

129-10-26. Interest expense. (a) Only necessary interest on working capital or personal property loans shall be an allowable expense. Interest on real estate or personal property covered by the real and personal property fee in accordance with K.A.R. 129-10-25 shall not be included.

(b) The interest expense shall be incurred on indebtedness established with either of the following:

(1) Lenders or lending organizations not related to the borrower; or

(2) partners, stockholders, home office organizations, or related parties, if the following requirements are met:

(A) The terms and conditions of payment of the loans shall resemble terms and conditions of an arm's-length transaction by a prudent borrower with a recognized, local lending institution with the capability of entering into a transaction of the required magnitude. Allowable interest expense shall be limited to the annual expense submitted on the loan amortization schedule, unless the loan principal is retired before the end of the amortization period, or working capital loans if the period is one year or less; and

(B) the provider shall demonstrate, to the satisfaction of the agency, a primary business purpose for the loan other than increasing the per diem rate.

(C) The transaction shall be recognized and reported by all parties for federal income tax purposes.

(c) If the general fund of a nursing facility borrows from a donor-restricted fund, this interest expense shall be an allowable cost. In addition, if a nursing facility operated by members of a religious order borrows from the order, interest paid to the

order shall be an allowable cost.

(d) The interest expense shall be reduced by the investment income from restricted or unrestricted idle funds or funded reserve accounts, unless that income is from gifts and grants, whether restricted or unrestricted, that are held in a separate account and not commingled with other funds. Income from the provider's qualified pension fund shall not be used to reduce interest expense.

(e) Interest earned on restricted or unrestricted reserve accounts of industrial revenue bonds or sinking fund accounts shall be offset against interest expense and limited to the interest expense on the related debt.

(f) Loans made to finance that portion of the cost of acquisition of a facility that exceeds historical cost or the cost basis recognized for program purposes shall not be considered to be reasonably related to resident care. (Authorized by K.S.A. 2007 Supp. 75-7403 and 75-7412; implementing K.S.A. 2007 Supp. 75-7405 and 75-7408; effective Sept. 19, 2008.)