

FINANCIAL STATEMENTS AND REPORT OF  
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS  
RUSSELL REGIONAL HOSPITAL BOARD  
D/B/A RUSSELL REGIONAL HOSPITAL  
JULY 31, 2012 AND 2011

## CONTENTS

	Page
MANAGEMENT'S DISCUSSION AND ANALYSIS	1
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS	6
FINANCIAL STATEMENTS	
BALANCE SHEETS	7
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS	8
STATEMENTS OF CASH FLOWS	9
NOTES TO FINANCIAL STATEMENTS	12

RUSSELL REGIONAL HOSPITAL BOARD  
D/B/A RUSSELL REGIONAL HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Years ended July 31, 2012 and 2011

Our discussion and analysis of the financial performance of the Russell Regional Hospital Board d/b/a Russell Regional Hospital (the County Hospital Board) provides a narrative overview of its financial activities for the years ended July 31, 2012 and 2011. Please read it in conjunction with the accompanying basic financial statements.

Financial highlights

The net assets of the County Hospital Board increased by \$633,015 or 7.00 percent during the 2012 fiscal year and increased by \$302,855 or 3.46 percent during the 2011 fiscal year.

WCKA, a component unit of the County Hospital Board, reported decreases of \$267,158 and \$650,379 in its operating losses for the 2012 and 2011 fiscal years, respectively.

Using these financial statements

The financial statements of the County Hospital Board consist of three statements - a Balance Sheet; a Statement of Revenues, Expenses, and Changes in Net Assets; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the County Hospital Board, including resources held by or for the benefit of the County Hospital Board, and resources restricted for specific purposes by contributors and grantors.

One of the most important questions asked about finances of the County Hospital Board is, "Is the County Hospital Board 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 resources of the County Hospital Board 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. For purposes of these two statements, revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the net assets of the County Hospital Board and changes in them. Net assets of the County Hospital Board - the difference between assets and liabilities - may be thought of as one way to measure its financial health, or financial position. Over time, increases or decreases in the net assets of the County Hospital Board are one indicator of whether its financial health is improving or deteriorating. Consideration must also be given to other nonfinancial indicators, such as changes in the patient base of the County Hospital Board and measures of the quality of service it provides to the community, as well as local economic factors, to assess the overall health of the County Hospital Board.

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing 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 balance during the reporting period?"

RUSSELL REGIONAL HOSPITAL BOARD  
D/B/A RUSSELL REGIONAL HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED  
Years ended July 31, 2012 and 2011

Assets, liabilities, and net assets

The balance sheets of the County Hospital Board as of the end of each of the last three years are summarized as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Assets			
Current assets	\$ 817,380	\$ 597,696	\$ 380,612
Assets limited as to use	2,771,553	2,504,719	2,331,777
Capital assets, net	4,476,437	4,797,145	5,094,176
Other assets	<u>1,617,853</u>	<u>1,165,209</u>	<u>954,430</u>
Total assets	<u>\$9,683,223</u>	<u>\$9,064,769</u>	<u>\$8,760,995</u>
Liabilities			
Current liabilities	\$ -	\$ 14,561	\$ 13,642
Total liabilities	<u>\$ -</u>	<u>\$ 14,561</u>	<u>\$ 13,642</u>
Net assets	<u>\$9,683,223</u>	<u>\$9,050,208</u>	<u>\$8,747,353</u>

Other assets consist primarily of the County Hospital Board's residual interest in WCKA's net assets. The County Hospital Board's residual interest in WCKA's net assets increased by \$452,644 and \$210,779 during the years ended July 31, 2012 and 2011, respectively. But it decreased by \$396,435 during the year ended July 31, 2010.

On November 4, 2003, a majority of the qualified electors of the County approved, at a special bond election, the question of whether to issue general obligation bonds of the County in an amount not to exceed \$5,500,000 to pay the costs of making improvements to the hospital facility. The County issued its General Obligation Hospital Bonds, Series 2004, on July 1, 2004, in the amount of \$5,500,000. Costs incurred by the County Hospital Board subsequent to issuance of the bonds for renovations and additions to its facility were submitted to the County for reimbursement from the bond proceeds. Reimbursements received and costs paid directly from the bond proceeds were recorded as capital contributions.

On May 15, 2012, the County issued its General Obligation Hospital Refunding Bonds, Series 2012, in the amount of \$4,530,000. The proceeds of the 2012 bonds along with other funds were used to refund the Series 2004 bonds and to pay costs related to the issuance of the 2012 bonds.

To the extent that resources are available, the County Hospital Board and WCKA have agreed to transfer funds to the County for purposes of making principal and interest payments on the bonds as they come due. However, it is uncertain what amounts, if any, the two entities will be able to transfer to the County in future periods. The County Hospital Board transferred \$433,406, \$424,065, and \$428,165 to the County during the 2012, 2011, and 2010 fiscal years, respectively, to pay principal and interest due on the bonds.

RUSSELL REGIONAL HOSPITAL BOARD  
D/B/A RUSSELL REGIONAL HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED  
Years ended July 31, 2012 and 2011

The net assets of the County Hospital Board increased by \$633,015 or 7.00 percent during the 2012 fiscal year and increased by \$302,855 or 3.46 percent during the 2011 fiscal year.

WCKA's balance sheets as of the end of each of the last three years are summarized as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Assets			
Current assets	\$2,312,205	\$2,277,903	\$2,246,116
Assets limited as to use	125,990	169,433	225,000
Capital assets, net	<u>1,304,388</u>	<u>1,410,509</u>	<u>984,845</u>
Total assets	<u>\$3,742,583</u>	<u>\$3,857,845</u>	<u>\$3,455,961</u>
Liabilities			
Current liabilities	\$1,437,875	\$1,651,281	\$1,736,025
Long-term obligations	654,371	917,788	540,506
Due to lessor	<u>1,617,853</u>	<u>1,165,209</u>	<u>954,430</u>
Total liabilities	<u>\$3,710,099</u>	<u>\$3,734,278</u>	<u>\$3,230,961</u>
Net assets	<u>\$ 32,484</u>	<u>\$ 123,567</u>	<u>\$ 225,000</u>

WCKA was organized on June 23, 1997, and on August 1, 1997, it assumed custody of assets and liabilities related to hospital operations from the County Hospital Board pursuant to a 10-year lease agreement. The lease agreement has been extended and is in effect through July 31, 2022. At the end of the lease term, WCKA has agreed to return all of its net assets to the County Hospital Board. Accordingly, WCKA's net assets are presented as a liability ("due to lessor") in its financial statements. The residual interest in WCKA's unrestricted net assets is presented as an asset in the financial statements of the County Hospital Board.

WCKA's net assets increased by \$361,561 or 28.05 percent during the 2012 fiscal year and increased by \$109,346 or 9.27 percent during the 2011 fiscal year.

RUSSELL REGIONAL HOSPITAL BOARD  
D/B/A RUSSELL REGIONAL HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED  
Years ended July 31, 2012 and 2011

Operating results and changes in net assets

The operating results and changes in net assets for the County Hospital Board during each of the last three years are summarized as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating revenues	\$ 7,765	\$ 7,548	\$ 6,394
Operating expenses	<u>604,926</u>	<u>618,760</u>	<u>682,225</u>
Operating loss	(597,161)	(611,212)	(675,831)
Property taxes	675,331	611,945	539,370
Sales taxes	593,228	540,599	482,254
Other nonoperating revenue, net	104,239	219,923	126,299
Capital grants and contributions	107,701	144,249	146,239
Transfers to WCKA	(269,561)	(389,363)	(597,547)
Transfers to Russell County	(433,406)	(424,065)	(428,165)
Change in obligation of lessee to lessor	<u>452,644</u>	<u>210,779</u>	<u>(396,435)</u>
Change in net assets	<u>\$ 633,015</u>	<u>\$ 302,855</u>	<u>\$ (803,816)</u>

Operating expenses consist primarily of depreciation on capital assets; \$487,168, \$476,235, and \$509,054 during each of the years ended July 31, 2012, 2011, and 2010, respectively.

WCKA's operating results and changes in net assets for each of the last three years are summarized as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating revenues	\$ 12,596,353	\$ 12,633,956	\$ 12,112,711
Operating expenses	<u>12,836,989</u>	<u>13,141,750</u>	<u>13,270,884</u>
Operating loss	(240,636)	(507,794)	(1,158,173)
Ambulance subsidy	300,000	315,000	235,810
Other nonoperating revenue, net	(67,363)	(87,223)	(71,619)
Capital grants and contributions	99,999		225,000
Transfers from County Hospital Board	<u>269,561</u>	<u>389,363</u>	<u>597,547</u>
Change in net assets	<u>\$ 361,561</u>	<u>\$ 109,346</u>	<u>\$ (171,435)</u>

The first, and most significant, component of the overall change in WCKA's net assets is its operating loss - generally, the difference between net patient service revenue and the expenses incurred to perform those services. WCKA has reported operating losses during each of the past three years but the loss decreased by \$267,158 and \$650,379 during the 2012 and 2011 fiscal years, respectively.

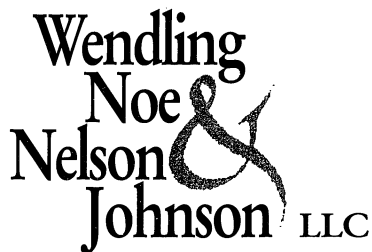
RUSSELL REGIONAL HOSPITAL BOARD  
D/B/A RUSSELL REGIONAL HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED  
Years ended July 31, 2012 and 2011

Gross and net patient service revenue for the past three years are analyzed as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Inpatient services	\$ 4,979,521	\$ 5,180,747	\$ 5,224,269
Outpatient services	13,635,447	13,260,971	12,660,982
Physician services	<u>2,319,094</u>	<u>2,299,128</u>	<u>2,040,470</u>
Gross patient service revenue	20,934,062	20,740,846	19,925,721
Contractual adjustments	(7,863,252)	(7,457,020)	(7,263,351)
Medicaid disproportionate share payments	219,675	217,227	257,380
Provision for bad debts	(642,300)	(755,676)	(751,304)
Charity care	<u>(162,649)</u>	<u>(197,228)</u>	<u>(164,517)</u>
Net patient service revenue	<u>\$ 12,485,536</u>	<u>\$ 12,548,149</u>	<u>\$ 12,003,929</u>

WCKA raised its charge rates in certain areas during the 2011 and 2010 fiscal years, but there were no rate increases during the 2012 fiscal year. The remainder of the overall changes in gross patient service revenue during the past three years is due to changes in inpatient and outpatient volume. Gross revenues from inpatient services decreased by 3.9 percent during the 2012 fiscal year, decreased by 0.8 percent during the 2011 fiscal year, and decreased 11.2 percent during the 2010 fiscal year. Those changes were greatly influenced by variations in the number of patient days. Total patient days (acute and swing-bed combined) decreased by 2.4 percent, 7.4 percent, and 16.8 percent during the 2012, 2011, and 2010 fiscal years, respectively. Gains have occurred for revenues from outpatient services (2.8 percent, 4.7 percent, and 6.7 percent during 2012, 2011, and 2010, respectively) as a result of both charge rate increases and more outpatient volume.

WCKA has agreements with various third-party payors that provide for payments to it at amounts different from its established charge rates. These differences are referred to as contractual adjustments. As a percentage of gross patient service revenue they were 37.6 percent, 36.0 percent, and 36.5 percent during 2012, 2011, and 2010, respectively. These values are comparable to those for similar critical access hospitals. As a critical access hospital, contractual adjustments for the Medicare and Medicaid programs are much lower as a percentage of gross charges than they are for most other third-party payors. The contractual adjustment rate for cost reimbursed Medicare and Medicaid services generally rises when patient volume increases, and falls when drops in patient volume are experienced.



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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees  
Russell Regional Hospital Board  
d/b/a Russell Regional Hospital

We have audited the accompanying balance sheets of the business-type activity and discretely presented component unit of the Russell Regional Hospital Board d/b/a Russell Regional Hospital (the County Hospital Board), a component unit of Russell County, Kansas, as of and for the years ended July 31, 2012 and 2011, which collectively comprise the County Hospital Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County Hospital Board'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. These 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County Hospital Board's internal control over financial reporting. Accordingly, we express no such opinion. 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 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 respective financial position of the business-type activity and discretely presented component unit of the Russell Regional Hospital Board d/b/a Russell Regional Hospital, as of July 31, 2012 and 2011, and their respective results of operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 through 5 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of



inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Wendling Roe Nelson & Johnson LLC*  
Topeka, Kansas  
January 4, 2013

FINANCIAL STATEMENTS

RUSSELL REGIONAL HOSPITAL BOARD  
D/B/A RUSSELL REGIONAL HOSPITAL

BALANCE SHEETS

July 31,

ASSETS

	2012		2011	
	Hospital Board	Component unit	Hospital Board	Component unit
CURRENT ASSETS				
Cash	\$ 699,597	\$ 479,619	\$ 493,792	\$ 512,622
Patient accounts receivable, less allowance for uncollectible accounts of \$462,930 in 2012 and \$399,000 in 2011		1,331,781		1,431,199
Other receivables				2,873
Estimated third-party payor settlements		180,464		
Sales tax receivable	96,413		103,904	
Inventories		198,968		203,699
Prepaid expenses	21,370	121,373		127,510
Total current assets	817,380	2,312,205	597,696	2,277,903
ASSETS LIMITED AS TO USE				
Internally designated				
For capital assets	1,625,268		1,341,132	
For employee benefits		93,506		45,866
By contributors for capital assets	849,364	32,484	866,666	123,567
Principal of permanent endowments	296,921		296,921	
Total assets limited as to use	2,771,553	125,990	2,504,719	169,433
CAPITAL ASSETS, NET	4,476,437	1,304,388	4,797,145	1,410,509
OTHER ASSETS				
Due from lessee	1,617,853	-	1,165,209	-
Total assets	\$ 9,683,223	\$ 3,742,583	\$ 9,064,769	\$ 3,857,845

The accompanying notes are an integral part of these statements.

# LIABILITIES AND NET ASSETS

	2012		2011	
	Hospital Board	Component unit	Hospital Board	Component unit
CURRENT LIABILITIES				
Current portion of notes payable to banks	\$ -	\$ 93,050	\$ -	\$ 287,231
Current portion of capital lease obligations		306,066		275,194
Accounts payable		370,843	14,561	383,851
Estimated third-party payor settlements				7,859
Accrued salaries and benefits		407,219		425,362
Accrued compensated absences		260,075		271,162
Accrued interest		622		622
Total current liabilities	-	1,437,875	14,561	1,651,281
NOTES PAYABLE TO BANKS, less current portion				75,993
CAPITAL LEASE OBLIGATIONS, less current portion		654,371		841,795
DUE TO LESSOR		1,617,853		1,165,209
Total liabilities	-	3,710,099	14,561	3,734,278
NET ASSETS				
Invested in capital assets net of related debt	4,476,437		4,797,145	
Restricted				
Expendable for capital acquisitions	849,364	32,484	866,666	123,567
Nonexpendable permanent endowments	296,921		296,921	
Unrestricted	4,060,501		3,089,476	
Total net assets	9,683,223	32,484	9,050,208	123,567
Total liabilities and net assets	\$ 9,683,223	\$ 3,742,583	\$ 9,064,769	\$ 3,857,845

RUSSELL REGIONAL HOSPITAL BOARD  
D/B/A RUSSELL REGIONAL HOSPITAL  
STATEMENTS OF REVENUES, EXPENSES, AND  
CHANGES IN NET ASSETS  
Year ended July 31,

	2012		2011	
	Hospital Board	Component unit	Hospital Board	Component unit
Operating revenues				
Net patient service revenue	\$ -	\$12,485,536	\$ -	\$12,548,149
Other revenue	7,765	110,817	7,548	85,807
Total operating revenues	7,765	12,596,353	7,548	12,633,956
Operating expenses				
Salaries and wages		7,342,729		7,601,804
Employee benefits		1,342,647		1,420,673
Purchased services, supplies, and other	117,758	3,720,687	142,525	3,674,725
Depreciation and amortization	487,168	430,926	476,235	444,548
Total operating expenses	604,926	12,836,989	618,760	13,141,750
Operating loss	(597,161)	(240,636)	(611,212)	(507,794)
Nonoperating revenues (expenses)				
Ambulance subsidy		300,000		315,000
Property taxes	675,331		611,945	
Sales taxes	593,228		540,599	
Investment income	9,835		8,113	2,688
Interest expense		(77,274)		(62,985)
Noncapital grants and contributions	89,404	9,911	209,022	9,575
Gain (loss) on disposal of capital assets	5,000		2,788	(36,501)
Total nonoperating revenues (expenses)	1,372,798	232,637	1,372,467	227,777
Excess of revenues over expenses (expenses over revenues) before capital grants and contributions and transfers	775,637	(7,999)	761,255	(280,017)
Capital grants and contributions	107,701	99,999	144,249	
Transfers				
Between Hospital Board and component unit	(269,561)	269,561	(389,363)	389,363
To Russell County	(433,406)		(424,065)	
Change in net assets	180,371	361,561	92,076	109,346
Net assets at beginning of year	9,050,208	123,567	8,747,353	225,000
Change in obligation of lessee to lessor	452,644	(452,644)	210,779	(210,779)
Net assets at end of year	\$ 9,683,223	\$ 32,484	\$ 9,050,208	\$ 123,567

The accompanying notes are an integral part of these statements.

RUSSELL REGIONAL HOSPITAL BOARD  
D/B/A RUSSELL REGIONAL HOSPITAL  
STATEMENTS OF CASH FLOWS  
Year ended July 31,

	2012		2011	
	Hospital Board	Component unit	Hospital Board	Component unit
Cash flows from operating activities				
Receipts from and on behalf of patients	\$ -	\$12,396,631	\$ -	\$12,813,897
Payments to or on behalf of employees		(8,762,246)		(8,990,056)
Payments for supplies and services	(153,689)	(3,722,827)	(133,132)	(3,902,429)
Other receipts and payments	7,765	113,690	7,548	83,691
Net cash provided (used) by operating activities	(145,924)	25,248	(125,584)	5,103
Cash flows from noncapital financing activities				
Tax levies and ambulance subsidy	1,276,050	300,000	1,138,852	315,000
Noncapital grants and contributions	89,404	9,911	209,022	9,575
Proceeds from notes payable to banks		107,077		164,285
Payments on notes payable to banks		(377,251)		(257,302)
Interest paid		(10,154)		(20,593)
Transfers	(269,561)	269,561	(389,363)	389,363
Net cash provided by noncapital financing activities	1,095,893	299,144	958,511	600,328
Cash flows from capital and related financing activities				
Acquisition of capital assets	(166,460)	(324,805)	(187,678)	(906,713)
Capital grants and contributions	107,701	99,999	144,249	
Decrease in assets limited as to use under donor imposed restrictions		91,083		101,433
Proceeds from sale of capital assets	5,000		2,788	
Interest paid		(67,120)		(42,392)
Capital lease obligations incurred		140,070		794,448
Payments on capital lease obligations		(296,622)		(318,195)
Transfers to Russell County	(433,406)		(424,065)	
Net cash used by capital and related financing activities	(487,165)	(357,395)	(464,706)	(371,419)

The accompanying notes are an integral part of these statements.

RUSSELL REGIONAL HOSPITAL BOARD  
D/B/A RUSSELL REGIONAL HOSPITAL  
STATEMENTS OF CASH FLOWS - CONTINUED  
Year ended July 31,

	2012		2011	
	Hospital Board	Component unit	Hospital Board	Component unit
Cash flows from investing activities				
Change in assets limited as to use	\$ (266,834)	\$ -	\$ (173,002)	\$ -
Interest income received	<u>9,835</u>		<u>9,039</u>	<u>2,688</u>
Net cash provided (used) by investing activities	<u>(256,999)</u>	<u>-</u>	<u>(163,963)</u>	<u>2,688</u>
Net change in cash and cash equivalents	205,805	(33,003)	204,258	236,700
Cash and cash equivalents at beginning of year	<u>493,792</u>	<u>512,622</u>	<u>289,534</u>	<u>275,922</u>
Cash and cash equivalents at end of year	<u>\$ 699,597</u>	<u>\$ 479,619</u>	<u>\$ 493,792</u>	<u>\$ 512,622</u>
Reconciliation of operating loss to net cash provided (used) by operating activities				
Operating loss	\$ (597,161)	\$ (240,636)	\$ (611,212)	\$ (507,794)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities				
Depreciation and amortization	487,168	430,926	476,235	444,548
Provision for bad debts		642,300		755,676
Changes in				
Patient accounts receivable		(542,882)		(497,708)
Estimated third-party payor settlements		(188,323)		7,780
Inventories and other current assets	(21,370)	13,741		(53,055)
Assets limited as to use internally designated for employee benefits		(47,640)		(45,866)
Accounts payable and accrued expenses	<u>(14,561)</u>	<u>(42,238)</u>	<u>9,393</u>	<u>(98,478)</u>
Net cash provided (used) by operating activities	<u>\$ (145,924)</u>	<u>\$ 25,248</u>	<u>\$ (125,584)</u>	<u>\$ 5,103</u>

The accompanying notes are an integral part of these statements.

RUSSELL REGIONAL HOSPITAL BOARD  
D/B/A RUSSELL REGIONAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
July 31, 2012 and 2011

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES

1. Reporting entity

The Russell Regional Hospital Board d/b/a Russell Regional Hospital (the County Hospital Board) is a county hospital located in Russell, Kansas. It is a component unit of Russell County, Kansas (the County). The County Hospital Board consists of seven members elected by residents of the County. It annually levies a tax to support its activities. The County Hospital Board can sue and be sued, and can buy, sell, or lease real property. Bond issuances must be approved by the County. The component unit discussed in Note A2 is included in the County Hospital Board's reporting entity because of the significance of its relationship with the County Hospital Board.

2. Component unit

The financial statements include the financial data of the discretely presented component unit described below. The component unit is reported separately to emphasize that it is legally separate from the County Hospital Board.

West Central Kansas Association, Inc. d/b/a Russell Regional Hospital (WCKA) is a not-for-profit membership corporation organized to operate an acute care hospital and nursing facility located in Russell, Kansas. WCKA was organized on June 23, 1997, and on August 1, 1997, it assumed custody of assets and liabilities related to hospital operations from the County Hospital Board pursuant to a 10-year lease agreement. The lease agreement has been extended and is in effect through July 31, 2022. At the end of the lease term, WCKA has agreed to return all of its net assets to the County Hospital Board, including any property or equipment acquired after inception of the lease. Accordingly, WCKA has recorded an obligation for the estimated liability due to the County Hospital Board at termination of the lease agreement.

3. 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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

4. Basis of accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," the County Hospital Board has implemented all GASB pronouncements and only relevant pronouncements of the Financial Accounting Standards Board (FASB) issued before November 30, 1989.



RUSSELL REGIONAL HOSPITAL BOARD  
D/B/A RUSSELL REGIONAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
July 31, 2012 and 2011

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES - Continued

5. Cash and cash equivalents

The County Hospital Board considers all cash and invested cash to be cash equivalents, excluding any assets limited as to use.

6. Allowance for uncollectible accounts

WCKA provides for accounts receivable that could become uncollectible in the future by establishing an allowance to reduce the carrying value of such receivables to their estimated net realizable value. WCKA estimates this allowance based on the aging of its accounts receivable and its historical collection experience for each type of payor.

7. Inventories

Inventories are stated at the lower of cost or market with cost determined on the first-in, first-out method.

8. Investments and investment income

Investments in debt and equity securities are reported at fair value. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in nonoperating revenue when earned.

9. Assets limited as to use

Assets limited as to use include assets set aside by the County Hospital Board for replacement of capital assets or for purchase of additional capital assets, over which the Board retains control and may, at its discretion, subsequently use for other purposes; assets restricted by contributors for a particular purpose; and assets required by contributors to be retained in perpetuity. Amounts that are required for obligations classified as current liabilities are reported in current assets.

10. Capital assets

Capital assets (including assets recorded as capital leases) are stated at cost. Depreciation and amortization of capital assets are provided on the straight-line method over the estimated useful lives of the assets. The estimated lives used are generally in accordance with the guidelines established by the American Hospital Association.

The costs of maintenance and repairs are charged to operating expenses as incurred. The costs of significant additions, renewals, and betterments to depreciable properties are capitalized and depreciated over the remaining or extended estimated useful lives of the item or the properties. Gains and losses on disposition of capital assets are included in nonoperating revenues and expenses.

RUSSELL REGIONAL HOSPITAL BOARD  
D/B/A RUSSELL REGIONAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
July 31, 2012 and 2011

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES - Continued

11. Costs of borrowing

Interest costs, including amortization of deferred financing costs, incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets. Costs incurred in connection with the issuance of long-term debt are amortized using the interest method over the term of the related debt.

12. Grants and contributions

From time to time, the County Hospital Board and WCKA receive grants and contributions from individuals and private organizations. Revenues from grants and contributions, including contributions of capital assets, are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

13. Net assets

Net assets of the County Hospital Board are classified in four components. "Net assets invested in capital assets net of related debt" consist of capital assets net of accumulated depreciation and reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. "Restricted expendable net assets" are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the County Hospital Board. "Restricted nonexpendable net assets" equal the principal portion of permanent endowments. "Unrestricted net assets" are remaining net assets that do not meet the definitions of the other three components of net assets.

14. Operating revenues and expenses

The statement of revenues, expenses, and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, which is the principal activity of the County Hospital Board and WCKA. Nonexchange revenues, including tax levies and noncapital grants and contributions, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

15. Net patient service revenue

Net patient service revenue is reported at established charges with deductions for discounts, charity care, contractual adjustments, and provision for bad debts, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

RUSSELL REGIONAL HOSPITAL BOARD  
D/B/A RUSSELL REGIONAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
July 31, 2012 and 2011

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES - Continued

16. Charity care

WCKA provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because WCKA does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

17. Income taxes

The County Hospital Board is exempt from federal taxes pursuant to Sections 115 and 501(a) of the Internal Revenue Code.

WCKA is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on its related income pursuant to Section 501(a) of the Code. WCKA's management is not aware of any uncertainties in income tax positions. The years ended July 31, 2012, 2011, 2010, and 2009, remain subject to examination by both federal and state taxing authorities.

18. Subsequent events

The County Hospital Board has evaluated subsequent events through January 4, 2013, which is the date the financial statements were available to be issued.

NOTE B - NET PATIENT SERVICE REVENUE

WCKA has agreements with third-party payors that provide for payments to it at amounts different from its established charge rates. The amounts reported on the balance sheet as estimated third-party payor settlements consist of the estimated differences between the contractual amounts for providing covered services and the interim payments received for those services. A summary of the payment arrangements with major third-party payors follows:

Medicare - WCKA is a critical access hospital for purposes of the Medicare program. Hospital and rural health clinic (RHC) services rendered to Medicare beneficiaries are paid under cost reimbursement methodologies. Physician services, other than RHC services, rendered to Medicare beneficiaries are paid based on a prospectively determined fee schedule. WCKA is paid for cost reimbursable items at tentative rates with final settlements determined after submission of annual cost reports by WCKA and audits or reviews thereof by the Medicare administrative contractor. WCKA's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. WCKA's Medicare cost reports have been audited or reviewed by the Medicare administrative contractor through July 31, 2010.

RUSSELL REGIONAL HOSPITAL BOARD  
D/B/A RUSSELL REGIONAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
July 31, 2012 and 2011

NOTE B - NET PATIENT SERVICE REVENUE - Continued

Medicaid - Hospital services rendered to Medicaid beneficiaries not enrolled in a Medicaid managed care plan are paid under cost reimbursement methodologies. Hospital services rendered to all other Medicaid beneficiaries are paid at prospectively determined rates. Nursing facility services are paid at prospectively determined per diem rates set annually on the basis of cost information supplied by nursing facilities for preceding calendar years. WCKA is paid for cost reimbursable items at tentative rates with final settlements determined after submission of annual cost reports by WCKA and reviews thereof by the Kansas Department of Health and Environment, Division of Health Care Finance (DHCF). WCKA's Medicaid cost reports have been audited or reviewed by DHCF through July 31, 2010.

Blue Cross and Blue Shield - All services rendered to patients who are insured by Blue Cross-Blue Shield are paid on the basis of prospectively determined rates per discharge or discounts from established charges.

WCKA has also entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The basis for payment to WCKA under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

A summary of gross and net patient service revenue follows:

	<u>2012</u>	<u>2011</u>
Gross patient service revenue	\$ 20,934,062	\$ 20,740,846
Contractual adjustments	(7,863,252)	(7,457,020)
Medicaid disproportionate share payments	219,675	217,227
Provision for bad debts	(642,300)	(755,676)
Charity care	<u>(162,649)</u>	<u>(197,228)</u>
Net patient service revenue	<u>\$ 12,485,536</u>	<u>\$ 12,548,149</u>

Revenue from the Medicare and Medicaid programs accounted for approximately 50 percent and 11 percent, respectively, of WCKA's net patient revenue during the year ended July 31, 2012, and 52 percent and 8 percent, respectively, of WCKA's net patient service revenue during the year ended July 31, 2011. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

NOTE C - DEPOSITS WITH FINANCIAL INSTITUTIONS

Kansas statutes authorize the County Hospital Board, with certain restrictions, to deposit or invest in open accounts, time deposits, certificates of deposit, repurchase agreements, U.S. Treasury Bills and Notes,

RUSSELL REGIONAL HOSPITAL BOARD  
D/B/A RUSSELL REGIONAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
July 31, 2012 and 2011

NOTE C - DEPOSITS WITH FINANCIAL INSTITUTIONS - Continued

and the State Treasurer's investment pool. Kansas statutes also require that collateral be pledged for bank deposits with a fair market value equal to 100 percent of the uninsured amounts and must be assigned for the benefit of the County Hospital Board.

At July 31, 2012, the carrying amounts of bank deposits, including certificates of deposit, were \$3,471,150 for the County Hospital Board and \$604,821 for WCKA. The bank balances for the two entities were \$3,471,840 and \$645,320, respectively. Of the County Hospital Board's bank balances, \$1,052,104 was covered by federal depository insurance and \$2,419,736 was covered by collateral held by a third-party bank but not registered in the name of the County Hospital Board. Of WCKA's bank balances, \$645,320 was covered by federal depository insurance.

Bank deposits are included in the financial statements under the following categories:

	2012		2011	
	Hospital Board	Component unit	Hospital Board	Component unit
Unrestricted funds				
Cash and invested cash	\$ 699,597	\$ 478,831	\$ 493,792	\$ 511,754
Assets limited as to use				
Internally designated				
For capital assets	1,625,268		1,341,132	
For employee benefits		93,506		45,866
By contributors for capital assets	849,364	32,484	866,666	123,567
Principal of permanent endowments	296,921		296,921	
Total bank deposits	<u>\$3,471,150</u>	<u>\$ 604,821</u>	<u>\$2,998,511</u>	<u>\$ 681,187</u>

NOTE D - ASSETS LIMITED AS TO USE

The composition of assets limited as to use is as follows:

	2012		2011	
	Hospital Board	Component unit	Hospital Board	Component unit
Internally designated				
For capital assets				
Cash	<u>\$1,625,268</u>	<u>\$ -</u>	<u>\$1,341,132</u>	<u>\$ -</u>
For employee benefits				
Cash	<u>\$ -</u>	<u>\$ 93,506</u>	<u>\$ -</u>	<u>\$ 45,866</u>

RUSSELL REGIONAL HOSPITAL BOARD  
D/B/A RUSSELL REGIONAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
July 31, 2012 and 2011

NOTE D - ASSETS LIMITED AS TO USE - Continued

	2012		2011	
	Hospital Board	Component unit	Hospital Board	Component unit
By contributors for capital assets				
Cash and certificates of deposit	<u>\$ 849,364</u>	<u>\$ 32,484</u>	<u>\$ 866,666</u>	<u>\$ 123,567</u>
Principal of permanent endowments				
Certificates of deposit	<u>\$ 296,921</u>	<u>\$ -</u>	<u>\$ 296,921</u>	<u>\$ -</u>

NOTE E - CAPITAL ASSETS

Capital asset additions, retirements, and balances for the County Hospital Board are as follows:

	2012			
	Beginning balance	Transfers and additions	Retirements	Ending balance
Land and improvements	\$ 337	\$ -	\$ -	\$ 337
Buildings and fixed equipment	9,582,412	55,100		9,637,512
Major movable equipment	<u>1,595,527</u>	<u>116,255</u>	<u>34,344</u>	<u>1,677,438</u>
Totals at historical cost	<u>11,178,276</u>	<u>171,355</u>	<u>34,344</u>	<u>11,315,287</u>
Less accumulated depreciation and amortization				
Buildings and fixed equipment	5,144,372	386,247		5,530,619
Major movable equipment	<u>1,248,463</u>	<u>100,921</u>	<u>34,344</u>	<u>1,315,040</u>
	<u>6,392,835</u>	<u>487,168</u>	<u>34,344</u>	<u>6,845,659</u>
Construction in progress	<u>11,704</u>	<u>(4,895)</u>	<u>-</u>	<u>6,809</u>
Capital assets, net	<u>\$4,797,145</u>	<u>\$ (320,708)</u>	<u>\$ -</u>	<u>\$4,476,437</u>

RUSSELL REGIONAL HOSPITAL BOARD  
D/B/A RUSSELL REGIONAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
July 31, 2012 and 2011

NOTE E - CAPITAL ASSETS - Continued

	2011			
	Beginning balance	Transfers and additions	Retirements	Ending balance
Land and improvements	\$ 337	\$ -	\$ -	\$ 337
Buildings and fixed equipment	9,402,676	179,736		9,582,412
Major movable equipment	1,592,978	29,000	26,451	1,595,527
Totals at historical cost	<u>10,995,991</u>	<u>208,736</u>	<u>26,451</u>	<u>11,178,276</u>
Less accumulated depreciation and amortization				
Buildings and fixed equipment	4,763,916	380,456		5,144,372
Major movable equipment	1,179,135	95,779	26,451	1,248,463
	<u>5,943,051</u>	<u>476,235</u>	<u>26,451</u>	<u>6,392,835</u>
Construction in progress	<u>41,236</u>	<u>(29,532)</u>	<u>-</u>	<u>11,704</u>
Capital assets, net	<u>\$5,094,176</u>	<u>\$ (297,031)</u>	<u>\$ -</u>	<u>\$4,797,145</u>

Capital asset additions, retirements, and balances for WCKA are as follows:

	2012			
	Beginning balance	Transfers and additions	Retirements	Ending balance
Land improvements	\$ 53,065	\$ 158,632	\$ -	\$ 211,697
Fixed equipment	890,552	37,500		928,052
Major movable equipment	2,036,451	107,570		2,144,021
Totals at historical cost	<u>2,980,068</u>	<u>303,702</u>	<u>-</u>	<u>3,283,770</u>
Less accumulated depreciation and amortization				
Land improvements	1,382	12,130		13,512
Fixed equipment	68,473	174,279		242,752
Major movable equipment	1,501,778	244,517		1,746,295
	<u>1,571,633</u>	<u>430,926</u>	<u>-</u>	<u>2,002,559</u>
Construction in progress	<u>2,074</u>	<u>21,103</u>	<u>-</u>	<u>23,177</u>
Capital assets, net	<u>\$1,410,509</u>	<u>\$ (106,121)</u>	<u>\$ -</u>	<u>\$1,304,388</u>

RUSSELL REGIONAL HOSPITAL BOARD  
D/B/A RUSSELL REGIONAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
July 31, 2012 and 2011

NOTE E - CAPITAL ASSETS - Continued

	2011			
	Beginning balance	Transfers and additions	Retirements	Ending balance
Land improvements	\$ -	\$ 53,065	\$ -	\$ 53,065
Fixed equipment	84,674	805,878		890,552
Major movable equipment	<u>2,580,627</u>	<u>45,696</u>	<u>589,872</u>	<u>2,036,451</u>
Totals at historical cost	<u>2,665,301</u>	<u>904,639</u>	<u>589,872</u>	<u>2,980,068</u>
Less accumulated depreciation and amortization				
Land improvements		1,382		1,382
Fixed equipment	39,407	29,066		68,473
Major movable equipment	<u>1,641,049</u>	<u>414,100</u>	<u>553,371</u>	<u>1,501,778</u>
	<u>1,680,456</u>	<u>444,548</u>	<u>553,371</u>	<u>1,571,633</u>
Construction in progress	<u>-</u>	<u>2,074</u>	<u>-</u>	<u>2,074</u>
Capital assets, net	<u>\$ 984,845</u>	<u>\$ 462,165</u>	<u>\$ 36,501</u>	<u>\$1,410,509</u>

On November 4, 2003, a majority of the qualified electors of the County approved, at a special bond election, the question of whether to issue general obligation bonds of the County in an amount not to exceed \$5,500,000 to pay the costs of making improvements to the hospital facility. The County issued its General Obligation Hospital Bonds, Series 2004, on July 1, 2004, in the amount of \$5,500,000. Costs incurred by the County Hospital Board subsequent to issuance of the bonds for renovations and additions to its facility were submitted to the County for reimbursement from the bond proceeds. Reimbursements received and costs paid directly from the bond proceeds were recorded as capital contributions.

On May 15, 2012, the County issued its General Obligation Hospital Refunding Bonds, Series 2012, in the amount of \$4,530,000. The proceeds of the 2012 bonds along with other funds were used to refund the Series 2004 bonds and to pay costs related to the issuance of the 2012 bonds.

To the extent that resources are available, the County Hospital Board and WCKA have agreed to transfer funds to the County for purposes of making principal and interest payments on the bonds as they come due. However, it is uncertain what amounts, if any, the two entities will be able to transfer to the County in future periods. The County Hospital Board transferred \$433,406 and \$424,065 to the County during 2012 and 2011, respectively, to pay principal and interest due on the bonds.



RUSSELL REGIONAL HOSPITAL BOARD  
D/B/A RUSSELL REGIONAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
July 31, 2012 and 2011

NOTE F - NOTES PAYABLE TO BANKS

WCKA's notes payable to banks are summarized as follows:

	<u>2012</u>	<u>2011</u>
Note payable to UMB Bank, original amount of \$295,000, payable in equal monthly installments of \$12,817, including interest, through January 2013, collateralized by accounts receivable, supplies, inventory, and equipment, interest rate varies with changes in the prime rate, rate in effect as of July 31, 2012, was 4.00%	\$ 75,993	\$ 223,430
5.50% note payable to Wilson State Bank, original amount of \$150,000, principal payable on demand but not later than June 19, 2016, interest payable monthly, collateralized by a certificate of deposit held by the County Hospital Board, paid in full on October 25, 2011		117,989
5.00% note payable to Fidelity State Bank & Trust Company, original amount of \$64,503, payable in equal monthly installments of \$7,330, including interest, through October 1, 2011, collateralized by refundable unearned medical malpractice insurance premiums		21,805
5.00% note payable to Fidelity State Bank & Trust Company, original amount of \$50,622, payable in equal monthly installments of \$5,735, including interest, through October 1, 2012, collateralized by refundable unearned medical malpractice insurance premiums	<u>17,057</u>	
	93,050	363,224
Less current portion of notes payable to banks	<u>(93,050)</u>	<u>(287,231)</u>
Notes payable to banks, less current portion	<u>\$ -</u>	<u>\$ 75,993</u>

RUSSELL REGIONAL HOSPITAL BOARD  
D/B/A RUSSELL REGIONAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
July 31, 2012 and 2011

NOTE F - NOTES PAYABLE TO BANKS - Continued

Scheduled principal payments on WCKA's notes payable to banks are as follows:

2013	\$ 93,050
	<u>\$ 93,050</u>

The following is a summary of changes in WCKA's notes payable to banks:

	<u>2012</u>	<u>2011</u>
Outstanding at beginning of year	\$ 363,224	\$ 456,241
Obligations incurred	107,077	164,285
Principal payments	<u>(377,251)</u>	<u>(257,302)</u>
Outstanding at end of year	<u>\$ 93,050</u>	<u>\$ 363,224</u>

NOTE G - CAPITAL LEASE OBLIGATIONS

Capital lease obligations for WCKA are summarized as follows:

	<u>2012</u>	<u>2011</u>
Capital lease obligations, imputed interest rates of 5.5% to 9.5%, collateralized by leased equipment with an amortized cost of \$914,555	\$ 960,437	\$1,116,989
Less current portion of capital lease obligations	<u>306,066</u>	<u>275,194</u>
Capital lease obligations, less current portion	<u>\$ 654,371</u>	<u>\$ 841,795</u>

Scheduled payments on WCKA's capital lease obligations are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 306,066	\$ 57,416	\$ 363,482
2014	238,673	33,095	271,768
2015	197,888	19,480	217,368
2016	201,093	7,776	208,869
2017	<u>16,717</u>	<u>479</u>	<u>17,196</u>
Total minimum lease payments	<u>\$ 960,437</u>	<u>\$ 118,246</u>	<u>\$1,078,683</u>

RUSSELL REGIONAL HOSPITAL BOARD  
D/B/A RUSSELL REGIONAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
July 31, 2012 and 2011

NOTE G - CAPITAL LEASE OBLIGATIONS - Continued

The following is a summary of changes in WCKA's capital lease obligations:

	<u>2012</u>	<u>2011</u>
Outstanding at beginning of year	\$1,116,989	\$ 640,736
Obligations incurred	140,070	794,448
Principal payments	<u>(296,622)</u>	<u>(318,195)</u>
Outstanding at end of year	<u>\$ 960,437</u>	<u>\$1,116,989</u>

NOTE H - OTHER SUPPORT

WCKA is dependent on the County Hospital Board for continuing operations. The support consists of either loans in the form of noninterest-bearing notes or direct equity transfers. The County Hospital Board directly transferred \$269,561 and \$389,363 to WCKA during the years ended July 31, 2012 and 2011, respectively.

NOTE I - OPERATING LEASES

WCKA leases property and equipment from the County Hospital Board under a lease agreement expiring on July 31, 2022. Under the terms of the agreement, WCKA is to make payments for leases and other obligations previously incurred by the County Hospital Board. Amounts due under the agreement are reduced by tax proceeds which are paid toward those obligations by either the County Commissioners or the County Hospital Board. There were no remaining future minimum lease payments due under this agreement as of July 31, 2003.

WCKA also leases equipment under various operating leases. Rental expense for all operating leases was \$24,850 and \$28,925 for the years ended July 31, 2012 and 2011, respectively.

NOTE J - PENSION PLAN

WCKA sponsors a 401(k) profit-sharing plan that covers substantially all full-time employees who have completed one year of service and are at least 21 years of age. WCKA's contributions to the plan are 50 percent of each participant's elective deferral, not to exceed 4 percent of the participant's compensation. Participants may defer up to 24 percent of their annual gross wages. Participant contributions are 100 percent vested at all times and employer contributions are 100 percent vested after three years of service. Total expense related to the plan for the years ended July 31, 2012 and 2011, was \$62,853 and \$64,928, respectively.

RUSSELL REGIONAL HOSPITAL BOARD  
D/B/A RUSSELL REGIONAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
July 31, 2012 and 2011

NOTE K - CONCENTRATION OF CREDIT RISK

WCKA grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of patient accounts receivable from patients and third-party payors is summarized as follows:

	<u>2012</u>	<u>2011</u>
Medicare	36.6%	37.1%
Medicaid	5.2	5.6
Blue Cross	15.7	14.6
Other insurance	9.9	13.7
Patients	<u>32.6</u>	<u>29.0</u>
	<u>100.0%</u>	<u>100.0%</u>

NOTE L - RISK MANAGEMENT

For the year ended July 31, 2012, WCKA was insured for professional liability under a comprehensive hospital liability policy provided by an independent insurance carrier with limits of \$200,000 per occurrence up to an annual aggregate of \$600,000 for all claims made during the policy year. WCKA is further covered by the Kansas Health Care Stabilization Fund for claims in excess of its comprehensive hospital liability policy up to \$800,000 pursuant to any one judgment or settlement against it for any one party, subject to an aggregate limitation for all judgments or settlements arising from all claims made in the policy year in the amount of \$2,400,000. The policy provided by the independent insurance carrier provides for umbrella liability coverage in excess of the underlying limits set forth above in the amount of \$1,000,000 per occurrence with an aggregate amount in any policy year of \$1,000,000. All coverage is on a claims-made basis. The above policies are currently in effect through August 1, 2013. WCKA intends to renew this coverage on that date and is aware of no reason why such coverage would be denied at that time.

No accrual for possible losses attributable to incidents that may have occurred but that have not been identified under WCKA's incident reporting system has been made because the amount is not reasonably estimable. Based on historical experience and present conditions, it is the opinion of management that any claims or expenses for unasserted claims related to periods prior to July 31, 2012, will have no material effect on the financial statements of WCKA or the County Hospital Board.

In addition to the risks disclosed elsewhere in these financial statements and notes thereto, the County Hospital Board and WCKA are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The County Hospital Board and WCKA purchase commercial insurance for these risks. Settled claims have not exceeded this commercial coverage in any of the past three years.