

Rush County Memorial Hospital
A Component Unit of Rush County, Kansas

Independent Accountants' Report and Financial Statements

December 31, 2011 and 2010



Rush County Memorial Hospital
A Component Unit of Rush County, Kansas
December 31, 2011 and 2010

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Independent Accountants' Report

Board of Trustees
Rush County Memorial Hospital
La Crosse, Kansas

We have audited the accompanying balance sheets of Rush County Memorial Hospital, a component unit of Rush County, Kansas, as of December 31, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rush County Memorial Hospital as of December 31, 2011 and 2010, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Hospital 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.

BKD, LLP

April 13, 2012

Rush County Memorial Hospital
A Component Unit of Rush County, Kansas
Balance Sheets
December 31, 2011 and 2010

Assets

	<u>2011</u>	<u>2010</u>
Current Assets		
Cash	\$ 53,044	\$ 76,391
Short-term certificates of deposit	365,755	612,653
Restricted cash - held under bond indenture	99,710	43,819
Patient accounts receivable, net of allowance; 2011 - \$485,000, 2010 - \$378,000	751,756	1,053,131
Estimated amounts due from Medicare and Medicaid	360,000	244,000
Supplies	114,315	92,412
Prepaid expenses and other	<u>55,392</u>	<u>23,104</u>
Total current assets	<u>1,799,972</u>	<u>2,145,510</u>
Noncurrent Cash		
Held under bond indenture for capital acquisitions – held by County	1,000	1,000
Held under bond indenture for debt service	84,798	45,527
Held under bond indenture for capital acquisitions	<u>26,081</u>	<u>14,007</u>
Total noncurrent cash	<u>111,879</u>	<u>60,534</u>
Capital Assets, Net	<u>5,189,072</u>	<u>5,574,331</u>
Deferred Bond Costs	<u>125,859</u>	<u>131,331</u>
Total assets	<u><u>\$ 7,226,782</u></u>	<u><u>\$ 7,911,706</u></u>

Liabilities and Net Assets

	<u>2011</u>	<u>2010</u>
Current Liabilities		
Current maturities of long-term debt	\$ 159,049	\$ 62,013
Accounts payable	159,677	202,448
Accrued expenses	223,491	228,651
Deferred grant revenue	9,956	6,046
	<u>552,173</u>	<u>499,158</u>
Long-term Debt	<u>5,168,533</u>	<u>5,320,807</u>
Total liabilities	<u>5,720,706</u>	<u>5,819,965</u>
Net Assets		
Invested in capital assets, net of related debt	(64,463)	268,784
Restricted - expendable for		
Debt service	184,508	89,346
Capital acquisitions	31,878	24,301
Unrestricted	<u>1,354,153</u>	<u>1,709,310</u>
Total net assets	<u>1,506,076</u>	<u>2,091,741</u>
Total liabilities and net assets	<u>\$ 7,226,782</u>	<u>\$ 7,911,706</u>

Rush County Memorial Hospital
A Component Unit of Rush County, Kansas
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended December 31, 2011 and 2010

	2011	2010
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2011 - \$116,000, 2010 - \$186,000	\$ 4,698,935	\$ 4,251,366
Other	57,307	27,926
Total operating revenues	4,756,242	4,279,292
Operating Expenses		
Salaries and wages	2,039,833	2,176,288
Employee benefits	572,580	525,815
Purchased services and professional fees	1,175,129	683,112
Supplies and other	1,099,891	1,091,931
Depreciation	418,995	209,446
Total operating expenses	5,306,428	4,686,592
Operating Loss	(550,186)	(407,300)
Nonoperating Revenues (Expenses)		
Intergovernmental revenue	150,000	150,000
Interest income	58,659	31,872
Interest expense	(269,088)	(60,798)
Noncapital grants and gifts	21,427	12,597
Total nonoperating revenues (expenses)	(39,002)	133,671
Deficiency of Revenues Over Expenses Before Capital Grants and Gifts	(589,188)	(273,629)
Capital Grants and Gifts	3,523	2,272
Decrease in Net Assets	(585,665)	(271,357)
Net Assets, Beginning of Year	2,091,741	2,363,098
Net Assets, End of Year	\$ 1,506,076	\$ 2,091,741

Rush County Memorial Hospital
A Component Unit of Rush County, Kansas
Statements of Cash Flows
Years Ended December 31, 2011 and 2010

	2011	2010
Operating Activities		
Receipts from and on behalf of patients	\$ 4,884,310	\$ 3,635,080
Payments to suppliers and contractors	(2,366,510)	(1,596,588)
Payments to and on behalf of employees	(2,617,573)	(2,829,857)
Other receipts, net	57,307	27,926
Net cash used in operating activities	(42,466)	(763,439)
Noncapital Financing Activities		
Intergovernmental revenue supporting operations	150,000	150,000
Noncapital grants and gifts	25,337	12,072
Net cash provided by noncapital financing activities	175,337	162,072
Capital and Related Financing Activities		
Restricted capital grants and gifts received	3,523	2,272
Principal payments on long-term debt	(55,238)	(53,516)
Interest payments on long-term debt	(269,088)	(60,798)
Purchase of capital assets	(33,736)	(2,890,303)
Net cash used in capital and related financing activities	(354,539)	(3,002,345)
Investing Activities		
Interest income received	58,659	31,872
Purchase of short-term certificates of deposit	(620,330)	(1,582,653)
Maturities of short-term certificates of deposit	867,228	2,090,000
Net change in construction escrow and debt-related accounts	(107,236)	2,694,382
Net cash provided by investing activities	198,321	3,233,601
Decrease in Cash	(23,347)	(370,111)
Cash, Beginning of Year	76,391	446,502
Cash, End of Year	\$ 53,044	\$ 76,391

Rush County Memorial Hospital
A Component Unit of Rush County, Kansas
Statements of Cash Flows (Continued)
Years Ended December 31, 2011 and 2010

	2011	2010
Reconciliation of Net Operating Revenues (Expenses) to Net		
Cash Used in Operating Activities		
Operating loss	\$ (550,186)	\$ (407,300)
Depreciation	418,995	209,446
Amortization	5,472	5,472
Changes in operating assets and liabilities		
Patient accounts receivable, net	301,375	(152,286)
Estimated amounts due from and to Medicare	(116,000)	(464,000)
Accounts payable and accrued expenses	(47,931)	40,713
Other assets and liabilities	(54,191)	4,516
Net cash used in operating activities	\$ (42,466)	\$ (763,439)

Rush County Memorial Hospital
A Component Unit of Rush County, Kansas
Notes to Financial Statements
December 31, 2011 and 2010

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

Nature of Operations and Reporting Entity

Rush County Memorial Hospital (Hospital) is an acute care hospital located in La Crosse, Kansas. The Hospital is a component unit of Rush County, Kansas and the Board of County Commissioners appoints members to the Board of Trustees of the Hospital. The Hospital primarily earns revenues by providing inpatient, outpatient, emergency care and residential long-term care services to patients in the Rush County, Kansas 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, while those from government-mandated nonexchange transactions are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions. Government-mandated nonexchange transactions that are not program specific (such as intergovernmental revenue delivered from property taxes), interest 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.

Intergovernmental Revenue

The Hospital received approximately 3% of its financial support from intergovernmental revenue derived from property taxes in 2011 and 2010. One hundred percent of these funds were used to support operations in both years.

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Property taxes are levied in November of one year and are received beginning in January of the following year. Intergovernmental revenue is recognized in full in the year in which use is first permitted.

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; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters, except workers' compensation. 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 the overall performance of the fund. Management believes adequate reserves are in place to cover claims incurred but not reported and no additional amounts have been accrued related to claims for this plan.

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.

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. The following estimated useful lives are being used by the Hospital:

Land improvements	8 – 10 years
Buildings	10 – 40 years
Fixed equipment	5 – 25 years
Major moveable equipment	3 – 20 years

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

	2011	2010
Total interest expense incurred on borrowings for project	\$ -	\$ 217,877
Build America Bond Rebates	-	(38,300)
Interest income from investment of proceeds of borrowings for project	-	(23,217)
Net interest cost capitalized	\$ -	\$ 156,360
Interest capitalized	\$ -	\$ 156,360
Interest charged to expense	269,088	60,798
Total interest incurred	\$ 269,088	\$ 217,158

Deferred Bond Costs

Deferred bond 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 paid time off benefits that may be realized as earned time off or, upon appropriate notice of termination, as a cash payment. Expense and the related liability are recognized as time off is 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.

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, 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.

Rush County Memorial Hospital
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Notes to Financial Statements
December 31, 2011 and 2010

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.

Income Taxes

As an essential government function of the County, 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.

Subsequent Events

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

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. The Hospital is recognized as a Critical Access Hospital (CAH) and is paid at one hundred one percent (101%) of allowable costs for certain inpatient and outpatient services. The Hospital is reimbursed for certain services and cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

Medicaid. The Hospital is paid for inpatient and outpatient services rendered to Medicaid program beneficiaries who are not part of a Medicaid managed care network on a cost reimbursement methodology. Medicaid managed care patients are reimbursed under a prospective reimbursement methodology. Medicaid Rural Health Clinic services are reimbursed under a cost-based methodology. The Hospital and Rural Health Clinic are reimbursed at tentative rates with final settlements determined after submission of annual cost reports by the Hospital and reviews thereof by the Kansas Department of Health and Environment.

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Medicaid reimbursement for long-term care facility residents is based on a cost-based prospective reimbursement methodology. The Hospital is reimbursed at a prospective rate with annual cost reports submitted to the Medicaid program. Rates are computed each calendar quarter using an average of the 2005, 2006 and 2007 cost reports and changes in the Medicaid resident case mix index. The Medicaid cost reports are subject to audit by the State and adjustments to rates can be made retroactively. As part of a provider assessment program approved by CMS on February 2, 2011, rates were updated retroactive to July 1, 2010, using 2007, 2008 and 2009 cost report data. Additional net revenues relative to the provider assessment program for the period from July 1, 2010 through June 30, 2011 (the State's fiscal year), were approximately \$124,000 and are included in 2011 net income. Effective July 1, 2011, rates were updated using 2008, 2009 and 2010 cost report data.

Approximately 69% and 66% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2011 and 2010, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations 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, 2011 and 2010, respectively, \$121,798 and \$1,774 of the Hospital's bank balances of \$806,053 and \$919,802 were exposed to custodial credit risk as follows:

	2011	2010
Uninsured and uncollateralized	\$ -	\$ 1,774
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the Hospital's name	121,798	-
	\$ 121,798	\$ 1,774

Rush County Memorial Hospital
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Notes to Financial Statements
December 31, 2011 and 2010

Summary of Carrying Values

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

	<u>2011</u>	<u>2010</u>
Carrying value		
Deposits	\$ 418,549	\$ 688,794
Petty cash	250	250
	<u>\$ 418,799</u>	<u>\$ 689,044</u>
 Included in the following balance sheet captions		
Cash	\$ 53,044	\$ 76,391
Short-term certificates of deposit	365,755	612,653
	<u>\$ 418,799</u>	<u>\$ 689,044</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, 2011 and 2010, consisted of:

	<u>2011</u>	<u>2010</u>
Medicare	\$ 518,362	\$ 742,751
Medicaid	59,108	54,780
Blue Cross	35,566	114,346
Other third-party payers	82,767	73,978
Patients	540,953	445,276
	<u>1,236,756</u>	<u>1,431,131</u>
Less allowance for uncollectible accounts	485,000	378,000
	<u>\$ 751,756</u>	<u>\$ 1,053,131</u>

Rush County Memorial Hospital
A Component Unit of Rush County, Kansas
Notes to Financial Statements
December 31, 2011 and 2010

Note 5: Capital Assets

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

	2011			
	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 9,597	\$ -	\$ -	\$ 9,597
Land improvements	23,592	-	-	23,592
Buildings	5,850,121	11,365	-	5,861,486
Fixed equipment	442,476	-	-	442,476
Major moveable equipment	1,619,708	22,371	-	1,642,079
	<u>7,945,494</u>	<u>33,736</u>	<u>-</u>	<u>7,979,230</u>
Less accumulated depreciation				
Land improvements	8,181	1,287	-	9,468
Buildings	804,855	263,221	-	1,068,076
Fixed equipment	292,890	18,258	-	311,148
Major moveable equipment	1,265,237	136,229	-	1,401,466
	<u>2,371,163</u>	<u>418,995</u>	<u>-</u>	<u>2,790,158</u>
Capital Assets, Net	<u>\$ 5,574,331</u>	<u>\$ (385,259)</u>	<u>\$ -</u>	<u>\$ 5,189,072</u>
	2010			
	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 9,597	\$ -	\$ -	\$ 9,597
Land improvements	7,847	15,745	-	23,592
Buildings	3,383,771	2,466,350	-	5,850,121
Fixed equipment	352,792	89,684	-	442,476
Major moveable equipment	1,577,861	41,847	-	1,619,708
	<u>5,331,868</u>	<u>2,613,626</u>	<u>-</u>	<u>7,945,494</u>
Less accumulated depreciation				
Land improvements	7,847	334	-	8,181
Buildings	746,025	58,830	-	804,855
Fixed equipment	277,948	14,942	-	292,890
Major moveable equipment	1,129,897	135,340	-	1,265,237
	<u>2,161,717</u>	<u>209,446</u>	<u>-</u>	<u>2,371,163</u>
Capital Assets, Net	<u>\$ 3,170,151</u>	<u>\$ 2,404,180</u>	<u>\$ -</u>	<u>\$ 5,574,331</u>

Rush County Memorial Hospital
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Note 6: Medical Malpractice Coverage and Claims

The Hospital purchases medical malpractice insurance under a claims-made policy with a fixed premium which provides \$200,000 of coverage for each medical incident and \$600,000 of aggregate coverage for each policy year. 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.

Note 7: Long-term Debt

The following is a summary of long-term obligation transactions for the Hospital for the years ended December 31:

	2011				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Revenue bonds payable	\$ 240,000	\$ -	\$ 30,000	\$ 210,000	\$ 30,000
Note payable - County - 2009	5,000,000	-	-	5,000,000	105,000
Unamortized premium	77,273	-	3,226	74,047	-
Capital lease obligations	65,547	-	22,012	43,535	24,049
Total long-term debt	<u>\$5,382,820</u>	<u>\$ -</u>	<u>\$ 55,238</u>	<u>\$5,327,582</u>	<u>\$ 159,049</u>
	2010				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Revenue bonds payable	\$ 270,000	\$ -	\$ 30,000	\$ 240,000	\$ 30,000
Note payable - County - 2009	5,000,000	-	-	5,000,000	10,000
Unamortized premium	80,640	-	3,367	77,273	-
Capital lease obligations	85,696	-	20,149	65,547	22,013
Total long-term debt	<u>\$5,436,336</u>	<u>\$ -</u>	<u>\$ 53,516</u>	<u>\$5,382,820</u>	<u>\$ 62,013</u>

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Revenue Bonds Payable

The revenue bonds payable consist of Hospital Revenue Bonds, Series 2008A (Bonds) in the original amount of \$300,000 dated June 26, 2008. These Bonds were purchased in their entirety by The Golden Belt Telephone Association, Inc. at their par value with no interest due pursuant to a Rural Economic Development Loan and Grant Program. The proceeds of this loan were used to finance equipment purchases. The Bonds are payable in annual installments of \$30,000 through June 26, 2018.

The debt service requirements as of December 31, 2011, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2012	\$ 30,000	\$ 30,000	\$ -
2013	30,000	30,000	-
2014	30,000	30,000	-
2015	30,000	30,000	-
2016	30,000	30,000	-
2017-2018	60,000	60,000	-
	<u>\$ 210,000</u>	<u>\$ 210,000</u>	<u>\$ -</u>

Note Payable – County – 2009

The note payable – County – 2009 consists of an agreement with the County to repay on its behalf the General Obligation Bonds, Series 2009 (Bonds), in the original amount of \$2,000,000 and \$3,010,000 dated May 1, 2009 and November 1, 2009 respectively, which bear interest at an average of 4.665% and 5.586% over the term of the bonds respectively. A portion, \$2,055,000, of the November 1, 2009, issuance was part of the Build America Bonds (BAB) program and subject to a 35% interest rebate. When taking into consideration the BAB rebate, the effective interest rate for the November issuance averages 4.113% over the term of the bond. The proceeds from this loan were used to finance the remodeling of the Hospital. The Bonds are payable in annual installments through June 26, 2034. The Bonds are secured by the net revenues and accounts receivable of the Hospital.

The bond document requires the Hospital to comply with certain restrictive covenants including minimum insurance coverage, maintaining a debt-service coverage ratio of at least 1:0, and restrictions on issuance of additional debt.

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The debt service requirements as of December 31, 2011, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2012	\$ 271,452	\$ 105,000	\$ 166,452
2013	356,277	105,000	251,277
2014	362,802	125,000	237,802
2015	378,964	130,000	248,964
2016	379,352	135,000	244,352
2017-2021	1,583,521	865,000	718,521
2022-2026	2,053,315	1,135,000	918,315
2027-2031	1,979,490	1,405,000	574,490
2032-2034	1,509,017	995,000	514,017
	<u>\$ 8,874,190</u>	<u>\$ 5,000,000</u>	<u>\$ 3,874,190</u>

Capital Lease Obligations

The Hospital is obligated under a lease for equipment that is accounted for as a capital lease. Assets under capital lease at December 31, 2011 and 2010, totaled \$39,783 and \$61,483, net of accumulated depreciation of \$68,717 and \$47,017. The following is a schedule by year of future minimum lease payments under the capital lease including interest at the rate of 8.88% together with the present value of the future minimum lease payments as of December 31, 2011:

Year Ending December 31,	
2012	\$ 26,952
2013	20,214
Total minimum lease payments	<u>47,166</u>
Less amount representing interest	<u>3,631</u>
Present value of future minimum lease payments	<u>\$ 43,535</u>

Rush County Memorial Hospital
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Note 8: Pension Plan

The Hospital contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Hospital's required contributions, determined in accordance with the terms of the plan. The plan is administered by the Hospital's Board of Trustees. The plan provides retirement benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Hospital's governing body. Contribution rates for plan members and the Hospital expressed as a percentage of covered payroll were 4% for both 2011 and 2010. Contributions actually made by plan members and the Hospital aggregated \$86,451 and \$56,319 during 2011 and \$72,835 and \$53,018 during 2010, respectively. The Hospital's contributions were reduced by the use of forfeitures of \$31,406 and \$18,062 during 2011 and 2010, respectively.

Note 9: Significant Estimates and Concentrations

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, large declines in contributions, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Hospital.

Current economic conditions, including the rising unemployment rate, have made it difficult for certain 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 programs.

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.