government-mandated or voluntary nonexchange transactions that are not program specific (such as county appropriations), sales taxes, 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.

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, deferred outflows of resources, liabilities, deferred inflows of resources 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.

**South Central Kansas Regional Medical Center
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Notes to Financial Statements
December 31, 2019 and 2018**

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2019 and 2018, there were no cash equivalents.

Noncapital Appropriations – City of Arkansas City – Sales Tax Revenues

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. In 2016, the community of Arkansas City passed a one-percent sales tax to support the payment of debt service previously incurred to construct and equip the Hospital. The sales tax will be in effect from October 1, 2016 through September 30, 2026. The Hospital received approximately 3.8% and 8.4% in 2019 and 2018, respectively, of its financial support from the sales tax. The City refinanced the 2009 bond in 2019 and as part of the refinance forgave the Hospital their responsibility on the debt. As the sales tax is required to be used to pay off the debt on the Hospital building the Hospital released its interest on the sales tax funds.

Sales tax revenue is recognized based on sales tax collected by the City'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

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

**South Central Kansas Regional Medical Center
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Notes to Financial Statements
December 31, 2019 and 2018**

Supplies

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

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or acquisition 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

Capital Asset Impairment

The Hospital evaluates capital assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital asset has occurred. If a capital asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, accumulated depreciation is increased by the amount of the impairment loss.

No asset impairment was recognized during the years ended December 31, 2019 and 2018.

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.

**South Central Kansas Regional Medical Center
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Notes to Financial Statements
December 31, 2019 and 2018**

Cost-Sharing Defined Benefit Pension Plan

The Hospital participates in a cost-sharing multiple-employer defined benefit pension plan, the Kansas Public Employees Retirement Savings Plan (KPERS). For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of KPERS and additions to/deductions from KPERS' fiduciary net position have been determined on the same basis as they are reported by KPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Defined Benefit Other Postemployment Benefit Plan

The Hospital has a single-employer defined benefit other postemployment benefit (OPEB) plan, Long-Term Disability (LTD) Plan (the OPEB Plan). For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, have been determined on the same basis as they are reported by the OPEB Plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms.

Deferred Outflows of Resources

The Hospital reports increases in net position that relate to future periods as deferred outflows of resources in a separate section of its balance sheets.

Deferred Inflows of Resources

The Hospital reports an acquisition of net position that is applicable to a future reporting period as deferred inflows of resources in a separate section of its balance sheets.

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 is remaining net position that does not meet the definition of net investment in capital assets or restricted expendable.

**South Central Kansas Regional Medical Center
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Notes to Financial Statements
December 31, 2019 and 2018**

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.

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.

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.

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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 \$886,000 in 2019 and \$882,000 in 2018.

Approximately 58% and 71% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2019 and 2018, 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.

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, 2019 and 2018, respectively, \$403,156 and \$180,374 of the Hospital’s bank balances of \$909,470 and \$430,374 were exposed to custodial credit risk as follows:

	2019	2018
Uninsured and uncollateralized	\$ 126,366	\$ -
Uninsured and collateral held by pledging financial institution’s trust department or agent in other than the Hospital’s name	276,790	180,374
	\$ 403,156	\$ 180,374

**South Central Kansas Regional Medical Center
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Notes to Financial Statements
December 31, 2019 and 2018**

Summary of Carrying Values

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

	2019	2018
Carrying value		
Deposits	\$ 857,730	\$ 241,709
Petty cash	959	850
	<u>\$ 858,689</u>	<u>\$ 242,559</u>
Included in the following balance sheet captions		
Cash	\$ 858,689	\$ 142,559
Held under bond indenture for capital acquisitions - cash	-	100,000
	<u>\$ 858,689</u>	<u>\$ 242,559</u>

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, 2019 and 2018, consisted of:

	2019	2018
Medicare	\$ 1,026,292	\$ 856,229
Medicaid	341,062	329,012
Other third-party payers	1,001,738	863,260
Patients	<u>3,723,296</u>	<u>2,802,506</u>
	6,092,388	4,851,007
Less allowance for uncollectible accounts	<u>2,647,362</u>	<u>1,790,998</u>
	<u>\$ 3,445,026</u>	<u>\$ 3,060,009</u>

**South Central Kansas Regional Medical Center
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Notes to Financial Statements
December 31, 2019 and 2018**

Note 6: Long-term Debt

The following is a summary of long-term debt transactions for the Hospital for the years ended December 31, 2019 and 2018:

		2019					
		Beginning Balance	Additions	Payments	Forgiven	Ending Balance	Current Portion
Long-term debt							
Capital lease obligations		\$ 22,981,377	\$ 255,863	\$ 202,096	\$22,807,881	\$ 227,263	\$ 97,433
Notes payable to City		1,313,005	-	-	1,313,005	-	-
		<u>\$ 24,294,382</u>	<u>\$ 255,863</u>	<u>\$ 202,096</u>	<u>\$24,120,886</u>	<u>\$ 227,263</u>	<u>\$ 97,433</u>
		2018					
		Beginning Balance	Additions	Payments	Forgiven	Ending Balance	Current Portion
Long-term debt							
Capital lease obligations		\$ 23,674,896	\$ -	\$ 693,519	\$ -	\$22,981,377	\$ 865,765
Note payable to City		1,313,005	-	-	-	1,313,005	300,000
		<u>\$ 24,987,901</u>	<u>\$ -</u>	<u>\$ 693,519</u>	<u>\$ -</u>	<u>\$24,294,382</u>	<u>\$ 1,165,765</u>

Notes Payable to City

The Hospital has entered into several notes payable agreements with the City, with principal of \$25,000 payable monthly. The notes are interest free loans as the Hospital is a component unit of the City and City management did not feel it was necessary to charge interest to itself.

In July 2019 the City refinanced the 2009 bonds, as part of this refinancing the sublease agreement between the Hospital and the City was amended and all notes payable to the City were forgiven.

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

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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.

The Hospital entered into an agreement with the City in 2010 (at which time costs and repayment terms were unknown) to repay costs related to the extension of city utilities, *i.e.*, sewer, water and street. The Hospital and City entered into repayment terms in December 2013 whereas the Hospital would make monthly payments to the City beginning December 15, 2013, in the amount of \$17,696 for 12 consecutive months. The monthly payment increases to \$17,934 for December 15, 2014, and remains at that level for the next 108 months. The monthly payment drops to \$10,304 beginning December 15, 2023 and continues at that level for the next 120 months or until final payoff of the extension costs. The City is charging the Hospital 2.152% interest on the payment of the extension costs in order to cover the City's costs related to the bonds that were issued to fund the expansion work.

The Hospital is also obligated under other capital leases for building improvements and equipment. All assets under capital leases at December 31, 2019 and 2018, totaled \$0 and \$20,516,047, respectively, net of accumulated depreciation of \$0 and \$5,965,370, respectively.

In July 2019 the City refinanced the 2009 bonds, as part of this refinancing the sublease agreement between the Hospital and the City was amended and all of capital lease agreements with the City were forgiven. The remaining capital lease obligations as of December 31, 2019, are as follows:

Year Ending December 31,	
2020	\$ 105,327
2021	105,327
2022	22,636
2023	9,135
2024	<u>1,523</u>
Total minimum lease payments	243,948
Less amount representing interest	<u>16,685</u>
Present value of future minimum lease payments	<u><u>\$ 227,263</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: Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses included in current liabilities at December 31 consisted of:

	2019	2018
Payable to suppliers and contractors	\$ 1,680,710	\$ 1,652,599
Payable to employees (including payroll taxes and benefits)	722,534	987,962
	\$ 2,403,244	\$ 2,640,561

Note 9: Pension Plan

Plan Description

The Kansas Public Employees Retirement System Plan is an umbrella organization administering the following three statewide retirement systems under one plan as provided by K.S.A. 74, Article 49: Kansas Public Employees Retirement System (KPERS), Kansas Police and Fire Retirement System and Kansas Retirement System for Judges.

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The KPERS plan is a cost-sharing multiple-employer defined benefit plan. KPERS is intended to be a qualified retirement plan under Section 401(a) of the Code. Information relating to KPERS, including stand-alone financial statements, is available by writing to KPERS, 611 South Kansas Avenue, Suite 100, Topeka, Kansas 66603-3869 or accessing the internet at www.KPERS.org.

KPERS makes separate calculations for pension-related amounts for the following four groups participating in the plan:

- State/School
- Local
- Police and Firemen
- Judges

The Hospital's employees participate in the Local group.

Benefits Provided

Retirement benefits for employees are calculated based on the credited service, final average salary and a statutory multiplier. KPERS has two levels of benefits depending on retirement age and years of credited service. Tier 1 benefits are for members who are age 65 or age 62 with ten years of credited service or of any age when combined age and years of credited service equal 85 "points." Tier 2 benefits are for members who are age 65 with five years of credited service or age 60 with 30 years of credited service. Tier 1 members receive a participating service credit of 1.75% of the final average salary for years of service prior to January 1, 2014. Participating service credit is 1.85% of final average salary for years of service after December 31, 2013. Tier 2 members retiring on or after January 1, 2012, participating service credit is 1.85% for all years of service.

Early retirement is permitted at the age of 55 and ten years of credited service. Benefits are reduced by 0.2% per month for each month between the ages of 60-62, plus 0.6% for each month between the ages of 55 and 60 for Tier 1 members. For Tier 2 members, benefits are reduced actuarially for each early commencement. The reduction factor is 35% at the age of 60 and 57.5% at age 55. If the member has 30 years of credited service, the early retirement reduction is less (50% of regular reduction). The plan also provides disability and death benefits to plan members and their beneficiaries.

The terms of the plan provide for annual 2% cost-of-living adjustment for Tier 2 members who retired prior to July 1, 2012, beginning the later of age of 65 or the second July 1 after retirement date. Other participants do not receive a cost-of-living adjustment.

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Contributions

The law governing KPERS requires an actuary to make an annual valuation of the liabilities and reserves and a determination of the contributions required to discharge the KPERS liabilities. The actuary then recommends to the KPERS Board of Trustees the statewide employer-contribution rates required to maintain the three systems on the actuarial reserve basis. Prior to January 1, 2014, Tier 1 participants were required to contribute 4% of their annual pay. Effective January 1, 2014, the rate was raised to 5% with an increase in the benefit multiplier to 1.85% beginning January 1, 2014, for future years of service only. Effective January 1, 2015, the contribution rate was raised to 6%. Tier 2 participants are required to contribute 6% of compensation. The Hospital's contractually required contribution rate for the years ended December 31, 2019 and 2018, was 8.89% and 8.39% of annual payroll, respectively. The employer contribution is actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

The Hospital's contributions to KPERS for the years ended December 31, 2019 and 2018, were \$541,691 and \$533,638, respectively.

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

At December 31, 2019 and 2018, the Hospital reported a liability of \$4,064,495 and \$4,606,964, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019 and 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2018 and 2017, respectively, rolled forward to June 30, 2019 and 2018, respectively. The Hospital's proportion of the net pension liability was based on the ratio of the Hospital's actual contributions to total employer and nonemployer actual contributions of the group for the respective measurement periods. At June 30, 2019, the Hospital's proportion was 0.290867%, which was a decrease of 0.039668% from its proportion measured as of June 30, 2018, of 0.330535%. At June 30, 2017, the proportion was 0.379130%.

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For the years ended December 31, 2019 and 2018, the Hospital recognized pension expense of \$155,448 and \$119,091, respectively. At December 31, 2019 and 2018, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 8,897	\$ 102,361
Net difference between projected and actual earnings on pension plan investments	95,625	-
Changes of assumptions	124,226	8,238
Changes in proportion	146,121	1,032,885
Hospital's contributions subsequent to the measurement date	272,530	-
Total	\$ 647,399	\$ 1,143,484
	2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 16,633	\$ 130,541
Net difference between projected and actual earnings on pension plan investments	107,771	-
Changes of assumptions	199,501	22,185
Changes in proportion	240,393	947,100
Hospital's contributions subsequent to the measurement date	252,686	-
Total	\$ 816,984	\$ 1,099,826

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At December 31, 2019, the Hospital reported \$272,530 as deferred outflows of resources related to pension contributions made subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending December 31, 2020. Other amounts reported as deferred inflows of resources at December 31, 2019, related to pensions will be recognized in pension expense as follows:

2020	\$ (172,714)
2021	(306,593)
2022	(191,608)
2023	(86,406)
2024	<u>(11,294)</u>
	<u>\$ (768,615)</u>

Actuarial Assumptions

The total pension liability in the December 31, 2019 and 2018, actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>2019</u>	<u>2018</u>
Price inflation	2.75%	2.75%
Wage inflation	3.50%	3.50%
Salary increases, including inflation	3.5% to 12%	3.5% to 12%
Investment rate of return, net of pension plan investment expense, including inflation	7.75%	7.75%

The mortality rates used in the December 31, 2018 and 2017, valuation were based on the RP-2014 Mortality Tables, with age setbacks and age set forwards as well as other adjustments based on different membership groups.

The actuarial assumptions used in the December 31, 2018 and 2017, valuation were based on the results of an actuarial experience study for the three-year period ended December 31, 2015.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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Asset Class	2019		2018	
	Target Allocation	Long-term Expected Real Rate of Return	Target Allocation	Long-term Expected Real Rate of Return
Global equity	47%	6.85%	47%	6.80%
Fixed income	13%	1.25%	13%	1.25%
Yield driven	8%	6.55%	8%	6.55%
Real return	11%	1.71%	11%	1.71%
Real estate	11%	5.05%	11%	5.05%
Alternatives	8%	9.85%	8%	9.85%
Short-term investments	2%	-0.25%	2%	-0.25%
	<u>100%</u>		<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.75%, for the years ended June 30, 2019 and 2018. The projection of cash flows used to determine the discount rate assumed that member contributions will be made at the contractually required rate. Participating employer contributions do not necessarily contribute the full actuarial determined rate. Based on legislation passed in 1993, the employer contribution rates certified by KPERS' Board of Trustees for these groups may not increase by more than the statutory cap. The expected KPERS employer statutory contribution was modeled for future years, assuming all actuarial assumptions are met in future years. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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Sensitivity of the Hospital's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The Hospital's proportionate share of the net pension liability has been calculated using a discount rate of 7.75%. The following presents the Hospital's proportionate share of the net pension liability calculated using a discount rate 1% higher and 1% lower than the current rate as of December 31, 2019:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Hospital's proportionate share of the net pension liability	\$ 6,070,408	\$ 4,064,495	\$ 2,386,585

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued KPERS' financial report.

Note 10: Other Postemployment Benefit Plan

Plan Description

The Hospital contributes to the KPERS Long-Term Disability plan (the OPEB Plan), a single-employer defined benefit other postemployment benefit (OPEB) plan covering substantially all employees. The OPEB Plan is administered by a board of trustees appointed by KPERS. The OPEB Plan's assets are not accumulated in a qualified trust because contributions from the employer to the OPEB plan and earnings on those contributions are not irrevocable. Benefit provisions are contained in the plan document and were established and can be amended by action of the KPERS's governing body. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

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Benefits Provided

The OPEB Plan provides LTD and life insurance benefits to eligible disabled members. Benefits provided are self-funded, and the full cost of the benefits is covered by the OPEB Plan. The monthly benefit is 60% of the member's monthly rate of compensation, with a minimum of \$100 and a maximum of \$5,000. The monthly benefit is subject to reduction by deductible sources of income, which include Social Security primary disability or retirement benefits, worker's compensation benefits, other disability benefits from any other source by reason of employment, and earnings from any form of employment. If the disability begins before age 60, benefits are payable while disability continues until the member's 65th birthday or retirement date, whichever first occurs. If the disability occurs at or after age 60, benefits are payable while disability continues, for a period of five years or until the date of the member's retirement, whichever first occurs. Upon the death of a member who is receiving monthly disability benefits, the plan will pay a lump sum benefit to eligible beneficiaries. The benefit amount will be 150% of the greater of (a) the member's annual rate of compensation at the time of disability, or (b) the member's previous 12 months of compensation at the time of the last date on payroll. If the member had been disabled for five or more years, the annual compensation or salary rate at the time of death will be indexed before the life insurance benefit is computed. The indexing is based on the consumer price index, less one percentage point. If a member is diagnosed as terminally ill with a life expectancy of 12 months or less, he or she may be eligible to receive up to 100% of the death benefit rather than having the benefit paid to the beneficiary.

The employees covered by the benefit terms at June 30 (the measurement date), are:

	2019	2018
Active employees	138	153
Disabled employees	5	5
	143	158

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Total OPEB Liability

The Hospital's total OPEB liability as of December 31, 2019 and 2018, of \$622,898 and \$634,752 was measured as of June 30, 2019 and 2018, respectively, and was determined by actuarial valuations as of December 31, 2018 and 2017, respectively, and rolled forward to June 30, 2019 and 2018, respectively.

The total OPEB liability in the December 31, 2019 and 2018, actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	2019	2018
Inflation	2.75%	2.75%
Discount rate	3.50%	3.87%
Salary increases, including inflation	3.50% to 10%	3.50% to 10%

The discount rate was based on the Bond Buyer General Obligation 20-Bond Municipal Index. The discount rate changed from 3.58% in 2017 to 3.87% in 2018.

Mortality rates were based on the RP-2014 Mortality Tables, with age setbacks and age set forwards as well as other adjustments based on different membership groups, as appropriate with adjustments for mortality improvements based on MP-2019 Mortality Tables for the December 31, 2018, actuarial valuation.

Mortality rates were based on the RP-2014 Mortality Tables, with age setbacks and age set forwards as well as other adjustments based on different membership groups, as appropriate with adjustments for mortality improvements based on MP-2018 Mortality Tables for the December 31, 2017, actuarial valuation.

The actuarial assumptions used in the December 31, 2018 and 2017, valuations were based on the results of an actuarial experience study during 2013 - 2015.

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Changes in the Total OPEB Liability

Changes in the total OPEB liability are:

	2019	2018
Balance, beginning of year	\$ 634,752	\$ 669,002
Changes for the year:		
Service cost	22,939	22,657
Interest	24,363	23,752
Differences between expected and actual experience	(14,849)	(13,070)
Changes of assumptions	12,552	(10,730)
Benefit payments	(56,859)	(56,859)
Net changes	<u>(11,854)</u>	<u>(34,250)</u>
Balance, end of year	<u>\$ 622,898</u>	<u>\$ 634,752</u>

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The total OPEB liability of the Hospital, at December 31, 2019, has been calculated using a discount rate of 3.50%. The following presents the total OPEB liability using a discount rate 1% higher and 1% lower than the 2019 discount rate.

	1% Decrease (2.50%)	Current Discount Rate (3.50%)	1% Increase (4.50%)
Hospital's total OPEB liability	\$ 658,556	\$ 622,898	\$ 589,734

The total OPEB liability of the Hospital, at December 31, 2018, has been calculated using a discount rate of 3.87%. The following presents the total OPEB liability using a discount rate 1% higher and 1% lower than the 2018 discount rate.

	1% Decrease (2.87%)	Current Discount Rate (3.87%)	1% Increase (4.87%)
Hospital's total OPEB liability	\$ 672,810	\$ 634,752	\$ 599,677

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The total OPEB liability of the Hospital is not impacted by health care cost trend rates given the nature of the benefits provided by the OPEB plan, as such no sensitivity tables were prepared for the health care trend rates.

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the years ended December 31, 2019 and 2018, the Hospital recognized OPEB expense of \$41,423 and \$40,766, respectively. At December 31, 2019 and 2018, the Hospital reported deferred outflows or resources and deferred inflows of resources related to OPEB from the following sources:

	2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ (23,695)
Changes of assumptions	11,262	(29,806)
Total	\$ 11,262	\$ (53,501)
	2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ (11,721)
Changes of assumptions	-	(34,100)
Total	\$ -	\$ (45,821)

Amounts reported as deferred outflows of resources and deferred inflows of resources at December 31, 2019, related to OPEB will be recognized in OPEB expense as follows:

2020	\$ (5,879)
2021	(5,879)
2022	(5,879)
2023	(5,879)
2024	(5,879)
Thereafter	(12,844)
	\$ (42,239)

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Note 11: Condensed Combining Information

The following tables include condensed combining balance sheet information for the Hospital and its blended component unit as of December 31, 2019 and 2018:

	December 31, 2019			
	Hospital	SCKC, LLC	Eliminations	Total
Assets and Deferred Outflows of Resources				
Current assets	\$ 5,411,034	\$ 193,811	\$ (663,741)	\$ 4,941,104
Capital assets, net	20,703,977	4,844	-	20,708,821
Deferred outflows of resources	658,661	-	-	658,661
 Total assets and deferred outflows of resources	 <u>\$26,773,672</u>	 <u>\$ 198,655</u>	 <u>\$ (663,741)</u>	 <u>\$26,308,586</u>
Liabilities and Deferred Inflows of Resources				
Current liabilities	\$ 3,152,804	\$ 33,338	\$ (663,741)	\$ 2,522,401
Long-term debt	129,830	-	-	129,830
Total other post-employment benefits liability	622,898	-	-	622,898
Net pension liability	4,064,495	-	-	4,064,495
Deferred inflows of resources	1,196,985	-	-	1,196,985
 Total liabilities and deferred inflows of resources	 <u>9,167,012</u>	 <u>33,338</u>	 <u>(663,741)</u>	 <u>8,536,609</u>
Net Position (Deficit)				
Net investment in capital assets	22,327,717	-	-	22,327,717
Unrestricted	(4,721,057)	165,317	-	(4,555,740)
 Total net deficit	 <u>17,606,660</u>	 <u>165,317</u>	 <u>-</u>	 <u>17,771,977</u>
 Total liabilities, deferred inflows of resources and net deficit	 <u>\$26,773,672</u>	 <u>\$ 198,655</u>	 <u>\$ (663,741)</u>	 <u>\$26,308,586</u>

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	December 31, 2018			
	Hospital	SCKC, LLC	Eliminations	Total
Assets and Deferred Outflows of Resources				
Current assets	\$ 6,231,464	\$ 166,116	\$ (558,741)	\$ 5,838,839
Noncurrent assets	2,046,194	-	-	2,046,194
Capital assets, net	21,369,039	12,787	-	21,381,826
Deferred outflows of resources	816,984	-	-	816,984
Total assets and deferred outflows of resources	<u>\$30,463,681</u>	<u>\$ 178,903</u>	<u>\$ (558,741)</u>	<u>\$30,083,843</u>
Liabilities and Deferred Inflows of Resources				
Current liabilities	\$ 3,839,391	\$ 607,400	\$ (558,741)	\$ 3,888,050
Long-term debt	23,128,617	-	-	23,128,617
Total other post-employment benefits liability	634,752	-	-	634,752
Net pension liability	4,606,964	-	-	4,606,964
Deferred inflows of resources	1,145,647	-	-	1,145,647
Total liabilities and deferred inflows of resources	<u>33,355,371</u>	<u>607,400</u>	<u>(558,741)</u>	<u>33,404,030</u>
Net Position (Deficit)				
Net investment in capital assets	2,274,449	-	-	2,274,449
Restricted	100,000	-	-	100,000
Unrestricted	<u>(5,266,139)</u>	<u>(428,497)</u>	<u>-</u>	<u>(5,694,636)</u>
Total net deficit	<u>(2,891,690)</u>	<u>(428,497)</u>	<u>-</u>	<u>(3,320,187)</u>
Total liabilities, deferred inflows of resources and net deficit	<u>\$30,463,681</u>	<u>\$ 178,903</u>	<u>\$ (558,741)</u>	<u>\$30,083,843</u>

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The following tables include condensed combining statements of revenues, expenses and changes in net position information for the Hospital and its blended component unit as of December 31, 2019 and 2018:

	December 31, 2019			Total
	Hospital	SCKC, LLC	Eliminations	
Operating Revenues				
Total operating revenues	\$ 19,634,356	\$ 1,193,142	\$ -	\$ 20,827,498
Operating Expenses				
Total operating expenses	19,516,432	1,174,782	-	20,691,214
Operating Income	<u>117,924</u>	<u>18,360</u>	<u>-</u>	<u>136,284</u>
Nonoperating Revenues (Expenses)				
Interest income	50,800	-	-	50,800
Interest expense	(717,764)	-	-	(717,764)
Noncapital appropriations - sales taxes	827,744	-	-	827,744
Noncapital grants and gifts	15,060	-	-	15,060
Total nonoperating revenues	<u>175,840</u>	<u>-</u>	<u>-</u>	<u>175,840</u>
Debt Forgiveness	20,780,040	-	-	20,780,040
Change in Net Position	21,073,804	18,360	-	21,092,164
Net Deficit, Beginning of Year	<u>(2,891,690)</u>	<u>(428,497)</u>	<u>-</u>	<u>(3,320,187)</u>
Net Position (Deficit), End of Year	<u>\$ 18,182,114</u>	<u>\$ (410,137)</u>	<u>\$ -</u>	<u>\$ 17,771,977</u>

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	December 31, 2018			
	Hospital	SCKC, LLC	Eliminations	Total
Operating Revenues				
Total operating revenues	\$18,418,464	\$ 1,507,797	\$ -	\$19,926,261
Operating Expenses				
Total operating expenses	<u>19,054,722</u>	<u>1,436,362</u>	<u>-</u>	<u>20,491,084</u>
Operating Income (Loss)	<u>(636,258)</u>	<u>71,435</u>	<u>-</u>	<u>(564,823)</u>
Nonoperating Revenues (Expenses)				
Interest income	45,420	-	-	45,420
Interest expense	(1,373,986)	-	-	(1,373,986)
Gain on disposal of capital assets	800	-	-	800
Noncapital appropriations - sales taxes	2,376,325	-	-	2,376,325
Noncapital grants and gifts	<u>3,500</u>	<u>-</u>	<u>-</u>	<u>3,500</u>
Total nonoperating expenses	<u>1,052,059</u>	<u>-</u>	<u>-</u>	<u>1,052,059</u>
Change in Net Position	415,801	71,435	-	487,236
Net Deficit, Beginning of Year	<u>(3,150,301)</u>	<u>(657,122)</u>	<u>-</u>	<u>(3,807,423)</u>
Net Deficit, End of Year	<u><u>\$ (2,734,500)</u></u>	<u><u>\$ (585,687)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (3,320,187)</u></u>

**South Central Kansas Regional Medical Center
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A Component Unit of the City of Arkansas City, Kansas
Notes to Financial Statements
December 31, 2019 and 2018**

The following tables include condensed combining statements of cash flows information for the Hospital and its blended component unit as of December 31, 2019 and 2018:

	December 31, 2019			
	Hospital	SCKC, LLC	Eliminations	Total
Net Cash Provided by (Used in):				
Operating Activities	\$ 207,656	\$ (2,401)	\$ -	\$ 205,255
Noncapital Financing Activities	713,382	-	-	713,382
Capital and Related Financing Activities	(1,813,579)	-	-	(1,813,579)
Investing Activities	50,800	-	-	50,800
Decrease in Cash	(841,741)	(2,401)	-	(844,142)
Cash, Beginning of Year	1,678,340	24,491	-	1,702,831
Cash, End of Year	<u>\$ 836,599</u>	<u>\$ 22,090</u>	<u>\$ -</u>	<u>\$ 858,689</u>

	December 31, 2018			
	Hospital	SCKC, LLC	Eliminations	Total
Net Cash Provided by (Used in):				
Operating Activities	\$ (651,760)	\$ (588)	\$ -	\$ (652,348)
Noncapital Financing Activities	2,401,264	-	-	2,401,264
Capital and Related Financing Activities	(2,258,015)	-	-	(2,258,015)
Investing Activities	45,420	-	-	45,420
Decrease in Cash	(463,091)	(588)	-	(463,679)
Cash, Beginning of Year	2,141,431	25,079	-	2,166,510
Cash, End of Year	<u>\$ 1,678,340</u>	<u>\$ 24,491</u>	<u>\$ -</u>	<u>\$ 1,702,831</u>

**South Central Kansas Regional Medical Center
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Note 12: Contingencies

Litigation

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Hospital's self-insurance program (discussed elsewhere in these notes) or by commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

During 2017 the Hospital entered into an agreement with Sun Clinical Laboratory LLC (Sun Lab) to process and bill for lab tests (reference lab). This agreement came under scrutiny by the commercial insurances that were being billed for these tests. A demand letter was received by the Hospital on December 18, 2018, from UnitedHealthcare (UHC) in the amount \$4,880,224. The Hospital has been working with UHC to try and resolve the issue, however due to a federal case ongoing between UHC and Sun Lab and its ownership and affiliates, it is uncertain to whether this demand is valid. United has agreed to halt pursuit of these funds until the federal case with Sun Lab is settled. If the federal court would rule the arrangement and billing of the reference lab tests illegal, then the Hospital will work with UHC to resolve the disputed claims. The Hospital believes that an amount lessor than the demand from UHC would ultimately be reached.

Note 13: Future Changes in Accounting Principals

Fiduciary Activities

GASB Statement No. 84 (GASB 84), *Fiduciary Activities* establishes criteria for identifying fiduciary activities. It presents separate criteria for evaluating component units, pension and other postemployment benefit arrangements, and other fiduciary activities. The focus is on a government controlling the assets of the fiduciary activity and identification of the beneficiaries of those assets. Fiduciary activities are reported in one of four types of funds: pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds or custodial funds. Custodial funds are used to report fiduciary activities that are not held in a trust. The agency fund designation will no longer be used. GASB 84 also provides guidance on fiduciary fund statements and timing of recognition of a liability to beneficiaries.

GASB 84 is effective for financial statements for fiscal years beginning after December 15, 2019. The Hospital is evaluating the impact the statement will have on the financial statements.

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Leases

Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases* (GASB 87) provides a new framework for accounting for leases under the principle that leases are financings. No longer will leases be classified between capital and operating. Lessees will recognize an intangible asset and a corresponding liability. The liability will be based on the payments expected to be paid over the lease term, which includes an evaluation of the likelihood of exercising renewal or termination options in the lease. Lessors will recognize a lease receivable and related deferred inflow of resources. Lessors will not derecognize the underlying asset. An exception to the general model is provided for short-term leases that cannot last more than 12 months. Contracts that contain lease and nonlease components will need to be separated so each component is accounted for accordingly.

In response to the challenges arising from COVID-19, on May 7, 2020, GASB approved Statement 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. While the proposal included an extra year to implement all guidance, GASB, in a unanimous vote, approved an 18-month postponement for GASB 87. All statements and implementation guides with a current effective date of reporting periods beginning after June 15, 2018, and later will have a one-year postponement. This change is effective immediately. GASB 87 is effective for financial statements for fiscal years beginning after June 15, 2021. Earlier application is permitted. Governments will be allowed to transition using the facts and circumstances in place at the time of adoption, rather than retroactive to the time each lease was begun. The Hospital is evaluating the impact the statement will have on the financial statements.

Note 14: Subsequent Events

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which may negatively affect the financial position, results of operations and cash flows of the Hospital. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

On April 10, 2020, the Hospital received approximately \$517,000 of stimulus funds from the Department of Health and Human Services (HHS). Certain conditions are required to be met to retain these funds. If the conditions are met, the funds will be retained by the Hospital with no repayment obligations. Management has attested to the requirements and believes the Hospital will retain the stimulus payments.

**South Central Kansas Regional Medical Center
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In April 2020, the Hospital received approximately \$3,100,000 of advanced Medicare payments through the Medicare Accelerated and Advanced Payment Program. This is a short-term advance payment that will have to be paid back on terms that are set by the regulations. The Hospital will continue to submit claims as usual after receiving the advanced payment; however, 120 calendar days after the lump-sum accelerated payment is received, the Medicare Administrative Contractor will recoup 100% of any future Medicare remittance payments to satisfy the accelerated payment received by the Hospital. The Hospital's Medicare payments will be reduced until the accelerated payment amount is paid off in full. This could lead to periods where Medicare payments are zero dependent on the amount of advanced payment received by the Hospital and current billings to Medicare. After a defined period of time, as set by the regulations, if the entire advanced amount is not paid in full, the Centers for Medicare and Medicaid Services will expect the Hospital to submit payment of any unpaid balance. Acute care and critical access hospitals have one year from the date the accelerated payment is received to repay any unpaid balance in full. At the end of the repayment period, the Hospital may request extended repayment plans for unpaid amounts, which will accrue interest at the prevailing interest rate (currently 10.25%).

On April 16, 2020, Kansas Governor Laura Kelly announced a special emergency grant funding program for Kansas hospitals. This emergency funding was requested by the Kansas Hospital Association (KHA) on behalf of the hospitals and was distributed to help offset current financial strains caused by the COVID-19 pandemic. To facilitate the timely release of funds, hospitals were not required to complete an application. There are no specific requirements tied to utilization of the funds. The intent is for the grant payments to serve as a bridge to aid hospitals in meeting their basic operational expenditures. The Hospital received \$150,000 on April 27, 2020, related to this special emergency grant.

On April 28, 2020, the Hospital obtained a loan through a local bank that is fully guaranteed by the U.S. Small Business Administration (SBA) through the Paycheck Protection Program (PPP). The amount borrowed is approximately \$1,512,000 at 1.00% interest with a maturity date of April 28, 2022. Under the PPP, if certain conditions are met, up to 100% of the principal amount may be forgiven. On March 8, 2021, the Hospital was notified that the entire balance of the loan had been forgiven by the SBA.

On May 6 and July 15, 2020, the Hospital received approximately \$3,540,000 and \$5,000,000, respectively, of additional stimulus funds from HHS. Certain conditions are required to be met to retain these funds. If the conditions are met, the funds will be retained by the Hospital with no repayment obligations. Management has attested to the requirements and believes the Hospital will retain a portion, if not all, of the stimulus payments.

On May 20, 2020, the Hospital received approximately \$49,500 of additional stimulus funds from HHS. Congress has directed this funding to address the expenses Rural Health Clinics (RHCs) are incurring for COVID-19 testing. Certain conditions are required to be met to retain these funds. If the conditions are met, the funds will be retained by the Hospital with no repayment obligations. Management has attested to the requirements and believes the Hospital will retain a portion, if not all, of the stimulus payments.

Required 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
Schedule of the Hospital's Proportionate Share of the Net Pension Liability
Kansas Public Employees Retirement System Plan
Last Ten Fiscal Years**

	2019 *	2018 *	2017 *	2016 *
Hospital's proportion of the net pension liability	0.290867%	0.330535%	0.379130%	0.414767%
Hospital's proportionate share of the net pension liability	\$ 4,064,495	\$ 4,606,964	\$ 4,978,342	\$ 4,962,164
Hospital's covered-employee payroll	\$ 6,039,432	\$ 6,600,069	\$ 6,364,004	\$ 6,349,540
Hospital's proportionate share of the net pension liability as a percentage of its covered-employee payroll	67.30%	69.80%	78.23%	78.15%
Plan fiduciary net position as a percentage of the total pension liability	69.88%	68.88%	67.12%	65.10%

Note to Schedule: This schedule is intended to show a 10-year trend. Additional years will be reported as they become available.

*The amounts presented for each fiscal year are as of the measurement date (June 30 of each fiscal year).

<u>2015 *</u>	<u>2014 *</u>
0.377913%	0.403961%
\$ 4,972,005	\$ 4,972,005
\$ 6,566,834	\$ 6,629,750
75.71%	75.00%
64.95%	66.60%

**South Central Kansas Regional Medical Center
d/b/a South Central Kansas Medical Center
A Component Unit of the City of Arkansas City, Kansas
Schedule of the Hospital's Pension Contributions
Kansas Public Employees Retirement System Plan
Last Ten Fiscal Years**

	<u>2019 *</u>	<u>2018 *</u>	<u>2017 *</u>	<u>2016 *</u>
Contractually required contribution	\$ 541,691	\$ 533,638	\$ 537,355	\$ 599,668
Contribution in relation to the contractually required contribution	<u>541,691</u>	<u>533,638</u>	<u>537,355</u>	<u>599,668</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Hospital's covered-employee payroll	\$ 6,093,255	\$ 6,360,410	\$ 6,338,654	\$ 6,506,548
Contributions as a percentage of covered-employee payroll	8.89%	8.39%	8.48%	9.22%

Note to Schedule: This schedule is intended to show a 10-year trend. Additional years will be reported as they become available.

*The amounts presented for each fiscal year are as of the most recent fiscal year-end (December 31).

<u>2015 *</u>	<u>2014 *</u>
\$ 575,911	\$ 557,877
<u>575,911</u>	<u>557,877</u>
<u>\$ -</u>	<u>\$ -</u>
\$ 6,265,319	\$ 6,895,637
9.19%	8.09%

**South Central Kansas Regional Medical Center
d/b/a South Central Kansas Medical Center
A Component Unit of the City of Arkansas City, Kansas
Schedule of Changes in the Hospital's Total OPEB Liability and Related Ratios
Last Ten Fiscal Years**

	2019 *	2018 *	2017 *
Total OPEB Liability			
Service cost	\$ 22,939	\$ 22,657	\$ 22,449
Interest	24,363	23,752	20,139
Differences between expected and actual experience	(14,849)	(13,070)	-
Changes in assumptions	12,552	(10,730)	(30,851)
Benefit payments	<u>(56,859)</u>	<u>(56,859)</u>	<u>(53,425)</u>
Net Change in Total OPEB Liability	(11,854)	(34,250)	(41,688)
Hospital's Total OPEB Liability - Beginning	<u>634,752</u>	<u>669,002</u>	<u>710,690</u>
Hospital's Total OPEB Liability - Ending	<u>\$ 622,898</u>	<u>\$ 634,752</u>	<u>\$ 669,002</u>
Hospital's Covered-Employee Payroll	\$ 5,551,406	\$ 6,404,500	\$ 5,732,290
Hospital's Total OPEB Liability as a percentage of covered-employee payroll	11.22%	9.91%	11.67%

Note to Schedule: This schedule is intended to show a 10-year trend. Additional years will be reported as they become available. No assets are accumulated in a trust that meets the criteria of paragraph 4 of GASB Statement No. 75.

Changes in assumptions: Discount rate changed from 2.85% for 2016 to 3.58 % for 2017 to 3.87% for 2018 and to 3.50% for 2019.

*The amounts presented for each fiscal year are as of the measurement date (June 30 of the year reported).

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, 2019 and 2018**

	2019		
	Inpatient	Outpatient	Total
Nursing Services			
Nursing, dietary and room services	\$ 2,212,225	\$ -	\$ 2,212,225
Psychiatric	7,061,723	-	7,061,723
Observation	-	489,324	489,324
Intensive care	54,050	-	54,050
Nursery	110,240	-	110,240
Skilled swing-bed	21,090	-	21,090
	<u>9,459,328</u>	<u>489,324</u>	<u>9,948,652</u>
Other Professional Services			
Operating room	391,687	2,996,104	3,387,791
Delivery room	271,854	74,505	346,359
Anesthesiology	312	28,176	28,488
Radiology	134,840	969,421	1,104,261
CT scans	285,930	2,270,162	2,556,092
Magnetic resonance imaging	55,292	1,393,009	1,448,301
Nuclear medicine	3,269	258,872	262,141
Ultrasound	264,381	1,279,083	1,543,464
Laboratory	1,508,940	4,905,859	6,414,799
Intravenous therapy	442,894	541,360	984,254
Respiratory therapy	1,486,343	314,261	1,800,604
Physical therapy	265,012	952,775	1,217,787
Occupational therapy	-	-	-
Speech therapy	12,891	34,112	47,003
Electrocardiology	81,592	213,361	294,953
Central supply	510,712	1,072,050	1,582,762
Pharmacy	1,021,227	1,474,834	2,496,061
Outpatient surgery	2,844	75,129	77,973
Emergency room	1,359,805	9,326,119	10,685,924
SCKC, LLC	-	1,904,278	1,904,278
Physician clinics	-	3,403,057	3,403,057
	<u>8,099,825</u>	<u>33,486,527</u>	<u>41,586,352</u>
	<u>\$ 17,559,153</u>	<u>\$ 33,975,851</u>	51,535,004
Less Provision for Uncollectible Accounts			3,288,430
Less Contractual and Other Adjustments			<u>28,876,791</u>
Net Patient Service Revenue			<u>\$ 19,369,783</u>

2018		
Inpatient	Outpatient	Total
\$ 2,215,050	\$ -	\$ 2,215,050
6,596,215	-	6,596,215
-	301,494	301,494
57,130	-	57,130
127,977	-	127,977
71,250	-	71,250
9,067,622	301,494	9,369,116
448,957	2,172,908	2,621,865
335,869	112,898	448,767
2,996	4,814	7,810
89,943	680,527	770,470
188,577	1,384,932	1,573,509
35,005	757,494	792,499
536	177,941	178,477
224,271	778,847	1,003,118
1,109,897	3,333,266	4,443,163
483,176	498,566	981,742
240,355	96,394	336,749
107,506	566,688	674,194
-	126	126
8,424	25,363	33,787
40,662	140,821	181,483
689,864	1,277,449	1,967,313
1,107,926	1,606,607	2,714,533
6,209	42,458	48,667
596,648	4,554,607	5,151,255
-	2,185,104	2,185,104
-	3,555,301	3,555,301
5,716,821	23,953,111	29,669,932
\$ 14,784,443	\$ 24,254,605	39,039,048
		1,468,608
		18,275,441
		\$ 19,294,999

**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, 2019 and 2018**

Contractual Allowances

	<u>2019</u>	<u>2018</u>
Medicare	\$ 15,443,142	\$ 9,444,417
Medicaid	5,466,353	3,948,632
Medicaid – Disproportionate share adjustment	(879,953)	(882,349)
Blue Cross	3,246,371	2,012,165
Commercial	5,091,738	3,213,770
Charity care	156,041	162,813
Other	353,099	375,993
	<u>\$ 28,876,791</u>	<u>\$ 18,275,441</u>

Other Revenue (Expense)

	<u>2019</u>	<u>2018</u>
Cafeteria sales	\$ 60,438	\$ 58,688
Employee pharmacy sales	3,750	3,593
Rental income	7,750	8,840
Miscellaneous	169,827	30,123
	<u>\$ 241,765</u>	<u>\$ 101,244</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, 2019 and 2018**

	2019			2018		
	Salaries	Other	Total	Salaries	Other	Total
Nursing Services						
Nursing service	\$ 866,138	\$ 2,234,491	\$ 3,100,629	\$ 829,897	\$ 2,037,274	\$ 2,867,171
Intensive care	12,271	1,463	13,734	14,105	2,276	16,381
	<u>878,409</u>	<u>2,235,954</u>	<u>3,114,363</u>	<u>844,002</u>	<u>2,039,550</u>	<u>2,883,552</u>
Other Professional Services						
Operating room	357,605	219,493	577,098	350,747	205,248	555,995
Delivery room	211,737	136,030	347,767	270,446	34,767	305,213
Anesthesiology	-	586,906	586,906	-	589,459	589,459
Radiology	313,034	180,630	493,664	293,848	165,792	459,640
CT scans	47,755	102,766	150,521	40,548	92,031	132,579
MRI	52,639	85,483	138,122	49,428	72,225	121,653
Nuclear medicine	4,764	20,326	25,090	17,184	12,721	29,905
Ultrasound	113,738	36,079	149,817	140,383	901	141,284
Laboratory	387,286	731,826	1,119,112	387,259	626,626	1,013,885
Intravenous therapy	-	142	142	-	-	-
Respiratory therapy	246,726	43,486	290,212	249,028	12,875	261,903
Physical therapy	238,581	10,465	249,046	242,267	6,267	248,534
Cardiac rehab	-	1,764	1,764	-	42,307	42,307
Central supply	32,648	490,140	522,788	35,964	574,702	610,666
Pharmacy	267,992	548,932	816,924	265,393	620,467	885,860
Outpatient surgery	76,652	13,829	90,481	74,079	12,596	86,675
Emergency room	641,380	1,575,480	2,216,860	664,800	1,335,108	1,999,908
SCKC, LLC	637,607	480,745	1,118,352	592,882	765,360	1,358,242
Physician clinic	16,930	344,136	361,066	7,264	438,430	445,694
	<u>3,647,074</u>	<u>5,608,658</u>	<u>9,255,732</u>	<u>3,681,520</u>	<u>5,607,882</u>	<u>9,289,402</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, 2019 and 2018**

	2019			2018		
	Salaries	Other	Total	Salaries	Other	Total
General Services						
Plant operation	\$ 122,063	\$ 431,719	\$ 553,782	\$ 114,063	\$ 445,898	\$ 559,961
Laundry	46,075	14,822	60,897	56,360	9,844	66,204
Housekeeping	130,049	19,530	149,579	127,502	16,913	144,415
Dietary	150,106	186,613	336,719	161,097	168,643	329,740
	448,293	652,684	1,100,977	459,022	641,298	1,100,320
Administration Services						
Administration and general	1,591,192	1,642,719	3,233,911	1,826,338	1,489,804	3,316,142
Business office	244,292	398,407	642,699	217,549	443,797	661,346
Purchasing	58,061	47,217	105,278	59,247	23,147	82,394
Nursing administration	371,057	2,963	374,020	384,543	17,387	401,930
Medical records	158,416	320,348	478,764	138,086	211,037	349,123
Public relations	52,932	10,523	63,455	14,997	73,787	88,784
	2,475,950	2,422,177	4,898,127	2,640,760	2,258,959	4,899,719
Employee Benefits		1,348,836	1,348,836		1,173,784	1,173,784
Depreciation		973,179	973,179		1,144,307	1,144,307
	\$ 7,449,726	\$ 13,241,488	\$ 20,691,214	\$ 7,625,304	\$ 12,865,780	\$ 20,491,084