

**South Central Kansas Regional Medical Center  
A Component Unit of the City of Arkansas City, Kansas**

Accountants' Report and Financial Statements

December 31, 2009 and 2008



**South Central Kansas Regional Medical Center**  
**A Component Unit of the City of Arkansas City, Kansas**  
**December 31, 2009 and 2008**

**Contents**

<b>Independent Accountants' Report on Financial Statements and Supplementary Information .....</b>	<b>1</b>
<b>Management's Discussion and Analysis.....</b>	<b>2</b>
<b>Financial Statements</b>	
Balance Sheets .....	8
Statements of Revenues, Expenses and Changes in Net Assets .....	9
Statements of Cash Flows.....	10
Notes to Financial Statements.....	12
<b>Supplementary Information</b>	
Schedules of Net Patient Service Revenues.....	24
Schedules of Contractual Allowances and Other Revenue.....	25
Schedules of Operating Expenses.....	26

## Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees  
South Central Kansas Regional Medical Center  
Arkansas City, Kansas

We have audited the accompanying balance sheets of South Central Kansas Regional Medical Center, a component unit of the City of Arkansas City, Kansas, as of December 31, 2009 and 2008, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of South Central Kansas Regional Medical Center as of December 31, 2009 and 2008, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the Hospital's basic financial statements. The accompanying supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*BKD, LLP*

April 16, 2010

**South Central Kansas Regional Medical Center**  
**A Component Unit of the City of Arkansas City, Kansas**  
**Management's Discussion and Analysis**  
**Years Ended December 31, 2009 and 2008**

***Introduction***

This management discussion and analysis of the financial performance of South Central Kansas Regional Medical Center (the Hospital) provides an overview of the Hospital's financial activities for the years ended December 31, 2009 and 2008. 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 \$176,225 or (3)% from \$5,660,185, the balance at the end of 2008, to \$5,583,930 on December 31, 2009. The previous year showed an increase in cash of \$226,587 or 4%.
- The Hospital's net assets increased \$938,177 in 2009. In 2008, net assets increased \$1,167,481.
- The Hospital reported an operating profit of \$290,867 in 2009. In 2008, the Hospital reported an operating profit of \$1,018,772.
- Medicaid Disproportionate Share payments of approximately \$308,000 were received in 2009, \$695,000 in 2008 and approximately \$559,000 in 2007.

***Using This Annual Report***

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

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

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

The Hospital's total net assets – the difference between assets and liabilities – is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net assets are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial

factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Hospital.

### **The Statement of Cash Flows**

The statement of cash flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

### **The Hospital's Net Assets**

The Hospital's net assets are the difference between its assets and liabilities reported in the balance sheet. The most significant change in the Hospital's assets is the \$1,837,891 increase in capital assets. The Hospital's net assets increased by \$938,177 in 2009 and increased \$1,167,481 in 2008, as shown in Table 1.

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

	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>Assets</b>			
Cash, cash equivalents and short-term certificate of deposit	\$ 5,483,930	\$ 5,660,185	\$ 5,433,598
Restricted cash - held by City	718,453	-	-
Sales tax funds - held by City	442,190	-	-
Patient accounts receivable, net	1,650,291	1,510,063	1,377,077
Other current assets	1,045,408	855,731	670,237
Restricted noncurrent cash and certificate of deposit - held by City	21,029,813	-	-
Capital assets, net	5,712,275	3,874,384	3,522,703
Other noncurrent assets	400,684	-	-
<b>Total assets</b>	<b>\$ 36,483,044</b>	<b>\$ 11,900,363</b>	<b>\$ 11,003,615</b>
<b>Liabilities</b>			
Long-term debt	\$ 23,452,277	\$ 833,929	\$ 1,204,542
Other current liabilities	2,169,605	1,143,449	1,043,569
<b>Total liabilities</b>	<b>25,621,882</b>	<b>1,977,378</b>	<b>2,248,111</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	3,085,646	2,930,754	2,318,161
Restricted expendable for Debt service	504,849	-	-
Capital acquisitions	100,000	-	-
Unrestricted	7,170,667	6,992,231	6,437,343
<b>Total net assets</b>	<b>10,861,162</b>	<b>9,922,985</b>	<b>8,755,504</b>
<b>Total liabilities and net assets</b>	<b>\$ 36,483,044</b>	<b>\$ 11,900,363</b>	<b>\$ 11,003,615</b>

### ***Restricted Cash***

Due to the agreement between the Hospital and the City of Arkansas City (City) related to the 2009 bond issuance, the City is acting as the trustee of the bond proceeds and pays contractor invoices as submitted. Funds held by the City which have not yet been distributed to contractors for work performed in 2009 are presented as restricted cash. The remaining bond proceeds which have no claim against them as of December 31, 2009, are presented as restricted noncurrent cash.

### ***Other Noncurrent Assets***

The costs associated with the issuance of the bonds is capitalized and amortized over the life of the bond. These costs are what is making up the entire \$400,684 in 2009.

### ***Capital Assets***

In 2009, the Hospital began construction of its new facility. A large amount of increased capital assets is related to construction in progress at year end and is offset by a large increase in accounts payable and other current liabilities. In addition to the building project the Hospital also invested in new equipment which totaled \$417,493. The majority of the new equipment consisted of new patient beds, a new ultrasound machine, a cautery unit for surgery, an infant warmer, a hospital van, a lab ABG analyzer and a hood for pharmacy.

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

### ***Debt***

During 2009, the Hospital, in conjunction with the City Manager of Arkansas City and Arkansas City Commission, obtained \$23,205,000 in Revenue Bonds, which is being funneled through a Public Building Commission (PBC). All funds are being maintained and disbursed through the PBC for construction costs related to the new facility.

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

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

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

Construction began in mid 2009; estimated completion is early 2011.

As of December 31, 2009 and 2008, the Hospital had \$448,899 and \$833,929, respectively, of capital lease obligations outstanding. No new capital leases were obtained in 2009.

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

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

### ***Operating Margins***

The following are the major components of those changes.

- Total operating revenues increased \$231,209 over 2008, which is a 2% increase. Revenues increased \$1,057,512 from 2007 to 2008 or 8%. The primary reason for the increase from 2007 to 2008 was the addition of a surgeon to the staff.
- In 2009, the Hospital received approximately \$308,000 in DSH payments. This is a decrease of 56% from 2008 with DSH payments at approximately \$695,000. DSH payments were \$559,000 in 2007. 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 \$677,000 or 9% in 2009 due to an increase in patient volumes related to the addition of a surgeon to our staff in 2008 that has continued to bring in additional business. The Hospital continues to pay for 50% of employee premiums for health insurance as well as a portion of dental premiums for a total cost of \$379,349. Also included in benefits is workers' compensation and state unemployment for a total of \$169,076. Salaries and benefits increased approximately \$915,000 or 14% from 2007 to 2008 due to wage rate increases to retain staff and additional volume with the addition of a surgeon.
- In 2009, purchased services and professional fees increased 12% or \$189,254. In 2008, these services increased 3% or \$42,012. In 2009, we used agency nursing staff more frequently, whereas in 2008, these individuals were staff and part of the salary expense.
- Other expenses include supplies, utilities, rentals, and repairs and maintenance. In 2009, these figures increased 1.5% or \$50,853. In 2008, these expenses increased 2.1% or \$67,638.
- Total operating income decreased in 2009 and 2008 by \$727,905 and \$82,867, largely due to increased wages and benefits that exceeded the increased revenues as described above.

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

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

	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>Operating Revenues</b>			
Net patient service revenue	\$ 14,204,010	\$ 13,974,604	\$ 12,865,523
Other operating revenues	144,749	142,946	194,515
Total operating revenues	<u>14,348,759</u>	<u>14,117,550</u>	<u>13,060,038</u>
<b>Operating Expenses</b>			
Salaries and wages and employee benefits	8,212,115	7,535,006	6,621,629
Purchased services and professional fees	1,724,782	1,535,528	1,493,516
Other operating expenses	3,381,221	3,330,368	3,262,730
Depreciation and amortization	739,774	697,876	580,524
Total operating expenses	<u>14,057,892</u>	<u>13,098,778</u>	<u>11,958,399</u>
<b>Operating Income</b>	<u>290,867</u>	<u>1,018,772</u>	<u>1,101,639</u>
<b>Nonoperating Revenues (Expenses)</b>			
Interest income	97,162	179,520	240,674
Interest expense	(27,233)	(41,365)	(35,449)
Sales tax revenue	564,424	-	-
Noncapital grants and gifts	12,957	10,554	16,686
Total nonoperating revenues	<u>647,310</u>	<u>148,709</u>	<u>221,911</u>
<b>Increase in Net Assets</b>	<u>\$ 938,177</u>	<u>\$ 1,167,481</u>	<u>\$ 1,323,550</u>

**Nonoperating Revenues and Expenses**

Nonoperating revenues and expenses has consisted primarily of investment income and interest expense. Interest income has decreased the last two years due to lower interest rates within the market. Interest income decreased \$82,358 from 2008 to 2009 and \$61,154 from 2007 to 2008. In 2008, a half cent sales tax was passed to help support the Hospital as it constructed a new facility and make debt payments as they came due related to the bond issuance, which funded the new facility construction. The sales tax did not go into effect until April 1, 2009, and are being collected and maintained by the City until a transfer to the Hospital is needed.

**Capital Grants and Gifts**

The Hospital regularly receives gifts from the Hospital Auxiliary for capital purchases. Memorial funds 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.

**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 2009, 2008 and 2007, as discussed earlier. Net cash provided by the operating and noncapital financing activities of the Hospital were used to purchase capital equipment or invested in short-term certificates of deposit so it could be available for future projects.

## ***Community Benefit***

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

- **Facility Reinvestment** – Health care facilities must continually make investments in equipment to stay on top of the current and emerging health care needs of their communities. In 2009 and 2008, the Hospital invested nearly \$420,000 and \$750,000, respectively, in new equipment. In addition to the new equipment, the Hospital is currently constructing 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 2009, we attributed 14% of our inpatients as Medicaid recipients. Medicaid recipients totaled 14% of our patients in 2008 and 15% in 2007. This is in contrast to the national average of 2%.
- **Charity Care** – \$287,000 and \$446,099 was written off in 2009 and 2008, respectively, for patients qualifying for approval through committee review. In general, our policy does not allow a charity care recipient to have an annual income of greater than two times the federal poverty guidelines. Our goal is to identify more patients who qualify for charity care so those services can be properly classified as charity care and not reflected in our bad debt that is annually over \$1,000,000.
- **Meals on Wheels** – Approximately 10,000 meals were delivered in 2009 and over 12,000 meals were delivered in each 2008 and 2007, with each meal being compensated for a financial loss.
- **Community Event Participation** – The Hospital participates in multiple events throughout the year, providing health information and free medical services such as mammograms, blood pressure checks and other free screenings for infants.
- **Educational Opportunities** – As a partner in the county's health careers program, the Hospital provides hands-on experience for high school students interested in pursuing health care careers. We are also a training site for multiple college nursing programs.
- **Social and Health Services** – The Hospital offers assistance before, during and after a health need occurs. We provide a variety of services including financial counseling, assistance in program enrollment and social services. These services are provided to patients in need, ensuring that everyone who enters the facility's doors will be discharged to a safe environment and are aware of the programs available.

## ***Contacting the Hospital's Financial Management***

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

**South Central Kansas Regional Medical Center**  
**A Component Unit of the City of Arkansas City, Kansas**

**Balance Sheets**

**December 31, 2009 and 2008**

**Assets**

	<b>2009</b>	<b>2008</b>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 4,979,081	\$ 5,660,185
Restricted cash - held under bond indenture	504,849	-
Restricted cash - held by City for capital acquisitions	718,453	-
Sales tax funds - held by City	442,190	-
Patient accounts receivable, net of allowance; 2009 - \$1,412,000, 2008 - \$1,610,000	1,650,291	1,510,063
Other receivables	118	8,421
Supplies	701,226	681,687
Sales tax receivable	122,234	-
Prepaid expenses and other	221,830	165,623
	<b>9,340,272</b>	<b>8,025,979</b>
<b>Noncurrent Cash and Certificates of Deposit</b>		
Held by City for capital acquisitions - cash	19,029,813	-
Held by City for debt service - certificates of deposit	1,900,000	-
Held under bond indenture for capital acquisitions - cash	100,000	-
	<b>21,029,813</b>	<b>-</b>
<b>Capital Assets, Net</b>	<b>5,712,275</b>	<b>3,874,384</b>
<b>Other Assets</b>		
Bond issuance costs, net of amortization	400,684	-
	<b>400,684</b>	<b>-</b>
<b>Total assets</b>	<b>\$ 36,483,044</b>	<b>\$ 11,900,363</b>

## Liabilities and Net Assets

	<u>2009</u>	<u>2008</u>
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 333,338	\$ 385,030
Accounts payable	983,000	483,552
Accrued expenses	1,009,533	472,825
Estimated amounts due to third-party payers	90,000	100,000
Deferred revenues - third-party payers	<u>87,072</u>	<u>87,072</u>
Total current liabilities	<u>2,502,943</u>	<u>1,528,479</u>
<b>Long-term Debt, Net of Bond Discount</b>	<u>23,118,939</u>	<u>448,899</u>
Total liabilities	<u>25,621,882</u>	<u>1,977,378</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	3,085,646	2,930,754
Restricted - expendable for		
Debt service	504,849	-
Capital acquisitions	100,000	-
Unrestricted	<u>7,170,667</u>	<u>6,992,231</u>
Total net assets	<u>10,861,162</u>	<u>9,922,985</u>
Total liabilities and net assets	<u>\$ 36,483,044</u>	<u>\$ 11,900,363</u>

**South Central Kansas Regional Medical Center**  
**A Component Unit of the City of Arkansas City, Kansas**  
**Statements of Revenues, Expenses and Changes in Net Assets**  
**Years Ended December 31, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
<b>Operating Revenues</b>		
Net patient service revenue, net of provision for uncollectible accounts; 2009 - \$999,436, 2008 - \$1,214,319	\$ 14,204,010	\$ 13,974,604
Other	144,749	142,946
	<u>14,348,759</u>	<u>14,117,550</u>
<b>Operating Expenses</b>		
Salaries and wages	6,864,272	6,425,319
Employee benefits	1,347,843	1,109,687
Purchased services and professional fees	1,724,782	1,535,528
Supplies and other	3,381,221	3,330,368
Depreciation and amortization	739,774	697,876
	<u>14,057,892</u>	<u>13,098,778</u>
<b>Operating Income</b>	<u>290,867</u>	<u>1,018,772</u>
<b>Nonoperating Revenues (Expenses)</b>		
Interest income	97,162	179,520
Interest expense	(27,233)	(41,365)
Sales tax revenue	564,424	-
Noncapital grants and gifts	12,957	10,554
	<u>647,310</u>	<u>148,709</u>
<b>Increase in Net Assets</b>	938,177	1,167,481
<b>Net Assets, Beginning of Year</b>	<u>9,922,985</u>	<u>8,755,504</u>
<b>Net Assets, End of Year</b>	<u>\$ 10,861,162</u>	<u>\$ 9,922,985</u>

**South Central Kansas Regional Medical Center**  
**A Component Unit of the City of Arkansas City, Kansas**  
**Statements of Cash Flows**  
**Years Ended December 31, 2009 and 2008**

	<b>2009</b>	<b>2008</b>
<b>Operating Activities</b>		
Receipts from and on behalf of patients	\$ 14,062,085	\$ 13,848,874
Payments to suppliers and contractors	(5,758,038)	(5,062,329)
Payments to employees and on behalf of employees	(7,675,407)	(7,541,144)
Other receipts, net	247,840	142,946
	<b>876,480</b>	<b>1,388,347</b>
<b>Noncapital Financing Activities</b>		
Sales tax funds	442,190	-
Noncapital grants and gifts	12,957	10,554
	<b>455,147</b>	<b>10,554</b>
<b>Capital and Related Financing Activities</b>		
Proceeds from issuance of bonds payable	23,001,034	-
Payment of Bond Issuance Costs	(405,343)	-
Principal paid on long-term debt	(385,030)	(370,613)
Interest paid on long-term debt	(24,889)	(41,365)
Purchase of capital assets	(1,600,360)	(939,856)
	<b>20,585,412</b>	<b>(1,351,834)</b>
<b>Investing Activities</b>		
Purchase of short-term certificate of deposit	(1,900,000)	-
Maturities of short-term certificate of deposit	-	500,000
Interest income	97,162	179,520
	<b>(1,802,838)</b>	<b>679,520</b>
<b>Increase in Cash and Cash Equivalents</b>	<b>20,114,201</b>	<b>726,587</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>5,660,185</b>	<b>4,933,598</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 25,774,386</b>	<b>\$ 5,660,185</b>

**South Central Kansas Regional Medical Center**  
**A Component Unit of the City of Arkansas City, Kansas**  
**Statements of Cash Flows (Continued)**  
**Years Ended December 31, 2009 and 2008**

	<b>2009</b>	<b>2008</b>
<b>Reconciliation of Cash and Cash Equivalents to the Balance Sheet</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 4,979,081	\$ 5,660,185
Restricted cash - held under bond indenture	504,849	-
Restricted cash - held by City for capital acquisitions	718,453	-
Sales tax funds - held by City	442,190	-
<b>Noncurrent Cash and Certificates of Deposit</b>		
Held by City for capital acquisitions - cash	19,029,813	-
Held under bond indenture for capital acquisitions - cash	100,000	-
	<u>\$ 25,774,386</u>	<u>\$ 5,660,185</u>
Total cash and cash equivalents	<u>\$ 25,774,386</u>	<u>\$ 5,660,185</u>
 <b>Reconciliation of Net Operating Revenues (Expenses) to Net Cash</b>		
<b>Provided by Operating Activities</b>		
Operating income	\$ 290,867	\$ 1,018,772
Depreciation and amortization	739,774	697,876
Loss on the disposal of fixed assets	103,091	-
<b>Changes in operating assets and liabilities</b>		
Patient accounts receivable, net	(140,228)	(132,986)
Estimated amounts due to third-party payers	(10,000)	-
Other receivables	8,303	7,256
Supplies and prepaid expenses	(75,746)	(192,750)
Accounts payable and accrued expenses	(39,581)	(9,821)
	<u>\$ 876,480</u>	<u>\$ 1,388,347</u>
Net cash provided by operating activities	<u>\$ 876,480</u>	<u>\$ 1,388,347</u>
 <b>Supplemental Cash Flows Information</b>		
Capital asset additions included in accrued liabilities	<u>\$ 466,985</u>	<u>\$ -</u>

**South Central Kansas Regional Medical Center**  
**A Component Unit of the City of Arkansas City, Kansas**  
**Notes to Financial Statements**  
**December 31, 2009 and 2008**

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

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

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

***Basis of Accounting and Presentation***

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

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

***Use of Estimates***

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

***Cash Equivalents***

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2009 and 2008, cash equivalents consisted primarily of certificates of deposit.

**South Central Kansas Regional Medical Center**  
**A Component Unit of the City of Arkansas City, Kansas**  
**Notes to Financial Statements**  
**December 31, 2009 and 2008**

***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% in 2009 and 0% in 2008 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***

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.

***Supplies***

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

**South Central Kansas Regional Medical Center**  
**A Component Unit of the City of Arkansas City, Kansas**

**Notes to Financial Statements**  
**December 31, 2009 and 2008**

**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:

	<u>2009</u>	<u>2008</u>
Total interest expense incurred on borrowings for project	\$ 504,849	\$ -
Interest income from investment of proceeds of borrowings for project	<u>34,613</u>	<u>-</u>
Net interest cost capitalized	<u>\$ 470,236</u>	<u>\$ -</u>
Interest capitalized	\$ 470,236	\$ -
Interest charged to expense	<u>27,233</u>	<u>41,365</u>
Total interest incurred	<u>\$ 497,469</u>	<u>\$ 41,365</u>

**Bond Issuance Costs**

Bond 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

**South Central Kansas Regional Medical Center**  
**A Component Unit of the City of Arkansas City, Kansas**

**Notes to Financial Statements**  
**December 31, 2009 and 2008**

realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

***Net Assets***

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

***Net Patient Service Revenue***

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

***Charity Care***

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

***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. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

**South Central Kansas Regional Medical Center**  
**A Component Unit of the City of Arkansas City, Kansas**

**Notes to Financial Statements**

**December 31, 2009 and 2008**

***Subsequent Events***

Subsequent events have been evaluated through April 16, 2010, which is the date the financial statements were available to be issued.

**Note 2: 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. 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 fiscal intermediary.

*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 \$308,000 in 2009 and \$695,000 in 2008.

Approximately 53% and 52% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2009 and 2008, 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.

**South Central Kansas Regional Medical Center**  
**A Component Unit of the City of Arkansas City, Kansas**

**Notes to Financial Statements**  
**December 31, 2009 and 2008**

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, 2009 and 2008, respectively, \$17,710,491 and \$5,277,203 of the Hospital's bank balances of \$18,001,009 and \$5,777,203 were exposed to custodial credit risk as follows:

	<b>2009</b>	<b>2008</b>
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the Hospital's name	\$ 17,710,491	\$ 5,277,203

**Summary of Carrying Values**

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

	<b>2009</b>	<b>2008</b>
Carrying value		
Deposits	\$ 27,672,416	\$ 5,658,215
Petty cash	1,970	1,970
	\$ 27,674,386	\$ 5,660,185
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 4,979,081	\$ 5,660,185
Restricted cash - held under bond indenture	504,849	-
Restricted cash - held by City for capital acquisitions	718,453	-
Sales tax funds - held by City	442,190	-
Held by City for capital acquisitions - cash	19,029,813	-
Held by City for debt service - certificates of deposit	1,900,000	-
Held under bond indenture for capital acquisitions - cash	100,000	-
	\$ 27,674,386	\$ 5,660,185

**South Central Kansas Regional Medical Center**  
**A Component Unit of the City of Arkansas City, Kansas**

**Notes to Financial Statements**  
**December 31, 2009 and 2008**

**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, 2009 and 2008, consisted of:

	<b>2009</b>	<b>2008</b>
Medicare	\$ 566,868	\$ 615,564
Medicaid	167,741	209,193
Other third-party payers	797,624	946,252
Patients	1,530,058	1,349,054
	3,062,291	3,120,063
Less allowance for uncollectible accounts	1,412,000	1,610,000
	\$ 1,650,291	\$ 1,510,063

**Note 5: Capital Assets**

Capital assets activity for the years ended December 31, 2009 and 2008, was:

	<b>2009</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Ending Balance</b>
Land	\$ 322,059	\$ -	\$ -	\$ -	\$ 322,059
Land improvements	99,247	-	-	-	99,247
Buildings	4,617,658	-	-	-	4,617,658
Fixed equipment	2,414,240	2,876	-	-	2,417,116
Major moveable equipment	9,052,516	414,617	-	-	9,467,133
Construction in progress	149,959	2,258,604	(103,091)	-	2,305,472
	16,655,679	2,676,097	(103,091)	-	19,228,685
Less accumulated depreciation					
Land improvements	87,505	4,338	-	-	91,843
Buildings	4,412,263	31,984	-	-	4,444,247
Fixed equipment	1,739,178	86,198	-	-	1,825,376
Major moveable equipment	6,542,349	612,595	-	-	7,154,944
	12,781,295	735,115	-	-	13,516,410
Capital Assets, Net	\$ 3,874,384	\$ 1,940,982	\$ (103,091)	\$ -	\$ 5,712,275

**South Central Kansas Regional Medical Center**  
**A Component Unit of the City of Arkansas City, Kansas**

**Notes to Financial Statements**  
**December 31, 2009 and 2008**

	2008				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 172,059	\$ 150,000	\$ -	\$ -	\$ 322,059
Land improvements	99,247	-	-	-	99,247
Buildings	4,539,354	78,304	-	-	4,617,658
Equipment	2,414,240	-	-	-	2,414,240
Major moveable equipment	8,387,576	671,294	(6,354)	-	9,052,516
Construction in progress	-	149,959	-	-	149,959
	<u>15,612,476</u>	<u>1,049,557</u>	<u>(6,354)</u>	<u>-</u>	<u>16,655,679</u>
Less accumulated depreciation					
Land improvements	83,166	4,339	-	-	87,505
Buildings	4,384,823	27,440	-	-	4,412,263
Equipment	1,650,435	88,743	-	-	1,739,178
Major moveable equipment	5,971,349	577,354	(6,354)	-	6,542,349
	<u>12,089,773</u>	<u>697,876</u>	<u>(6,354)</u>	<u>-</u>	<u>12,781,295</u>
Capital Assets, Net	<u>\$ 3,522,703</u>	<u>\$ 351,681</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,874,384</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, 2009 and 2008:

	2009				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Revenue bonds payable	\$ -	\$ 23,205,000	\$ -	\$ 23,205,000	\$ -
Unamortized bond discount	-	(203,966)	2,344	(201,622)	-
Capital lease obligations	833,929	-	385,030	448,899	333,338
Total long-term debt	<u>\$ 833,929</u>	<u>\$ 23,001,034</u>	<u>\$ 387,374</u>	<u>\$ 23,452,277</u>	<u>\$ 333,338</u>
	2008				
	Beginning Balance	Additions	Repayments	Ending Balance	Current Portion
Long-term debt					
Revenue bonds payable	\$ -	\$ -	\$ -	\$ -	\$ -
Capital lease obligations	1,204,542	-	370,613	833,929	385,030
Total long-term debt	<u>\$ 1,204,542</u>	<u>\$ -</u>	<u>\$ 370,613</u>	<u>\$ 833,929</u>	<u>\$ 385,030</u>

**South Central Kansas Regional Medical Center**  
**A Component Unit of the City of Arkansas City, Kansas**

**Notes to Financial Statements**  
**December 31, 2009 and 2008**

**Revenue Bonds Payable**

In 2009, the Hospital entered into an agreement with the Public Building Commission 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%, are due semi-annually in increasing principal amounts with final bonds maturing September 1, 2038. The Hospital, acting as its own trustee, is required by the state to maintain specific principal, interest and bond reserve accounts. The actual principal and interest payments are then made to the bondholders from the principal and interest accounts. 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.

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 debt service requirements as of December 31, 2009, are as follows:

<b>Year Ending December 31,</b>	<b>Total to be Paid</b>	<b>Principal</b>	<b>Interest</b>
2010	\$ 1,514,548	\$ -	\$ 1,514,548
2011	1,514,548	-	1,514,548
2012	1,884,547	370,000	1,514,547
2013	1,884,747	385,000	1,499,747
2014	1,887,422	405,000	1,482,422
2015-2019	9,434,355	2,345,000	7,089,355
2020-2024	9,426,813	3,090,000	6,336,813
2025-2029	9,429,250	4,250,000	5,179,250
2030-2034	9,437,063	5,955,000	3,482,063
2035-2038	7,541,925	6,405,000	1,136,925
	<u>\$ 53,955,218</u>	<u>\$ 23,205,000</u>	<u>\$ 30,750,218</u>

**South Central Kansas Regional Medical Center  
A Component Unit of the City of Arkansas City, Kansas**

**Notes to Financial Statements  
December 31, 2009 and 2008**

**Capital Lease Obligations**

The Hospital is obligated under leases for building improvements and equipment that are accounted for as capital leases. Assets under capital leases at December 31, 2009 and 2008, totaled \$1,977,369 for both years, net of accumulated depreciation of \$1,272,057 and \$1,001,048, respectively. The following is a schedule by year of future minimum lease payments under the capital lease including interest at rates of 3.24% to 4.51% together with the present value of the future minimum lease payments as of December 31, 2009:

Year Ending December 31,		
2010	\$	346,046
2011		119,835
Total minimum lease payments		465,881
Less amount representing interest		16,982
Present value of future minimum lease payments	\$	448,899

**Note 7: Operating Leases**

The Hospital has a noncancellable operating lease for a mobile MRI system. Monthly lease payments of \$18,500 are due until January 31, 2011.

**Note 8: 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 \$300,000 of coverage for each medical incident and \$900,000 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.

**South Central Kansas Regional Medical Center**  
**A Component Unit of the City of Arkansas City, Kansas**  
**Notes to Financial Statements**  
**December 31, 2009 and 2008**

**Note 9: Board Designated Net Assets**

At December 31, 2009 and 2008, \$973,704 and \$974,265, respectively, of unrestricted net assets have been designated by the Hospital's Board of Trustees for capital acquisitions. Designated net assets remain under the control of the Board of Trustees, which may at its discretion later use these net assets for other purposes.

**Note 10: 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.

***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 6.54%, 5.93% and 5.31% of annual covered payroll for 2009, 2008 and 2007, respectively. The Hospital's contributions to the plan for 2009, 2008 and 2007, were \$327,349, \$294,641 and \$217,100, 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 11: 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.

**South Central Kansas Regional Medical Center**  
**A Component Unit of the City of Arkansas City, Kansas**

**Notes to Financial Statements**

**December 31, 2009 and 2008**

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.

**Note 12: Subsequent Events**

***Medicaid Rate Cuts***

On December 17, 2009, the Kansas Health Policy Authority (KHPA) published a public notice in the Kansas Register of a 10% reduction in Medicaid reimbursement rates to be effective with service dates on or after January 1, 2010.

***Health Care Reform***

During March 2010, President Obama signed into law the *Patient Protection and Affordable Care Act* and the *Health Care and Education Tax Credits Reconciliation Act of 2010*. Together, these two acts will reform the health care system and will impact payments received by hospitals. Any reductions in hospital payments may be offset by reductions in hospital bad debts and charity care, as the number of uninsured Americans is reduced. However, the overall impact on the Hospital of the health care reform is not presently determinable.

## **Supplementary Information**

**South Central Kansas Regional Medical Center**  
**A Component Unit of the City of Arkansas City, Kansas**  
**Schedules of Net Patient Service Revenues**  
**Years Ended December 31, 2009 and 2008**

	<b>2009</b>		
	<b>Inpatient</b>	<b>Outpatient</b>	<b>Total</b>
<b>Nursing Services</b>			
Nursing, dietary and room services	\$ 2,082,171	\$ -	\$ 2,082,171
Observation	-	340,598	340,598
Intensive care	370,151	-	370,151
Nursery	190,914	-	190,914
Skilled swing-bed	285,855	-	285,855
	<u>2,929,091</u>	<u>340,598</u>	<u>3,269,689</u>
<b>Other Professional Services</b>			
Operating room	849,833	2,329,591	3,179,424
Delivery room	621,463	67,085	688,548
Anesthesiology	228,447	404,231	632,678
Radiology	117,544	798,709	916,253
CT scans	276,562	1,817,275	2,093,837
Magnetic resonance imaging	19,955	897,170	917,125
Nuclear medicine	7,607	169,424	177,031
Ultrasound	172,073	608,239	780,312
Laboratory	1,193,050	2,364,791	3,557,841
Intravenous therapy	826,420	417,920	1,244,340
Respiratory therapy	450,167	111,754	561,921
Physical therapy	198,494	658,891	857,385
Occupational therapy	10,799	27,030	37,829
Speech therapy	2,976	8,368	11,344
Electrocardiology	31,893	106,739	138,632
Cardiac rehab	6,186	15,977	22,163
Central supply	1,456,570	1,105,020	2,561,590
Pharmacy	1,220,522	990,944	2,211,466
Outpatient surgery	-	9,158	9,158
Sleep study revenue	-	55,986	55,986
Emergency room	459,151	3,270,345	3,729,496
Home health	-	276,737	276,737
Physician clinic	107,042	545,657	652,699
	<u>8,256,754</u>	<u>17,057,041</u>	<u>25,313,795</u>
	<u>\$ 11,185,845</u>	<u>\$ 17,397,639</u>	<u>28,583,484</u>
<b>Provision for Uncollectible Accounts</b>			999,436
<b>Contractual and Other Adjustments</b>			<u>13,380,038</u>
<b>Net Patient Service Revenue</b>			<u>\$ 14,204,010</u>

**2008**

<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>
\$ 1,939,916	\$ -	\$ 1,939,916
-	215,861	215,861
237,729	-	237,729
251,971	-	251,971
378,995	-	378,995
<u>2,808,611</u>	<u>215,861</u>	<u>3,024,472</u>
928,354	1,924,498	2,852,852
770,961	87,941	858,902
241,527	374,496	616,023
125,667	750,046	875,713
268,175	1,513,480	1,781,655
28,276	747,214	775,490
5,952	125,920	131,872
182,759	679,618	862,377
1,116,516	1,938,429	3,054,945
929,245	349,015	1,278,260
569,041	52,703	621,744
228,009	597,946	825,955
22,913	36,428	59,341
4,239	8,508	12,747
31,068	114,547	145,615
1,767	7,070	8,837
1,180,811	799,061	1,979,872
1,234,789	816,227	2,051,016
-	88,509	88,509
-	71,255	71,255
394,158	2,967,193	3,361,351
-	321,896	321,896
84,685	212,582	297,267
<u>8,348,912</u>	<u>14,584,582</u>	<u>22,933,494</u>
<u>\$ 11,157,523</u>	<u>\$ 14,800,443</u>	25,957,966
		1,214,319
		<u>10,769,043</u>
		<u>\$ 13,974,604</u>

**South Central Kansas Regional Medical Center**  
**A Component Unit of the City of Arkansas City, Kansas**  
**Schedules of Contractual Allowances and Other Revenue**  
**Years Ended December 31, 2009 and 2008**

**Contractual Allowances**

	<u>2009</u>	<u>2008</u>
Medicare	\$ 6,577,465	\$ 5,609,715
Medicaid	2,564,958	2,393,712
Medicaid – Disproportionate share adjustment	(308,399)	(695,383)
Blue Cross	1,493,865	991,903
Commercial	2,239,888	1,674,685
Charity care	399,725	487,774
Other	412,536	306,637
	<u>\$ 13,380,038</u>	<u>\$ 10,769,043</u>

**Other Revenue**

	<u>2009</u>	<u>2008</u>
Cafeteria sales	\$ 99,833	\$ 115,231
Employee pharmacy sales	5,024	3,112
Rental income	13,855	10,800
Miscellaneous	26,037	13,803
	<u>\$ 144,749</u>	<u>\$ 142,946</u>

**South Central Kansas Regional Medical Center**  
**A Component Unit of the City of Arkansas City, Kansas**

**Schedules of Operating Expenses**  
**Years Ended December 31, 2009 and 2008**

	2009			2008		
	Salaries	Other	Total	Salaries	Other	Total
<b>Nursing Services</b>						
Nursing service	\$1,032,433	\$ 79,829	\$ 1,112,262	\$ 951,745	\$ 95,742	\$ 1,047,487
Intensive care	248,349	9,755	258,104	134,381	53,075	187,456
	1,280,782	89,584	1,370,366	1,086,126	148,817	1,234,943
<b>Other Professional Services</b>						
Operating room	390,688	106,095	496,783	392,816	136,431	529,247
Delivery room	253,834	27,011	280,845	319,349	33,477	352,826
Anesthesiology	301,464	214,677	516,141	382,483	56,113	438,596
Radiology	417,887	108,817	526,704	395,878	63,416	459,294
CT scans	-	81,809	81,809	-	76,599	76,599
Magnetic resonance imaging	-	224,164	224,164	-	239,464	239,464
Nuclear medicine	-	21,902	21,902	-	15,196	15,196
Ultrasound	-	1,777	1,777	-	8,065	8,065
Laboratory	426,863	446,506	873,369	376,025	387,053	763,078
Intravenous therapy	-	68,817	68,817	-	92,457	92,457
Respiratory therapy	239,045	28,835	267,880	212,669	27,820	240,489
Physical therapy	285,494	26,748	312,242	250,332	39,502	289,834
Occupational therapy	-	10,735	10,735	-	12,747	12,747
Electrocardiography	-	-	-	-	1,575	1,575
Cardiac rehab	16,300	5,073	21,373	40,927	7,214	48,141
Central supply	22,458	785,722	808,180	21,576	640,744	662,320
Pharmacy	167,068	580,931	747,999	165,067	486,121	651,188
Outpatient surgery	89,837	9,280	99,117	67,406	7,936	75,342
Sleep study lab	-	31,680	31,680	-	22,200	22,200
Emergency room	740,000	570,581	1,310,581	664,662	638,686	1,303,348
Home health	194,936	24,944	219,880	181,988	28,938	210,926
Physician clinic	266,300	7,932	274,232	146,931	23,205	170,136
	3,812,174	3,384,036	7,196,210	3,618,109	3,044,959	6,663,068

**South Central Kansas Regional Medical Center**  
**A Component Unit of the City of Arkansas City, Kansas**  
**Schedules of Operating Expenses (Continued)**  
**Years Ended December 31, 2009 and 2008**

	2009			2008		
	Salaries	Other	Total	Salaries	Other	Total
<b>General Services</b>						
Plant operation	\$ 143,720	\$ 338,013	\$ 481,733	\$ 156,015	\$ 370,984	\$ 526,999
Laundry	43,295	19,050	62,345	42,023	31,398	73,421
Housekeeping	152,800	35,272	188,072	115,794	21,327	137,121
Dietary	217,463	239,002	456,465	220,011	257,880	477,891
	557,278	631,337	1,188,615	533,843	681,589	1,215,432
<b>Administration Services</b>						
Administration and general	515,063	485,451	1,000,514	604,702	547,039	1,151,741
Business office	241,491	223,777	465,268	226,860	220,677	447,537
Purchasing	64,907	18,008	82,915	62,295	15,059	77,354
Nursing administration	233,688	9,745	243,433	118,793	17,303	136,096
Medical records	118,124	142,238	260,362	137,272	123,184	260,456
Public relations	40,765	121,827	162,592	37,319	67,269	104,588
	1,214,038	1,001,046	2,215,084	1,187,241	990,531	2,177,772
<b>Employee Benefits</b>		1,347,843	1,347,843	1,109,687	1,109,687	
<b>Depreciation</b>		739,774	739,774	697,876	697,876	
	\$6,864,272	\$7,193,620	\$14,057,892	\$6,425,319	\$6,673,459	\$13,098,778