

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

Independent Auditor's Report and Financial Statements

December 31, 2012 and 2011



Rush County Memorial Hospital
A Component Unit of Rush County, Kansas
December 31, 2012 and 2011

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Independent Auditor's Report

Board of Trustees
Rush County Memorial Hospital
La Crosse, Kansas

We have audited the accompanying financial statements of Rush County Memorial Hospital, a component unit of Rush County, Kansas, which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the provisions of the Kansas Municipal Audit Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rush County Memorial Hospital as of December 31, 2012 and 2011, 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.

Emphasis of Matter

As discussed in Note 9 to the financial statements, the 2011 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Required Supplementary Information

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

Wichita, Kansas
May 28, 2013

Rush County Memorial Hospital
A Component Unit of Rush County, Kansas
Balance Sheets
December 31, 2012 and 2011

Assets

	2012	2011
Current Assets		
Cash	\$ 126,835	\$ 53,044
Short-term certificates of deposit	363,653	365,755
Restricted cash - held under bond indenture	121,039	99,710
Patient accounts receivable, net of allowance; 2012 - \$632,000, 2011 - \$485,000	785,497	751,756
Estimated amounts due from Medicare and Medicaid	380,000	360,000
Supplies	109,746	114,315
Prepaid expenses and other	92,193	55,392
	<hr/>	<hr/>
Total current assets	1,978,963	1,799,972
	<hr/>	<hr/>
Noncurrent Cash		
Held under bond indenture for capital acquisitions – held by County	1,000	1,000
Held under bond indenture for debt service	124,151	84,798
Held under bond indenture for capital acquisitions	38,189	26,081
	<hr/>	<hr/>
Total noncurrent cash	163,340	111,879
	<hr/>	<hr/>
Capital Assets, Net	4,803,930	5,189,072
	<hr/>	<hr/>
Deferred Bond Costs	120,387	125,859
	<hr/>	<hr/>
Total assets	\$ 7,066,620	\$ 7,226,782
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Liabilities and Net Position

	2012	2011
Current Liabilities		
Current maturities of long-term debt	\$ 154,330	\$ 159,049
Accounts payable	130,489	159,677
Accrued expenses	248,433	223,491
Deferred grant revenue	5,849	9,956
Total current liabilities	539,101	552,173
Long-term Debt	5,020,962	5,168,533
Total liabilities	5,560,063	5,720,706
Net Position		
Net investment in capital assets	(300,370)	(64,463)
Restricted - expendable for		
Debt service	245,190	184,508
Capital acquisitions	47,906	31,878
Unrestricted	1,513,831	1,354,153
Total net position	1,506,557	1,506,076
Total liabilities and net position	\$ 7,066,620	\$ 7,226,782

Rush County Memorial Hospital
A Component Unit of Rush County, Kansas
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2012 and 2011

	2012	2011
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2012 - \$135,000, 2011 - \$116,000	\$ 5,263,259	\$ 4,698,935
Other	31,193	57,307
Total operating revenues	<u>5,294,452</u>	<u>4,756,242</u>
Operating Expenses		
Salaries and wages	2,284,438	2,039,833
Employee benefits	606,336	572,580
Purchased services and professional fees	772,751	1,175,129
Supplies and other	1,200,789	1,099,891
Depreciation	411,018	418,995
Total operating expenses	<u>5,275,332</u>	<u>5,306,428</u>
Operating Income (Loss)	<u>19,120</u>	<u>(550,186)</u>
Nonoperating Revenues (Expenses)		
Intergovernmental revenue	150,000	150,000
Interest income	56,819	58,659
Interest expense	(267,481)	(269,088)
Noncapital grants and gifts	38,599	21,427
Total nonoperating revenues (expenses)	<u>(22,063)</u>	<u>(39,002)</u>
Deficiency of Revenues Over Expenses Before Capital Grants and Gifts	<u>(2,943)</u>	<u>(589,188)</u>
Capital Grants and Gifts	<u>3,424</u>	<u>3,523</u>
Increase (Decrease) in Net Position	481	(585,665)
Net Position, Beginning of Year	<u>1,506,076</u>	<u>2,091,741</u>
Net Position, End of Year	<u><u>\$ 1,506,557</u></u>	<u><u>\$ 1,506,076</u></u>

Rush County Memorial Hospital
A Component Unit of Rush County, Kansas
Statements of Cash Flows
Years Ended December 31, 2012 and 2011

	2012	Restated 2011
Operating Activities		
Receipts from and on behalf of patients	\$ 5,209,518	\$ 4,884,310
Payments to suppliers and contractors	(2,029,488)	(2,366,510)
Payments to and on behalf of employees	(2,865,832)	(2,617,573)
Other receipts, net	31,193	57,307
Net cash provided by (used in) operating activities	345,391	(42,466)
Noncapital Financing Activities		
Intergovernmental revenue supporting operations	150,000	150,000
Noncapital grants and gifts	34,492	25,337
Net cash provided by noncapital financing activities	184,492	175,337
Capital and Related Financing Activities		
Restricted capital grants and gifts received	3,424	3,523
Principal payments on long-term debt	(152,290)	(55,238)
Interest payments on long-term debt	(267,481)	(269,088)
Purchase of capital assets	(25,876)	(33,736)
Net cash used in capital and related financing activities	(442,223)	(354,539)
Investing Activities		
Interest income received	56,819	58,659
Purchase of short-term certificates of deposit	(184,803)	(620,330)
Maturities of short-term certificates of deposit	186,905	867,228
Net change in construction escrow and debt-related accounts	-	-
Net cash provided by investing activities	58,921	305,557
Increase in Cash	146,581	83,889
Cash, Beginning of Year	263,633	179,744
Cash, End of Year	\$ 410,214	\$ 263,633
Reconciliation of Cash to the Balance Sheets		
Cash in current assets	\$ 126,835	\$ 53,044
Restricted cash in current assets	121,039	99,710
Restricted cash in noncurrent assets	162,340	110,879
Total cash	\$ 410,214	\$ 263,633

Rush County Memorial Hospital
A Component Unit of Rush County, Kansas
Statements of Cash Flows (Continued)
Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used in Operating Activities		
Operating loss	\$ 19,120	\$ (550,186)
Depreciation	411,018	418,995
Amortization	5,472	5,472
Changes in operating assets and liabilities		
Patient accounts receivable, net	(33,741)	301,375
Estimated amounts due from and to Medicare	(20,000)	(116,000)
Accounts payable and accrued expenses	(4,246)	(47,931)
Other assets and liabilities	<u>(32,232)</u>	<u>(54,191)</u>
Net cash provided by (used in) operating activities	<u>\$ 345,391</u>	<u>\$ (42,466)</u>

Rush County Memorial Hospital
A Component Unit of Rush County, Kansas
Notes to Financial Statements
December 31, 2012 and 2011

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

Nature of Operations and Reporting Entity

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 position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position is available.

The Hospital prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB).

Use of Estimates

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

Intergovernmental Revenue

The Hospital received approximately 3% of its financial support from intergovernmental revenue derived from property taxes in 2012 and 2011. One hundred percent of these funds were used to support operations in both years.

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.

Rush County Memorial Hospital
A Component Unit of Rush County, Kansas
Notes to Financial Statements
December 31, 2012 and 2011

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

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.

Rush County Memorial Hospital
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Notes to Financial Statements
December 31, 2012 and 2011

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 Position

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

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.

Subsequent Events

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

Rush County Memorial Hospital
A Component Unit of Rush County, Kansas
Notes to Financial Statements
December 31, 2012 and 2011

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.

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. Prior to 2011 rates were computed each calendar quarter using an average of the 2005, 2006 and 2007 cost reports and changes in the Medicaid resident case mix index. As part of a provider assessment program approved by CMS on February 2, 2011, rates were updated retroactively to July 1, 2010, using 2007, 2008 and 2009 cost report data. Additional net revenues for the Hospital relative to the provider assessment program for the period from July 1, 2010 through June 30, 2011 (the State's fiscal year), totaled approximately \$124,000 and are included in 2011 net patient service revenue. Effective July 1, 2011, rates were updated using 2008, 2009 and 2010 cost report data. Rates were not rebased or inflated as of July 1, 2012. The Medicaid cost reports are subject to audit by the State and adjustments to rates can be made retroactively.

Approximately 67% and 69% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2012 and 2011, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, 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.

Rush County Memorial Hospital

A Component Unit of Rush County, Kansas

Notes to Financial Statements

December 31, 2012 and 2011

Patient Protection and Affordable Care Act

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

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

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

Note 3: Deposits

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

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

At December 31, 2012 and 2011, respectively, \$245,152 and \$121,798 of the Hospital's bank balances of \$862,071 and \$806,053 were exposed to custodial credit risk as follows:

	2012	2011
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the Hospital's name	\$ 245,152	\$ 121,798

Rush County Memorial Hospital
A Component Unit of Rush County, Kansas
Notes to Financial Statements
December 31, 2012 and 2011

Summary of Carrying Values

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

	2012	2011
Carrying value		
Deposits	\$ 773,517	\$ 629,138
Petty cash	350	250
	<u>\$ 773,867</u>	<u>\$ 629,388</u>
Included in the following balance sheet captions		
Cash	\$ 126,835	\$ 53,044
Short-term certificates of deposit	363,653	365,755
Restricted cash - held under bond indenture	121,039	99,710
Held under bond indenture for debt service	124,151	84,798
Held under bond indenture for capital acquisitions	38,189	26,081
	<u>\$ 773,867</u>	<u>\$ 629,388</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, 2012 and 2011, consisted of:

	2012	2011
Medicare	\$ 542,120	\$ 518,362
Medicaid	55,147	59,108
Blue Cross	52,075	35,566
Other third-party payers	92,485	82,767
Patients	679,670	540,953
	<u>1,421,497</u>	<u>1,236,756</u>
Less allowance for uncollectible accounts	<u>632,000</u>	<u>485,000</u>
	<u>\$ 789,497</u>	<u>\$ 751,756</u>

Rush County Memorial Hospital
A Component Unit of Rush County, Kansas
Notes to Financial Statements
December 31, 2012 and 2011

Note 5: Capital Assets

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

	2012			
	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 9,597	\$ -	\$ -	\$ 9,597
Land improvements	23,592	-	-	23,592
Buildings	5,861,486	-	-	5,861,486
Fixed equipment	442,476	10,616	-	453,092
Major moveable equipment	1,642,079	15,260	-	1,657,339
	<u>7,979,230</u>	<u>25,876</u>	<u>-</u>	<u>8,005,106</u>
Less accumulated depreciation				
Land improvements	9,468	1,287	-	10,755
Buildings	1,068,076	262,924	-	1,331,000
Fixed equipment	311,148	17,081	-	328,229
Major moveable equipment	1,401,466	129,726	-	1,531,192
	<u>2,790,158</u>	<u>411,018</u>	<u>-</u>	<u>3,201,176</u>
Capital Assets, Net	<u>\$ 5,189,072</u>	<u>\$ (385,142)</u>	<u>\$ -</u>	<u>\$ 4,803,930</u>

	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>

Rush County Memorial Hospital
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Notes to Financial Statements
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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:

2012					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Revenue bonds payable	\$ 210,000	\$ -	\$ 30,000	\$ 180,000	\$ 30,000
Note payable - County - 2009	5,000,000	-	95,000	4,905,000	105,000
Unamortized premium	74,047	-	3,055	70,992	-
Capital lease obligations	43,535	-	24,235	19,300	19,330
Total long-term debt	<u>\$5,327,582</u>	<u>\$ -</u>	<u>\$ 152,290</u>	<u>\$ 5,175,292</u>	<u>\$ 154,330</u>
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>

Rush County Memorial Hospital
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Notes to Financial Statements
December 31, 2012 and 2011

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, 2012, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2013	\$ 30,000	\$ 30,000	\$ -
2014	30,000	30,000	-
2015	30,000	30,000	-
2016	30,000	30,000	-
2017	30,000	30,000	-
2018	30,000	30,000	-
	<u>\$ 180,000</u>	<u>\$ 180,000</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.

Rush County Memorial Hospital
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Notes to Financial Statements
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The debt service requirements as of December 31, 2012, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2013	\$ 346,277	\$ 105,000	\$ 241,277
2014	362,802	125,000	237,802
2015	378,964	130,000	248,964
2016	379,352	135,000	244,352
2017	378,802	140,000	238,802
2018-2022	2,030,354	935,000	1,095,354
2023-2027	2,027,309	1,180,000	847,309
2028-2032	1,942,415	1,470,000	472,415
2033-2034	756,463	685,000	71,463
	<u>\$ 8,602,738</u>	<u>\$ 4,905,000</u>	<u>\$ 3,697,738</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, 2012 and 2011, totaled \$39,783 and \$61,483, net of accumulated depreciation of \$68,717 and \$47,017, respectively. 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, 2012:

Year Ending December 31,	
2013	\$ 20,214
Total minimum lease payments	20,214
Less amount representing interest	884
Present value of future minimum lease payments	<u>\$ 19,330</u>

Rush County Memorial Hospital
A Component Unit of Rush County, Kansas
Notes to Financial Statements
December 31, 2012 and 2011

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 2012 and 2011. Contributions actually made by plan members and the Hospital aggregated \$78,335 and \$35,432 during 2012 and \$86,451 and \$56,319 during 2011, respectively. The Hospital's contributions were reduced by the use of forfeitures of \$9,686 and \$31,406 during 2012 and 2011, respectively.

Note 9: Restatement of Prior Year Financial Statements

The Hospital previously did not report restricted cash held under bond indenture in the statement of cash flows as required by Generally Accepted Accounting Principles. The Hospital has retroactively restated prior year financial statements to include all cash in the statement of cash flows.

The following financial statement line items were affected by the correction:

	Statement of Cash Flows		
	As Previously Reported	As Restated	Effect of Change
Investing Activities			
Net change in construction escrow and debt-related accounts	\$ (107,326)	\$ -	\$ 107,326
Net cash provided by investing activities	198,321	305,557	107,236
Increase (Decrease) in Cash	(23,347)	83,889	107,236
Cash, Beginning of Year	76,391	179,744	103,353
Cash, End of Year	53,044	263,633	210,589