

# **Wray Community District Hospital**

Independent Auditor's Report and Financial Statements

December 31, 2018 and 2017

# Wray Community District Hospital

## December 31, 2018 and 2017

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## Independent Auditor's Report

Board of Directors  
Wray Community District Hospital  
Wray, Colorado

We have audited the accompanying financial statements of Wray Community District Hospital (the Hospital) and its discretely presented component unit, Wray Community Hospital Foundation (the Foundation), as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***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 opinions 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. 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.

Board of Directors  
Wray Community District Hospital

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wray Community District Hospital and its discretely presented component unit as of December 31, 2018 and 2017, and the respective changes in financial position and, where applicable, cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not 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.

#### ***Other Information***

Our 2018 audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The consolidating statements of net position information, consolidating revenues and expenses information and the budget to actual information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The consolidating statements of net position information, consolidating revenues and expenses information and the budget to actual information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

***BKD, LLP***

Denver, Colorado  
May 31, 2019

# **Wray Community District Hospital**

## **Management's Discussion and Analysis**

### **Years Ended December 31, 2018 and 2017**

#### ***Introduction***

This management's discussion and analysis of the financial performance of Wray Community District Hospital (the Hospital) and Wray Community Long Term Care (Hillcrest), collectively referred to as the District provides an overview of the District's financial activities for the years ended December 31, 2018 and 2017. The financial statements for Wray Community Hospital Foundation (the Foundation), a legally separate organization whose operations benefit the District, is discretely presented within the District's financial statements. Unless otherwise noted, the information and financial data included in the management's discussion and analysis relate solely to the District. This management's discussion and analysis should be read in conjunction with the accompanying financial statements of the District.

#### ***Financial Highlights***

- Cash and cash equivalents (excluding noncurrent cash) decreased in 2018 by \$964,157, or 63.15%, and decreased in 2017 by \$1,722,949, or 53.02%.
- Short-term investments and noncurrent cash and investments decreased in 2018 by \$141,994, or 2.51%, and increased in 2017 by \$334,017, or 6.27%.
- Net position decreased in 2018 by \$1,326,444, or 7.02%, and decreased in 2017 by \$1,398,555, or 6.89%, over the prior year ending net position.
- Total operating revenues increased in 2018 by \$810,750, or 3.51%, and increased in 2017 by \$3,379,393, or 17.13%.
- Total operating expenses increased in 2018 by \$497,744, or 1.95%, and increased in 2017 by \$3,275,767, or 14.75%.
- The District reported an operating loss of \$2,068,851 in 2018 and an operating loss of \$2,381,857 in 2017.

#### ***Using This Annual Report***

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

# **Wray Community District Hospital**

## **Management's Discussion and Analysis**

### **Years Ended December 31, 2018 and 2017**

#### ***The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position***

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

These two statements report the District's net position and changes in them. The District's total net position — the difference between assets and liabilities — is one measure of the District's financial health or financial position. Over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the District's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the District.

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

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

#### ***The District's Net Position***

The District's net position is the difference between its assets and liabilities and deferred inflows of resources reported on the statements of net position. The District's net position decreased in 2018 by \$1,326,444, or 7.02%, and decreased in 2017 by \$1,398,555, or 6.89%, over the prior year ending net position as shown in Table 1.

**Wray Community District Hospital**  
**Management's Discussion and Analysis**  
**Years Ended December 31, 2018 and 2017**

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

	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Assets</b>			
Patient and resident accounts receivable, net	\$ 4,026,315	\$ 3,595,989	\$ 2,624,590
Other current assets	4,431,842	5,385,021	6,572,685
Capital assets, net	12,149,448	12,976,701	13,317,350
Other noncurrent assets	<u>2,894,822</u>	<u>3,056,698</u>	<u>3,447,105</u>
Total assets	<u>\$ 23,502,427</u>	<u>\$ 25,014,409</u>	<u>\$ 25,961,730</u>
<b>Liabilities</b>			
Long-term debt, including current maturities of long-term debt	\$ 2,364,841	\$ 2,437,639	\$ 2,390,285
Other current and noncurrent liabilities	<u>3,184,555</u>	<u>3,310,089</u>	<u>2,915,112</u>
Total liabilities	<u>5,549,396</u>	<u>5,747,728</u>	<u>5,305,397</u>
<b>Deferred Inflows of Resources</b>	<u>389,644</u>	<u>376,850</u>	<u>367,947</u>
<b>Net Position</b>			
Net investment in capital assets	8,983,344	9,709,484	10,269,350
Restricted expendable	280,393	308,256	-
Unrestricted	<u>8,299,650</u>	<u>8,872,091</u>	<u>10,019,036</u>
Total net position	<u>17,563,387</u>	<u>18,889,831</u>	<u>20,288,386</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 23,502,427</u>	<u>\$ 25,014,409</u>	<u>\$ 25,961,730</u>

The District's noncurrent assets and other assets decreased \$1,115,055, which is attributable to transferring funds from an internally designated investment accounts (Provider Fee/Building and Equipment) to cover operating expenses for both the Hospital and Hillcrest.

Patient and resident accounts receivable, net, increased by \$430,326, or 11.97%, in 2018 compared to 2017, which is attributable to an increase in revenue and ongoing billing issues within the District. Net patient and resident service revenue increased \$1,214,051, or 5.41%, in 2018.

The designation as a Critical Access Hospital has allowed the District to realize a greater percentage of its gross charges due to the fact that the District is reimbursed on a cost basis for Medicare patients. Because the payments from Medicare are estimates until the District files and settles their cost reports each year, the District does expect that it will either receive additional reimbursement or be required to repay Medicare amounts in excess of the amount already recorded. The anticipated net repayment is reflected in estimated amounts due to third-party payers, which is included in current liabilities in Table 1.

**Wray Community District Hospital**  
**Management's Discussion and Analysis**  
**Years Ended December 31, 2018 and 2017**

***Operating Results and Changes in the District's Net Position***

In 2018, the District's net position decreased by \$1,326,444, or 7.02%, as shown in Table 2. See Table 2 for the operating results and changes in net position.

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

	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Operating Revenues</b>			
Net patient and resident service revenue	\$ 23,670,110	\$ 22,456,059	\$ 19,190,903
Other operating revenue	<u>244,267</u>	<u>647,568</u>	<u>533,331</u>
Total operating revenues	<u>23,914,377</u>	<u>23,103,627</u>	<u>19,724,234</u>
<b>Operating Expenses</b>			
Salaries and benefits	11,618,958	11,262,704	9,930,984
Purchased services and professional fees	6,558,632	6,499,600	5,628,318
Supplies and other	6,345,565	6,107,244	4,870,922
Depreciation	<u>1,460,073</u>	<u>1,615,936</u>	<u>1,779,493</u>
Total operating expenses	<u>25,983,228</u>	<u>25,485,484</u>	<u>22,209,717</u>
<b>Operating Loss</b>	<u>(2,068,851)</u>	<u>(2,381,857)</u>	<u>(2,485,483)</u>
<b>Nonoperating Revenues (Expenses)</b>			
Property taxes	420,462	412,391	465,951
Net insurance proceeds received	46,140	216,081	-
Interest income	41,602	35,703	39,655
Interest expense	<u>(97,192)</u>	<u>(92,435)</u>	<u>(68,998)</u>
Total nonoperating revenues (expenses)	<u>411,012</u>	<u>571,740</u>	<u>436,608</u>
<b>Capital Contributions</b>	<u>331,395</u>	<u>411,562</u>	<u>1,181,271</u>
<b>Decrease in Net Position</b>	<u>\$ (1,326,444)</u>	<u>\$ (1,398,555)</u>	<u>\$ (867,604)</u>

# **Wray Community District Hospital**

## **Management's Discussion and Analysis**

### **Years Ended December 31, 2018 and 2017**

#### ***Operating Losses***

The first component of the overall change in the District's net position is its operating loss and generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In fiscal year 2018, the District reported an operating loss of \$2,068,851. In fiscal years 2017 and 2016, the District reported an operating losses of \$2,381,857 and \$2,485,483, respectively.

The primary components of the operating results for 2018 are as follows:

- Net patient and resident service revenue increased \$1,214,051, or 5.41%, as compared to 2017. The increase is attributed to a 3% chargemaster increase on January 1, 2018 and volume increases in radiology, orthopedic surgery, and physical therapy. In addition, charges were corrected and/or increased in ER, PT, IV therapy and perianesthesia. In addition, CPC+ Clinic revenue increased 40% in 2018 as compared to 2017. Revenue growth decelerated in 2018 due to a decrease in general surgery volume (one general surgeon out for majority of the year), the loss of a portion of the 340B program (OP), and the resignation of a Physician's Assistant (PA) in April 2018.
- Salaries and wages (including benefits) increased \$356,254, or 3.16%, as compared to 2017 primarily due to a 3.00% payroll merit increase and five additional Hospital full-time equivalents (FTEs). Hillcrest had a 7% decrease in wages. In addition, the health insurance expense increased 12% (Hospital) and 30% (Hillcrest).
- Purchased services and professional fees increased \$59,032, or 0.91%, as compared to 2017. Purchased services decreased at the Hospital in 2018, but increased 35% at Hillcrest due to an increased reliance on contract nursing.

The primary components of the operating results for 2017 are as follows:

- Net patient and resident service revenue increased \$3,265,156, or 17.01%, as compared to 2016. The increase is attributed to increases in orthopedic and other surgeries which in turn increased anesthesia, swing bed, supplies/pharmacy, and physical therapy/occupational therapy revenue. In addition, the CPC+ Clinic designation and 340B pharmacy designation increased revenue in 2017.
- Salaries and wages (including benefits) increased \$1,331,720, or 13.41%, as compared to 2016 primarily due to a 3.00% payroll merit increase, 11 additional District full-time equivalents (FTEs), and an 8% increase in Hillcrest wages. In addition, the health insurance expense increased 18% (the Hospital) and 68% (Hillcrest).
- Purchased services and professional fees increased \$871,282, or 15.48% as compared to 2016. The increase is primarily attributed to the first full year of Boulder Centre Orthopedics, increase in CRNA (anesthesia) costs, and the addition of Dr. Wolz. In addition, there was a substantial increase in contracted nursing at Hillcrest.

# **Wray Community District Hospital**

## **Management's Discussion and Analysis**

### **Years Ended December 31, 2018 and 2017**

#### ***Nonoperating Revenues and Expenses***

Nonoperating revenues and expenses consist primarily of property taxes levied by the District and investment income and interest expense. Total nonoperating revenues decreased by 23% in 2018 as compared to 2017. In 2017, the District had \$216,000 in net proceeds received from insurance (hail damage) compared to only \$46,000 in 2018. Total nonoperating expenses increase by 5% in 2018 as compared to 2017 due to an increase in interest expense.

#### ***Review and Analysis***

In 2018, the District was aware of several key deficiencies facing them:

- Hillcrest has been a cash drain on the District and will continue to require financial assistance.
- The Hospital itself was experiencing multiple years of operational losses dating as far back as 2013. Taking on the struggling nursing home was indeed a challenge.
- The billing and collections department was without a Business Office Manager and lacked day-to-day management.

By mid-year interim management executed several initiatives to improve the District's financial condition. A contract was finalized with Cerner to take on the Hospital's billing and collections. Additional Cerner contracts were enacted to improve the Clinic's quality, efficiency, and financial stability. A contract was signed by Trust Consulting Group (Trust) to outsource the Hospital's coding. New contracts were signed by primary care providers and specialists.

These good initiatives proved unwieldy at first and combined to create a perfect storm as calendar year 2019 approached. A combination of difficulties in planning/oversight of the initiatives between the District, Cerner and Trust, previous "work arounds" that failed in the new system, a damaged charge master, and changing to a new Cerner Clearinghouse came together in January 2019. It proved too much for the implementation and collections plummeted to an average of \$200,000 in collections per week for the first eight weeks of 2019. In contrast, 2018 collections averaged \$320,000 per week and the second half of the year averaging \$340,000. Further complicating the issue was the collapse of billing and collections at Hillcrest that required an infusion of cash totaling \$500,000 from the Hospital in the first quarter of 2019.

The District has taken the following steps to stem the financial losses at Hillcrest and the Hospital:

- Billings and collections has been outsourced for Hillcrest. The results are positive and cash has stabilized. Management is in process of analyzing opportunities and options for the nursing home and will bring to the board a final analysis and proposal at the June board meeting.

# **Wray Community District Hospital**

## **Management's Discussion and Analysis**

### **Years Ended December 31, 2018 and 2017**

- The Haugan Consulting Group was contracted to manage the Hospital's revenue cycle, train staff, and provide management over the entire revenue process. This expertise in the revenue cycle is key to working with Cerner in improving the work flow from pre-registration through the entire cycle. The Haugan Consulting Group will assist the Hospital in defining and assuring the changes in Cerner will accrue to the Hospital's benefit. They will also develop full policies and procedures for the Hospital's Business Office and train staff, including a Business Office Manager.
- The organizational chart has been adjusted to assure the Business Office Manager reports directly to the Chief Financial Officer.
- Senior WCDH officers have contacted and met with key senior Cerner CommunityWorks employees, including Mitchell Clark, President, on two occasions. Cerner has applied much needed additional resources to improve the billing and collections process manually while working with the Hospital concurrently to put in place permanent enhancements to the CDM (charge master) designed to improve the process and efficiency of the entire Revenue Cycle. Collections have improved to an average of \$365,000 per week for the last eight weeks (March 11, 2019 – May 5, 2019). The Hospital, Haugan Consulting Group, and Cerner are also fixing the edits in the scrubber that will improve the efficiency of the process. It is expected that the complete makeover of the Hospital Revenue Cycle will be complete and in place by the end of the calendar year 2019.
- Reduced the number of beds at Hillcrest from 58 to 45 which will result in savings of approximately \$98,000 through the provider fee.

#### ***The District's Cash Flows***

Changes in the District's cash flows are consistent with changes in operating income and nonoperating revenues and expenses, as discussed earlier.

#### ***Capital Asset and Debt Administration***

##### **Capital Assets**

At the end of 2018 and 2017, the District had \$12,149,448 and \$12,976,701, respectively, invested in capital assets, net of accumulated depreciation, as detailed in Note 6 to the financial statements.

##### **Debt**

At the end of 2018 and 2017, the District had \$1,990,847 and \$2,046,042 in outstanding debt, as discussed in Note 8 to the financial statements.

At the end of 2018 and 2017, the District had \$373,994 and \$391,597, respectively, in capital lease payables as detailed in Note 8 to the financial statements. During 2018, the District entered into one capital leases totaling \$105,754.

# **Wray Community District Hospital**

## **Management's Discussion and Analysis**

### **Years Ended December 31, 2018 and 2017**

#### ***Other Economic Factors***

The District is located in a rural farming community. Besides farming, oil and gas production constitutes the primary economic forces in the area. These two sectors of the economy provide a stable source of insurance funding for patients of the District. This helps to hold down the number of uninsured. However, the number of underinsured is increasing. A stagnant population with limited post high school educational opportunities also affects the District's ability to fill staffing shortages in nursing and allied professional positions.

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

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the District Business Administration by telephoning 970.332.4811.

**Wray Community District Hospital**  
**Statements of Net Position**  
**December 31, 2018 and 2017**

**Assets**

	<u>2018</u>	<u>2017</u>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 562,524	\$ 1,526,681
Short-term investments	2,623,666	2,603,784
Patient accounts receivable, less allowance for uncollectible accounts; 2018 - \$2,120,450 and 2017 - \$2,146,643	3,682,612	3,315,797
Resident accounts receivable, less allowance for uncollectible accounts; 2018 - \$0 and 2017 - \$37,500	343,703	280,192
Other receivables	445,307	397,284
Supplies	614,566	658,713
Prepaid expenses	<u>185,779</u>	<u>198,559</u>
Total current assets	<u>8,458,157</u>	<u>8,981,010</u>
<b>Noncurrent Cash and Investments</b>		
Internally-designated and restricted deposits held as collateral	2,398,616	2,569,100
Restricted investments	<u>496,206</u>	<u>487,598</u>
Total noncurrent cash and investments	<u>2,894,822</u>	<u>3,056,698</u>
<b>Capital Assets, Net</b>	<u>12,149,448</u>	<u>12,976,701</u>
Total assets	<u><u>\$ 23,502,427</u></u>	<u><u>\$ 25,014,409</u></u>

**Wray Community District Hospital**  
**Statements of Net Position (continued)**  
**December 31, 2018 and 2017**

**Liabilities, Deferred Inflows of Resources and Net Position**

	<u>2018</u>	<u>2017</u>
<b>Current Liabilities</b>		
Current notes payable	\$ 801,263	\$ 829,578
Current maturities of long-term debt	203,767	172,592
Accounts payable	944,345	1,130,737
Accrued expenses and other current liabilities	905,725	925,200
Estimated amounts due to third-party payers	<u>533,222</u>	<u>424,574</u>
Total current liabilities	3,388,322	3,482,681
<b>Long-term Debt</b>	<u>2,161,074</u>	<u>2,265,047</u>
Total liabilities	<u>5,549,396</u>	<u>5,747,728</u>
<b>Deferred Inflows of Resources - Property Taxes</b>	<u>389,644</u>	<u>376,850</u>
<b>Net Position</b>		
Net investment in capital assets	8,983,344	9,709,484
Restricted expendable for capital assets	280,393	308,256
Unrestricted	<u>8,299,650</u>	<u>8,872,091</u>
Total net position	<u>17,563,387</u>	<u>18,889,831</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 23,502,427</u>	<u>\$ 25,014,409</u>

**Wray Community Hospital Foundation**  
**(A Component Unit of Wray Community District Hospital)**  
**Statements of Financial Position**  
**December 31, 2018 and 2017**

**Assets**

	<b>2018</b>	<b>2017</b>
Cash and cash equivalents	\$ 17,728	\$ 21,696
Investments	181,127	180,857
Total assets	\$ 198,855	\$ 202,553

**Liabilities and Net Assets**

Net assets, without donor restrictions	\$ 198,855	\$ 202,553
Total liabilities and net assets	\$ 198,855	\$ 202,553

**Wray Community District Hospital**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended December 31, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
<b>Operating Revenues</b>		
Net patient service revenue, net of provision for uncollectible accounts; 2018 - \$1,255,998 and 2017 - \$1,096,857	\$ 19,470,949	\$ 18,044,151
Net resident service revenue, net of provision for uncollectible accounts; 2018 - \$0 and 2017 - \$17,325	4,199,161	4,411,908
Other operating revenues	244,267	647,568
Total operating revenues	23,914,377	23,103,627
<b>Operating Expenses and Losses</b>		
Salaries and benefits	11,618,958	11,262,704
Purchased services and professional fees	6,558,632	6,499,600
Supplies and other	6,345,565	6,107,244
Depreciation	1,460,073	1,615,936
Total operating expenses and losses	25,983,228	25,485,484
<b>Operating Loss</b>	(2,068,851)	(2,381,857)
<b>Nonoperating Revenues (Expenses)</b>		
Property taxes	420,462	412,391
Net insurance proceeds received	46,140	216,081
Interest income	41,602	35,703
Interest expense	(97,192)	(92,435)
Total nonoperating revenues (expenses)	411,012	571,740
<b>Deficiency of Revenues Over Expenses Before Capital Contributions</b>	(1,657,839)	(1,810,117)
<b>Capital Contributions</b>	331,395	411,562
<b>Change in Net Position</b>	(1,326,444)	(1,398,555)
<b>Net Position, Beginning of Year</b>	18,889,831	20,288,386
<b>Net Position, End of Year</b>	\$ 17,563,387	\$ 18,889,831

**Wray Community Hospital Foundation**  
**(A Component Unit of Wray Community Hospital District)**  
**Statements of Activities**  
**Years Ended December 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>Revenues Without Donor Restrictions</b>		
Contributions	\$ 1,000	\$ 50
<b>Expenses</b>		
Program expenses	4,851	2,779
Administrative expenses	174	823
Total expenses	<u>5,025</u>	<u>3,602</u>
<b>Loss from Operations</b>	(4,025)	(3,552)
<b>Interest Income</b>	<u>327</u>	<u>1,670</u>
<b>Change in Net Assets</b>	(3,698)	(1,882)
<b>Net Assets Without Donor Restrictions, Beginning of Year</b>	<u>202,553</u>	<u>204,435</u>
<b>Net Assets Without Donor Restrictions, End of Year</b>	<u>\$ 198,855</u>	<u>\$ 202,553</u>

**Wray Community District Hospital**  
**Statements of Cash Flows**  
**Years Ended December 31, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
<b>Operating Activities</b>		
Receipts from and on behalf of patients	\$ 23,348,432	\$ 21,176,634
Payments to suppliers and contractors	(12,745,567)	(12,372,803)
Payments to employees	(11,638,433)	(11,150,368)
Other receipts and payments, net	221,818	755,930
Net cash used in operating activities	(813,750)	(1,590,607)
<b>Noncapital Financing Activities</b>		
Property taxes supporting operations	420,462	399,891
Net cash provided by noncapital financing activities	420,462	399,891
<b>Capital and Related Financing Activities</b>		
Principal paid on long-term debt and notes payable	(206,867)	(293,649)
Purchase of capital assets	(1,418,111)	(731,798)
Interest paid on long-term debt	(97,192)	(92,435)
Insurance proceeds received	636,310	216,081
Capital contributions	331,395	667,882
Net cash used in capital and related financing activities	(754,465)	(233,919)
<b>Investing Activities</b>		
Interest on investments	41,602	35,703
Purchase of investments	(8,608)	(8,412)
Change in 12-month certificates of deposit	(19,882)	(2,603,784)
Net cash used in investing activities	13,112	(2,576,493)
<b>Decrease in Cash and Cash Equivalents</b>	(1,134,641)	(4,001,128)
<b>Cash and Cash Equivalents, Beginning of Year</b>	4,095,781	8,096,909
<b>Cash and Cash Equivalents, End of Year</b>	\$ 2,961,140	\$ 4,095,781

**Wray Community District Hospital**  
**Statements of Cash Flows (continued)**  
**Years Ended December 31, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
<b>Reconciliation of Cash and Cash Equivalents to the Statement of Net Position</b>		
Cash and cash equivalents in current assets	\$ 562,524	\$ 1,526,681
Cash and cash equivalents in noncurrent cash and investments	2,398,616	2,569,100
	<b>\$ 2,961,140</b>	<b>\$ 4,095,781</b>
<b>Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities</b>		
Operating loss	\$ (2,068,851)	\$ (2,381,857)
Provision for bad debts	1,255,998	1,114,182
Depreciation	1,460,073	1,615,936
Loss on disposal of property and equipment	-	80,012
Gain on extinguishment of debt	-	(9,861)
Changes in operating assets and liabilities		
Patient and resident accounts receivable, net	(1,686,324)	(2,085,581)
Other receivables	(35,229)	56,928
Estimated amounts due to and from third-party payers	108,648	(308,026)
Supplies	44,147	(83,989)
Accounts payable and accrued expenses	95,008	430,366
Other current assets	12,780	(18,717)
Net cash used in operating activities	<b>\$ (813,750)</b>	<b>\$ (1,590,607)</b>
<b>Supplemental Cash Flow Information</b>		
Capital lease obligation incurred for property and equipment	\$ 105,754	\$ 322,626
Capital asset acquisitions included in accounts payable	\$ -	\$ 300,875

# Wray Community District Hospital

## Notes to Financial Statements

### December 31, 2018 and 2017

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

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

Wray Community District Hospital (the Hospital) is a political subdivision formed under the Colorado Revised Statutes as a local service and improvement district to provide medical care to the residents of Yuma County, Colorado, including Wray, Colorado. The Hospital is not a component unit of another governmental entity.

##### ***Blended Component Unit***

The Wray Community Long Term Care, Inc. d/b/a Hillcrest Care Center and The Towers (Hillcrest), is a 58-bed licensed nursing home and 24-unit assisted living facility located in Wray, Colorado. Hillcrest acquired the assets and assumed the operations of the facilities from Hillcrest Senior Living on July 1, 2014. Hillcrest is a Colorado nonprofit corporation and has been recognized by the Internal Revenue Service as exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). Hillcrest is included as a blended component unit of the Hospital. Collectively, the Hospital and Hillcrest are referred to as the District.

##### ***Discretely Presented Component Unit***

Wray Community Hospital Foundation (the Foundation) is a legally separate, tax-exempt component unit of the District. The Foundation's primary function is to raise and hold funds to support the District and its programs, as well as sponsoring and promoting education and participation in health-related community issues. The majority of the board of the Foundation is self-perpetuating, with the District appointing a minority of the members to the board.

Although the District does not control the timing or amount of receipts from the Foundation, upon dissolution of the Foundation, their assets transfer to the District. As a result, the Foundation is considered a component unit of the District and is discretely presented in the District's financial statements.

During the years ended December 31, 2018 and 2017, the Foundation provided no direct support to the District. Complete financial statements of the Foundation may be obtained from its Administrative Office at the following address: P.O. Box 421, Wray, Colorado 80758.

##### ***Basis of Accounting and Presentation***

The financial statements of the District 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 (principally federal and state grants and county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions

# **Wray Community District Hospital**

## **Notes to Financial Statements**

### **December 31, 2018 and 2017**

and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific (such as county appropriations), property taxes, investment income and interest on capital assets – related debt are included in nonoperating revenues and expenses. The District 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 Foundation is a private nonprofit organization that reports under the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's statements in the District's financial reporting entity for these differences.

#### ***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, liabilities and deferred inflows and outflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### ***Cash and Cash Equivalents***

The District considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2018 and 2017, cash equivalents consisted primarily of money market accounts with brokers.

#### ***Property Taxes***

The District received approximately 2% of its financial support from property taxes in 2018 and 2017. These funds were used to support operations.

Property taxes are assessed on January 1 and are due in one installment on May 1 or in two installments on February 28 and June 15 of each year. Property tax revenue is recognized in the period assessed to the extent such taxes are collected and available for use no later than 60 days after the end of the fiscal year.

#### ***Risk Management***

The District is exposed to various risks of loss related to torts; thefts of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; employee disability; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial insurance coverage in any of the three preceding years.

**Wray Community District Hospital**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

***Investments and Investment Income***

Investments in nonnegotiable certificates of deposit are carried at amortized cost. Investment income includes interest income and accrued interest on nonnegotiable certificates of deposit.

***Patient Accounts Receivable***

The District reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The District provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. As a service to the patient, the District bills third-party payers directly and bills the patient when the patient's liability is determined. Patient accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written off as bad debts based upon individual credit evaluation and specific circumstances of the account.

***Supplies***

Supply inventories are stated at the lower of cost, determined using the first-in, first-out basis, or net realizable value.

***Capital Assets***

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the District:

Buildings and leasehold improvements	5 – 40 years
Equipment	3 – 20 years

***Capital Asset Impairment***

The District evaluates capital assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital asset has occurred. If a capital asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, the capital asset historical cost and related accumulated depreciation are decreased proportionately such that the net decrease equals the impairment loss.

An impairment loss of \$590,170 was recognized during 2018 for the Hillcrest roof's hail damage. The loss along with insurance proceeds of \$636,310 are included in nonoperating revenues (expenses) in the accompanying statements of revenues, expenses and changes in net position. The loss was determined based on the asset historical cost less accumulated depreciation at the time of impairment.

# **Wray Community District Hospital**

## **Notes to Financial Statements**

### **December 31, 2018 and 2017**

#### ***Compensated Absences***

The District's policies permit most employees to accumulate vacation benefits. Expense and the related liability are recognized as benefits are earned. Compensated absence liabilities are computed using the regular pay rates in effect at the statements of financial position date, plus an additional amount for compensation-related payments such as Social Security and Medicare taxes computed using rates in effect at that date.

#### ***Deferred Inflows of Resources***

The Hospital reports decreases in net position that relate to future periods as deferred inflows of resources in a separate section of its statements of net position.

#### ***Net Position***

Net position of the District 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 made up of noncapital assets that must be used for a particular purpose, as specified by grantors or donors external to the District. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

#### ***Net Patient Service Revenue***

The District has agreements with third-party payers that provide for payments to the District 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 services are rendered, and such estimated amounts are revised in future periods as adjustments become known.

#### ***Charity Care***

The District provides charity care to patients who are unable to pay for services. The amount of charity care is included in net patient service revenue and is not separately classified from the provision for uncollectible accounts.

#### ***Income Taxes***

As an essential government function, the District is exempt from income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the District is subject to federal income tax on any unrelated business taxable income.

# Wray Community District Hospital

## Notes to Financial Statements

### December 31, 2018 and 2017

The Foundation qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, accordingly, is subject only to federal or state income taxes on specific types of income from activities that are unrelated to its exempt purpose.

#### ***Electronic Health Records Incentive Program***

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Critical access hospitals (CAHs) are eligible to receive incentive payments in the cost reporting period beginning in the federal fiscal year in which meaningful use criteria have been met. The Medicare incentive payment is for qualifying costs of the purchase of certified EHR technology multiplied by the District's Medicare share fraction, which includes a 20% incentive. This payment is an acceleration of amounts that would have been received in future periods based on reimbursable costs incurred, including depreciation. If meaningful use criteria are not met in future periods, the District is subject to penalties that would reduce future payments for services. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. The District has completed all meaningful use attestation periods and last received incentive payment revenue in 2016. The final amount for any payment year under both programs is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

#### **Note 2: Tax, Spending and Debt Limitations**

Colorado voters passed an amendment to the state Constitution, Article X, Section 20, which has several limitations, including revenue raising, spending abilities and other specific requirements of state and local governments.

The District's financial activity provides the basis for calculation of limitations adjusted for allowable increases tied to inflation and local growth.

The amendment excludes enterprises from its provisions. Enterprises are defined as government-owned businesses authorized to issue revenue bonds and that receive less than 10% of their annual revenue in grants from all state and local governments combined. The District is of the opinion that its operations qualify for this exclusion.

**Wray Community District Hospital**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

**Note 3: Net Patient Service Revenue**

The District has agreements with third-party payers that provide for payments to the District at amounts different from its established rates. These payment arrangements include the following:

*Medicare.* The District is designated as a Critical Access Hospital. Inpatient acute care services rendered to Medicare program beneficiaries are paid on a cost reimbursed basis. Certain outpatient services related to Medicare beneficiaries are paid based on a combination of fee schedules and a cost-reimbursement methodology. The District is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare fiscal intermediary.

*Medicaid.* Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient nonacute services, certain outpatient services and defined capital costs related to Medicaid beneficiaries are paid based on a cost-reimbursement methodology. The District is reimbursed for cost-reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicaid fiscal intermediary.

Approximately 45% and 38% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2018 and 2017, 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 District has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the District under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

The Colorado Healthcare Affordability Act, designated as House Bill 1293 (HB 1293), was passed during 2009 implementing a provider fee on hospitals to generate matching funds to the state of Colorado from federal sources. Implementation of this act occurred during April of 2010 HB 1293 was superseded by Senate Bill 17-267 which repealed the Hospital Provider Fee and created the Colorado Healthcare Accountability and Sustainability Enterprise (CHASE), with the following effect on the Medical Center’s financial statements:

	<b>2018</b>	<b>2017</b>
Gross CHASE (2018)/provider fee recovery revenue (2017), included in net patient service revenue	\$ 2,160,491	\$ 2,233,035
Gross CHASE (2018)/provider fee recovery expense (2017), included in supplies and other	(657,252)	(651,659)
Net effect of SB 17-267 (2018)/HB 1293 (2017)	\$ 1,503,239	\$ 1,581,376

**Wray Community District Hospital**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

**Note 4: Patient and Resident Accounts Receivable**

The District 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, 2018 and 2017, consisted of the following:

	<b>2018</b>	<b>2017</b>
Medicare	\$ 2,544,067	\$ 2,417,598
Medicaid	1,790,077	1,052,072
Other third-party payers	2,207,004	2,210,883
Patients	2,455,169	2,571,564
	8,996,317	8,252,117
Less		
Allowance for contractals	2,849,552	2,471,985
Allowance for uncollectible accounts	2,120,450	2,184,143
	4,970,002	4,656,128
	\$ 4,026,315	\$ 3,595,989

**Note 5: Deposits and Investments**

***Deposits***

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

The Colorado Public Deposit Protection Act requires financial institutions to collateralize any uninsured public deposits. The bank balance is insured by federal insurance (FDIC) for up to \$250,000. Any excess of deposits over the FDIC limit that is not insured is covered by collateral pledged by the financial institution in accordance with the Public Deposit Protection Act.

**Wray Community District Hospital**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

At December 31, 2018 and 2017, \$6,600,596 and \$12,813,673, respectively, of the District's bank balances of \$7,981,318 and \$14,194,395, respectively, were exposed to custodial credit risk as follows:

	<b>2018</b>	<b>2017</b>
Insured (FDIC) or collateralized with securities held by the District	\$ 750,000	\$ 610,484
Uninsured and collateral held by the pledging financial institution's trust department or agent in other than the District's name	5,725,608	6,759,972
	\$ 6,475,608	\$ 7,370,456

***Investments***

The District may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities. It may also invest, to a limited extent, in equity securities. As of December 31, 2018 and 2017, all investments were in certificates of deposit.

**Interest Rate Risk** – As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy is limited to purchasing securities that mature within one year of the date of purchase for operating funds and five years or less from the date of purchase for capital reserves. The money market mutual funds are presented as an investment with a maturity of less than one year because the average maturity of the funds is less than one year.

**Credit Risk** – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. It is the District's policy to limit its investments to U.S. government-backed securities or insured certificates of deposit or money market accounts.

**Concentration of Credit Risk** – According to the District's investment policy, only 50% of excess operating funds or capital reserves funds can be invested in any one security.

**Foreign Currency Risk** – This risk relates to adverse effects on the fair value of an investment from changes in exchange rates. The District's investment policy does not permit foreign currency at December 31, 2018.

**Wray Community District Hospital**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

**Summary of Carrying Values**

The carrying values of deposits and investments shown above are included in the statements of net position as follows:

	<u><b>2018</b></u>	<u><b>2017</b></u>
Carrying value		
Deposits	<u>\$ 6,081,012</u>	<u>\$ 7,187,163</u>
Included in the following statements of net position captions		
Cash and cash equivalents	\$ 562,524	\$ 1,526,681
Short-term investments without restriction	2,078,254	2,062,287
Restricted short-term investments	545,412	541,497
Noncurrent cash and investments		
Internally designated	1,255,353	1,441,498
Unrestricted portion of deposit held as collateral	698,280	662,824
Restricted portion of deposit held as collateral	404,557	432,872
Restricted for debt service reserve	40,426	31,906
Restricted investments	<u>496,206</u>	<u>487,598</u>
	<u>\$ 6,081,012</u>	<u>\$ 7,187,163</u>

**Wray Community District Hospital**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

**Note 6: Capital Assets**

Capital assets activity for the years ended December 31, 2018 and 2017 were as follows:

	<b>2018</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals and Retirements</b>	<b>Transfers</b>	<b>Ending Balance</b>
Land	\$ 124,672	\$ -	\$ -	\$ -	\$ 124,672
Buildings and leasehold improvements	18,934,485	621,201	615,919	284,465	19,224,232
Equipment	12,162,708	593,127	-	219,956	12,975,791
Construction in process	504,421	8,662	-	(504,421)	8,662
	<u>31,726,286</u>	<u>1,222,990</u>	<u>615,919</u>	<u>-</u>	<u>32,333,357</u>
Less accumulated depreciation for					
Buildings and leasehold improvements	(8,904,315)	(692,338)	(25,749)	-	(9,570,904)
Equipment	(9,845,270)	(767,735)	-	-	(10,613,005)
	<u>(18,749,585)</u>	<u>(1,460,073)</u>	<u>(25,749)</u>	<u>-</u>	<u>(20,183,909)</u>
Capital assets, net	<u>\$ 12,976,701</u>	<u>\$ (237,083)</u>	<u>\$ 590,170</u>	<u>\$ -</u>	<u>\$ 12,149,448</u>
	<b>2017</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals and Retirements</b>	<b>Transfers</b>	<b>Ending Balance</b>
Land	\$ 124,672	\$ -	\$ -	\$ -	\$ 124,672
Buildings and leasehold improvements	19,060,921	256,467	444,153	61,250	18,934,485
Equipment	11,589,606	594,411	50,149	28,840	12,162,708
Construction in process	90,090	504,421	-	(90,090)	504,421
	<u>30,865,289</u>	<u>1,355,299</u>	<u>494,302</u>	<u>-</u>	<u>31,726,286</u>
Less accumulated depreciation for					
Buildings and leasehold improvements	(8,505,024)	(775,220)	(375,929)	-	(8,904,315)
Equipment	(9,042,915)	(840,716)	(38,361)	-	(9,845,270)
	<u>(17,547,939)</u>	<u>(1,615,936)</u>	<u>(414,290)</u>	<u>-</u>	<u>(18,749,585)</u>
Capital assets, net	<u>\$ 13,317,350</u>	<u>\$ (260,637)</u>	<u>\$ 80,012</u>	<u>\$ -</u>	<u>\$ 12,976,701</u>

**Wray Community District Hospital**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

**Note 7: Current Notes Payable**

A note payable for \$396,706 was November 11, 2015 for capital repairs at Hillcrest. The note is collateralized by CDs with options to renew every six months. The interest rate on the note is 1.98% and is due in a lump-sum payment, including interest on September 2, 2019. It is management's intent to renew.

A note payable for \$475,000 was issued May 26, 2016. The note is collateralized by a CD with options to renew every six months. The interest rate on the note is 1.85% and is due in quarterly payments of \$8,937 and a lump-sum payment, including interest on August 27, 2019. The outstanding balance of the note totaled \$404,557 as of December 31, 2018. It is management's intent to renew.

**Note 8: Long-term Debt**

The following is a summary of long-term debt transactions for the District for the years ended December 31, 2018 and 2017:

	<b>2018</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Amounts Due Within One Year</b>
Note payable (B)	\$ 436,476	\$ -	\$ (26,618)	\$ 409,858	\$ 27,458
USDA mortgage payable	1,609,566	-	(28,577)	1,580,989	29,593
Capital lease obligations	<u>391,597</u>	<u>105,754</u>	<u>(123,357)</u>	<u>373,994</u>	<u>146,716</u>
Total long-term debt	<u>\$ 2,437,639</u>	<u>\$ 105,754</u>	<u>\$ (178,552)</u>	<u>\$ 2,364,841</u>	<u>\$ 203,767</u>
	<b>2017</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Amounts Due Within One Year</b>
Note payable (A)	\$ 97,786	\$ -	\$ (97,786)	\$ -	\$ -
Note payable (B)	462,375	-	(25,899)	436,476	26,650
USDA mortgage payable	1,637,161	-	(27,595)	1,609,566	28,577
Capital lease obligations	<u>192,963</u>	<u>322,626</u>	<u>(123,992)</u>	<u>391,597</u>	<u>117,365</u>
Total long-term debt	<u>\$ 2,390,285</u>	<u>\$ 322,626</u>	<u>\$ (275,272)</u>	<u>\$ 2,437,639</u>	<u>\$ 172,592</u>

**Wray Community District Hospital**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

**Notes Payable**

- (A) The note payable to bank is due July 1, 2024, due in monthly installments of \$1,207 including interest at 3%. The note is secured by certain capital assets. The note was paid in full during 2017.
- (B) The note payable to bank is due May 31, 2021, due in 19 quarterly installments of \$9,862 and one payment of 349,522, and including interest at 3%. The note is secured by certain investments.

The debt service requirements for notes payable as of December 31, 2018, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2019	\$ 39,446	\$ 27,458	\$ 11,988
2020	39,446	28,259	11,187
2021	<u>359,384</u>	<u>354,141</u>	<u>5,243</u>
	<u>\$ 438,276</u>	<u>\$ 409,858</u>	<u>\$ 28,418</u>

**USDA Mortgage Payable**

The mortgage payable is due June 1, 2049, due in monthly installments of \$7,038 including interest at 3.5%. The note is secured by certain capital assets. The debt service requirements as of December 31, 2018, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2019	\$ 84,456	\$ 29,593	\$ 54,863
2020	84,456	30,646	53,810
2021	84,456	31,736	52,720
2022	84,456	32,864	51,592
2023	84,456	34,033	50,423
2024 - 2028	422,280	189,207	233,073
2029 - 2033	422,280	225,335	196,945
2034 - 2038	422,280	268,361	153,919
2039 - 2043	422,280	319,603	102,677
2044 - 2048	422,280	380,629	41,651
2049	<u>63,342</u>	<u>38,982</u>	<u>24,360</u>
	<u>\$ 2,597,022</u>	<u>\$ 1,580,989</u>	<u>\$ 1,016,033</u>

**Wray Community District Hospital**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

**Capital Lease Obligations**

The District is obligated under leases for equipment that are accounted for as capital leases. Assets under capital leases at December 31, 2018 and 2017 totaled \$583,754 and \$652,208, respectively, net of accumulated depreciation of \$221,280 and \$134,323, respectively. The following is a schedule by year of future minimum lease payments under the capital lease including interest at rates of 0.0% to 4.5%, together with the present value of the future minimum lease payments as of December 31, 2018:

Year Ending December 31,		
2019	\$	156,208
2020		108,511
2021		72,429
2022		55,639
Total minimum lease payments		392,787
Less amount representing interest		(18,793)
Present value of future minimum lease payments	\$	373,994

**Note 9: Designated Net Position**

At December 31, 2018 and 2017, \$1,255,353 and \$1,441,498, respectively, of unrestricted net position has been designated by the District’s Board of Directors for operations and capital acquisitions. Designated net position remains under the control of the Board of Directors, which may, at its discretion, later use this net position for other purposes.

**Note 10: Medical Malpractice Claims**

The District purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. 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 District’s claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

**Wray Community District Hospital**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

**Note 11: Pension Plan**

The District contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the District's required contributions, determined in accordance with the terms of the plan. The plan is administered by a Board of Trustees appointed by American United Life Insurance Company (AUL). The plan provides retirement and death 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 District's governing body. Contribution rates for plan members and the District expressed as a percentage of covered payroll were 5.3% and 2.9% for 2018 and 5.0% and 2.9% for 2017, respectively. Contributions actually made by the District were \$197,000 and \$184,000 during 2018 and 2017, respectively. Plan members made contributions during 2018 and 2017 of \$355,000 and \$318,000, respectively, which included 457 contributions.

Employees are immediately vested in their own contributions and earnings on those contributions and become vested in Hospital contributions after completion of seven years of credible service with the District. Nonvested District contributions are forfeited upon termination of employment. Such forfeitures are used to cover a portion of the pension plan's current period contribution requirement. For the years ended December 31, 2018 and 2017, forfeitures reduced the Hospital's pension expense by \$16,178 and \$3,482, respectively.

**Note 12: Deferred Compensation Plan**

The District has a deferred compensation plan created in accordance with the Internal Revenue Code Section 457. The plan is administered by independent plan administrators through administrative service agreements. The plan is available to all permanent District employees. Employees defer a portion of their salary until future years. Deferred compensation is not available to employees until termination, retirement, death or financial hardship. Plan assets are held in trust, with the District having no fiduciary responsibility, for the exclusive benefit of the plan participants and their beneficiaries. The assets will not be diverted to any other purpose.

**Wray Community District Hospital**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

**Note 13: Condensed Combining Information**

The following tables include condensed combining statements of net position, revenues, expenses and changes in net position and cash flows information for the District and its blended component unit for the years ended December 31, 2018 and 2017.

**Statements of Net Position**

	<b>December 31, 2018</b>			
	<b>Hospital</b>	<b>Hillcrest</b>	<b>Eliminations</b>	<b>Totals</b>
<b>Assets</b>				
Current assets	\$ 7,941,183	\$ 525,878	\$ (8,904)	\$ 8,458,157
Noncurrent cash and investments	2,854,396	40,426	-	2,894,822
Capital assets, net	<u>7,607,656</u>	<u>4,541,792</u>	<u>-</u>	<u>12,149,448</u>
Total assets	<u>\$ 18,403,235</u>	<u>\$ 5,108,096</u>	<u>\$ (8,904)</u>	<u>\$ 23,502,427</u>
<b>Liabilities</b>				
Current liabilities	\$ 2,334,322	\$ 1,062,904	\$ (8,904)	\$ 3,388,322
Long-term debt	<u>586,936</u>	<u>1,574,138</u>	<u>-</u>	<u>2,161,074</u>
Total liabilities	<u>2,921,258</u>	<u>2,637,042</u>	<u>(8,904)</u>	<u>5,549,396</u>
<b>Deferred Inflows of Resources - Property Taxes</b>				
	<u>389,644</u>	<u>-</u>	<u>-</u>	<u>389,644</u>
<b>Net Position</b>				
Net investment in capital assets	6,485,761	2,497,583	-	8,983,344
Restricted expendable for capital assets	280,393	-	-	280,393
Unrestricted	<u>8,326,179</u>	<u>(26,529)</u>	<u>-</u>	<u>8,299,650</u>
Total net position	<u>15,092,333</u>	<u>2,471,054</u>	<u>-</u>	<u>17,563,387</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 18,403,235</u>	<u>\$ 5,108,096</u>	<u>\$ (8,904)</u>	<u>\$ 23,502,427</u>

**Wray Community District Hospital**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

	<b>December 31, 2017</b>			<b>Totals</b>
	<b>Hospital</b>	<b>Hillcrest</b>	<b>Eliminations</b>	
<b>Assets</b>				
Current assets	\$ 8,657,828	\$ 323,182	\$ -	\$ 8,981,010
Noncurrent cash and investments	3,024,792	31,906	-	3,056,698
Capital assets, net	<u>8,169,539</u>	<u>4,807,162</u>	-	<u>12,976,701</u>
Total assets	<u>\$ 19,852,159</u>	<u>\$ 5,162,250</u>	<u>\$ -</u>	<u>\$ 25,014,409</u>
<b>Liabilities</b>				
Current liabilities	\$ 2,529,193	\$ 953,488	\$ -	\$ 3,482,681
Long-term debt	<u>617,701</u>	<u>1,647,346</u>	-	<u>2,265,047</u>
Total liabilities	<u>3,146,894</u>	<u>2,600,834</u>	-	<u>5,747,728</u>
<b>Deferred Inflows of Resources -</b>				
Property Taxes	<u>376,850</u>	-	-	<u>376,850</u>
<b>Net Position</b>				
Net investment in capital assets	7,016,800	2,692,684	-	9,709,484
Restricted expendable for capital assets	308,256	-	-	308,256
Unrestricted	<u>9,003,359</u>	<u>(131,268)</u>	-	<u>8,872,091</u>
Total net position	<u>16,328,415</u>	<u>2,561,416</u>	-	<u>18,889,831</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 19,852,159</u>	<u>\$ 5,162,250</u>	<u>\$ -</u>	<u>\$ 25,014,409</u>

**Wray Community District Hospital**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

**Statements of Revenues, Expenses and Changes in Net Position**

	<b>Year Ended December 31, 2018</b>			
	<b>Hospital</b>	<b>Hillcrest</b>	<b>Eliminations</b>	<b>Totals</b>
<b>Operating Revenues</b>				
Net patient and resident service revenue	\$ 19,479,853	\$ 4,199,161	\$ (8,904)	\$ 23,670,110
Other operating revenues	191,755	52,512	-	244,267
Total operating revenues	<u>19,671,608</u>	<u>4,251,673</u>	<u>(8,904)</u>	<u>23,914,377</u>
<b>Operating Expenses</b>				
Depreciation	1,159,564	300,509	-	1,460,073
Other operating expenses	19,681,146	4,850,913	(8,904)	24,523,155
Total operating expenses	<u>20,840,710</u>	<u>5,151,422</u>	<u>(8,904)</u>	<u>25,983,228</u>
<b>Operating Loss</b>	<u>(1,169,102)</u>	<u>(899,749)</u>	<u>-</u>	<u>(2,068,851)</u>
<b>Nonoperating Revenues (Expenses), Net</b>	<u>432,231</u>	<u>(21,219)</u>	<u>-</u>	<u>411,012</u>
<b>Deficiency of Revenues Over Expenses Before Capital Contributions and Related-party Transfer</b>	(736,871)	(920,968)	-	(1,657,839)
<b>Transfer from (to) Related Party</b>	(830,606)	830,606	-	-
<b>Capital Contributions</b>	<u>331,395</u>	<u>-</u>	<u>-</u>	<u>331,395</u>
<b>Change in Net Position</b>	(1,236,082)	(90,362)	-	(1,326,444)
<b>Net Position, Beginning of Year</b>	<u>16,328,415</u>	<u>2,561,416</u>	<u>-</u>	<u>18,889,831</u>
<b>Net Position, End of Year</b>	<u>\$ 15,092,333</u>	<u>\$ 2,471,054</u>	<u>\$ -</u>	<u>\$ 17,563,387</u>

**Wray Community District Hospital**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

	<b>Year Ended December 31, 2017</b>			
	<b>Hospital</b>	<b>Hillcrest</b>	<b>Eliminations</b>	<b>Totals</b>
<b>Operating Revenues</b>				
Net patient and resident service revenue	\$ 18,044,151	\$ 4,411,908	\$ -	\$ 22,456,059
Other operating revenues	613,804	33,764	-	647,568
Total operating revenues	<u>18,657,955</u>	<u>4,445,672</u>	<u>-</u>	<u>23,103,627</u>
<b>Operating Expenses</b>				
Depreciation	1,311,060	304,876	-	1,615,936
Other operating expenses	19,154,688	4,714,860	-	23,869,548
Total operating expenses	<u>20,465,748</u>	<u>5,019,736</u>	<u>-</u>	<u>25,485,484</u>
<b>Operating Loss</b>	<u>(1,807,793)</u>	<u>(574,064)</u>	<u>-</u>	<u>(2,381,857)</u>
<b>Nonoperating Revenues (Expenses), Net</b>	<u>641,689</u>	<u>(69,949)</u>	<u>-</u>	<u>571,740</u>
<b>Deficiency of Revenues Over Expenses Before Capital Contributions and Related-party Transfer</b>	(1,166,104)	(644,013)	-	(1,810,117)
<b>Transfer from (to) Related Party</b>	(164,309)	164,309	-	-
<b>Capital Contributions</b>	<u>411,562</u>	<u>-</u>	<u>-</u>	<u>411,562</u>
<b>Change in Net Position</b>	(918,851)	(479,704)	-	(1,398,555)
<b>Net Position, Beginning of Year</b>	<u>17,247,266</u>	<u>3,041,120</u>	<u>-</u>	<u>20,288,386</u>
<b>Net Position, End of Year</b>	<u>\$ 16,328,415</u>	<u>\$ 2,561,416</u>	<u>\$ -</u>	<u>\$ 18,889,831</u>

**Wray Community District Hospital**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

**Statements of Cash Flows**

	<b>Year Ended December 31, 2018</b>		
	<b>Hospital</b>	<b>Hillcrest</b>	<b>Total</b>
Net cash provided by (used in)			
Operating activities	\$ (223,872)	\$ (589,878)	\$ (813,750)
Noncapital financing activities	(410,144)	830,606	420,462
Capital and related financing activities	(627,766)	(126,699)	(754,465)
Investing activities	13,040	72	13,112
	(1,248,742)	114,101	(1,134,641)
Cash and cash equivalents, beginning of year	4,020,885	74,896	4,095,781
Cash and cash equivalents, end of year	\$ 2,772,143	\$ 188,997	\$ 2,961,140

	<b>Year Ended December 31, 2017</b>		
	<b>Hospital</b>	<b>Hillcrest</b>	<b>Total</b>
Net cash provided by (used in)			
Operating activities	\$ (1,502,921)	\$ (87,686)	\$ (1,590,607)
Noncapital financing activities	399,891	-	399,891
Capital and related financing activities	(72,765)	(161,154)	(233,919)
Investing activities	(2,576,557)	64	(2,576,493)
	(3,752,352)	(248,776)	(4,001,128)
Cash and cash equivalents, beginning of year	7,773,237	323,672	8,096,909
Cash and cash equivalents, end of year	\$ 4,020,885	\$ 74,896	\$ 4,095,781

**Note 14: Significant Estimates and Concentrations**

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

**Allowances for Net Patient Service Revenue Adjustments**

Estimates of allowances for adjustments included in net patient service revenue are described in Notes 1 and 3.

**Wray Community District Hospital**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

**Note 15: Wray Community Hospital Foundation**

***Financial Statements***

The financial statements of the Foundation are presented in accordance with the provisions of FASB ASC. FASB ASC requires the Foundation to distinguish between contributions that increase permanently restricted net assets, temporarily restricted net assets and unrestricted net assets. It also requires recognition of contributions, including contributed services meeting certain criteria, at fair values. FASB ASC establishes standards for external financial statements of not-for-profit organizations and requires a statement of financial position, a statement of activities and a statement of cash flows. As permitted by GASB Statement No. 34, the District has elected not to present a statement of cash flows for the Foundation in the basic financial statements of the District's reporting entity.

***Investments and Investment Return***

Investments at December 31 consisted of the following:

	<b>2018</b>	<b>2017</b>
Certificates of deposit	\$ 181,127	\$ 180,857

Total investment return is composed of the following:

	<b>2018</b>	<b>2017</b>
Interest income	\$ 327	\$ 1,670

**Note 16: Subsequent Events**

Subsequent to year-end the Hospital entered into a line of credit with Wray State Bank for an amount up to \$1,200,000. The line of credit has a loan date of March 7, 2019 and matures October 14, 2019.

Subsequent events have been evaluated through May 31, 2019, which is the date the consolidated financial statements were available to be issued.

## **Supplementary Information**

**Wray Community District Hospital**  
**Consolidating Statement of Net Position Information**  
**December 31, 2018**

**Assets**

	<b>Hospital</b>	<b>Hillcrest</b>	<b>Eliminations</b>	<b>Totals</b>
<b>Current Assets</b>				
Cash and cash equivalents	\$ 413,953	\$ 148,571	\$ -	\$ 562,524
Short-term investments	2,623,666	-	-	2,623,666
Patient accounts receivable, less allowance for uncollectible accounts; \$2,120,450	3,691,516	-	(8,904)	3,682,612
Resident accounts receivable, less allowance for uncollectible accounts; \$0	-	343,703	-	343,703
Other receivables	411,703	33,604	-	445,307
Supplies	614,566	-	-	614,566
Prepaid expenses	185,779	-	-	185,779
	<u>7,941,183</u>	<u>525,878</u>	<u>(8,904)</u>	<u>8,458,157</u>
<b>Noncurrent Cash and Investments</b>				
Internally-designated and restricted deposits held as collateral	2,358,190	40,426	-	2,398,616
Restricted investments	496,206	-	-	496,206
	<u>2,854,396</u>	<u>40,426</u>	<u>-</u>	<u>2,894,822</u>
<b>Capital Assets, Net</b>	<u>7,607,656</u>	<u>4,541,792</u>	<u>-</u>	<u>12,149,448</u>
<b>Total assets</b>	<u>\$ 18,403,235</u>	<u>\$ 5,108,096</u>	<u>\$ (8,904)</u>	<u>\$ 23,502,427</u>

**Wray Community District Hospital**  
**Consolidating Statement of Net Position Information (continued)**  
**December 31, 2018**

**Liabilities, Deferred Inflows of  
Resources and Net Position**

	<u>Hospital</u>	<u>Hillcrest</u>	<u>Eliminations</u>	<u>Totals</u>
<b>Current Liabilities</b>				
Current notes payable	\$ 404,557	\$ 396,706	\$ -	\$ 801,263
Current maturities of long-term debt	130,402	73,365	-	203,767
Accounts payables	804,124	149,125	(8,904)	944,345
Accrued expenses and other current liabilities	685,278	220,447	-	905,725
Estimated amounts due to third-party payers	309,961	223,261	-	533,222
	<u>2,334,322</u>	<u>1,062,904</u>	<u>(8,904)</u>	<u>3,388,322</u>
<b>Long-term Debt</b>	<u>586,936</u>	<u>1,574,138</u>	<u>-</u>	<u>2,161,074</u>
	<u>2,921,258</u>	<u>2,637,042</u>	<u>(8,904)</u>	<u>5,549,396</u>
<b>Deferred Inflows of Resources - Property Taxes</b>	<u>389,644</u>	<u>-</u>	<u>-</u>	<u>389,644</u>
<b>Net Position</b>				
Net investment in capital assets	6,485,761	2,497,583	-	8,983,344
Restricted expendable for capital assets	280,393	-	-	280,393
Unrestricted	8,326,179	(26,529)	-	8,299,650
	<u>15,092,333</u>	<u>2,471,054</u>	<u>-</u>	<u>17,563,387</u>
	<u>\$ 18,403,235</u>	<u>\$ 5,108,096</u>	<u>\$ (8,904)</u>	<u>\$ 23,502,427</u>

**Wray Community District Hospital**  
**Consolidating Statement of Revenues, Expenses and**  
**Changes in Net Position Information**  
**Year Ended December 31, 2018**

	<u>Hospital</u>	<u>Hillcrest</u>	<u>Eliminations</u>	<u>Totals</u>
<b>Operating Revenues</b>				
Net patient service revenue, net of provision for uncollectible accounts; \$1,255,998	\$ 19,479,853	\$ -	\$ (8,904)	\$ 19,470,949
Net resident service revenue, net of provision for uncollectible accounts; \$0	-	4,199,161	-	4,199,161
Other operating revenues	191,755	52,512	-	244,267
Total operating revenues	<u>19,671,608</u>	<u>4,251,673</u>	<u>(8,904)</u>	<u>23,914,377</u>
<b>Operating Expenses and Losses</b>				
Salaries and benefits	8,349,812	3,269,146	-	11,618,958
Purchased services and professional fees	5,932,982	625,650	-	6,558,632
Supplies and other	5,398,352	956,117	(8,904)	6,345,565
Depreciation	1,159,564	300,509	-	1,460,073
Total operating expenses and losses	<u>20,840,710</u>	<u>5,151,422</u>	<u>(8,904)</u>	<u>25,983,228</u>
<b>Operating Loss</b>	<u>(1,169,102)</u>	<u>(899,749)</u>	<u>-</u>	<u>(2,068,851)</u>
<b>Nonoperating Revenues (Expenses)</b>				
Property taxes	420,462	-	-	420,462
Net insurance proceeds received	-	46,140	-	46,140
Interest income	41,530	72	-	41,602
Interest expense	(29,761)	(67,431)	-	(97,192)
Total nonoperating revenues (expenses)	<u>432,231</u>	<u>(21,219)</u>	<u>-</u>	<u>411,012</u>
<b>Deficiency of Revenues Over Expenses Before Capital Contributions and Related-party Transfer</b>	(736,871)	(920,968)	-	(1,657,839)
<b>Transfer from (to) Related Party</b>	(830,606)	830,606	-	-
<b>Capital Contributions</b>	<u>331,395</u>	<u>-</u>	<u>-</u>	<u>331,395</u>
<b>Change in Net Position</b>	(1,236,082)	(90,362)	-	(1,326,444)
<b>Net Position, Beginning of Year</b>	<u>16,328,415</u>	<u>2,561,416</u>	<u>-</u>	<u>18,889,831</u>
<b>Net Position, End of Year</b>	<u>\$ 15,092,333</u>	<u>\$ 2,471,054</u>	<u>\$ -</u>	<u>\$ 17,563,387</u>

**Wray Community District Hospital**  
**Budgeted and Actual Revenues and Expenses – Hospital Only**  
**Year Ended December 31, 2018**

	<b>Actual</b>	<b>Budgeted</b>	<b>Favorable (Unfavorable) Variance</b>
<b>Operating Revenues</b>			
Net patient service revenue	\$ 19,479,853	\$ 19,786,703	\$ (306,850)
Other	191,755	858,753	(666,998)
Total operating revenues	19,671,608	20,645,456	(973,848)
<b>Operating Expenses</b>			
Salaries, wages and employee benefits	8,349,812	8,384,958	35,146
Other	12,490,898	12,615,567	124,669
Total operating expenses	20,840,710	21,000,525	159,815
<b>Operating Loss</b>	(1,169,102)	(355,069)	(814,033)
<b>Net Nonoperating Revenues</b>	432,231	413,655	18,576
<b>Excess (Deficiency) of Revenues Over Expenses     Before Capital Contributions</b>	\$ (736,871)	\$ 58,586	\$ (795,457)