The Lawrence Memorial Hospital

A Component Unit of the City of Lawrence, Kansas

Independent Auditor's Report and Financial Statements

December 31, 2023 and 2022

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
December 31, 2023 and 2022

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Independent Auditor's Report

Board of Trustees
The Lawrence Memorial Hospital
Lawrence, Kansas

Opinions

We have audited the financial statements of the business-type activities and the aggregate discretely presented component units of The Lawrence Memorial Hospital (the "Hospital"), a component unit of the City of Lawrence, Kansas, as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

In our opinion, based on our audits and the report of the other auditors, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the Hospital as of December 31, 2023 and 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of LMH Health Foundation, a discretely presented component unit of the Hospital, which represent 66% and 37%, respectively, of the assets and revenues of the aggregate discretely presented component units as of December 31, 2023; and, which represent 63% and 55%, respectively, of the assets and revenues of the aggregate discretely presented component units as of December 31, 2022. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for LMH Health Foundation, is based solely on the report of the other auditors.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the *Kansas Municipal Audit and Accounting Guide*. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the Hospital, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in *Note 21* of the financial statements, in 2023, the Hospital adopted Governmental Accounting Standards Board Statement No. 96, *Subscription-Based IT Arrangements*. Our opinions are not modified with respect to this matter.

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Responsibilities of Management's for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Hospital's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and the *Kansas Municipal Audit and Accounting Guide* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and the *Kansas Municipal Audit and Accounting Guide*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Hospital's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Hospital's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 GAAS, 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 audits 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.

FORVIS, LLP

Kansas City, Missouri
April 19, 2024

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
Management's Discussion and Analysis (Unaudited)
Years Ended December 31, 2023 and 2022

Introduction

This management's discussion and analysis of the financial performance of The Lawrence Memorial Hospital (Hospital) provides an overview of the Hospital's financial activities for the years ended December 31, 2023 and 2022. It should be read in conjunction with the accompanying financial statements of the Hospital. Unless otherwise indicated, the information and financial data relates solely to the Hospital and does not include its discretely presented component units, LMH Health Foundation and Lawrence Surgery Center, LLC. Dollar amounts are in thousands.

Financial Highlights

- Cash deposits and investments as detailed in *Note 2* to the financial statements totaled $116,511 at December 31, 2023, an increase of $19,523 or 20.1% from the balance reported at December 31, 2022 when cash and investments totaled $96,988, a decrease of $23,408 or 19.4% from the balance reported at December 31, 2021.

- The Hospital's net position at December 31, 2023 increased $1,285 or 0.5% compared to a decrease of $7,927 or 2.8% in 2022.

- The Hospital reported an operating loss of $1,561 in 2023, a 56.6% improvement over the operating loss of $3,600 reported in 2022 but fell short of the operating income of $2,382 generated in 2021.

- Investment income of $4,600 increased by $5,721 or 510.3% in 2023 compared to the prior year when the Hospital experienced investment losses of $1,121 in 2022, representing a change of $6,212 or 122.0% compared to investment income of $5,091 in 2021. The year-to-year changes were impacted by unrealized market gains and losses experienced over the years due to volatile market conditions, impacted by periods of recovery following the COVID-19 pandemic and subsequent inflation factors in the economy.

- Nonoperating revenues includes CARES Act payments, authorized by the U.S. Department of Health and Human Services and the U.S. Department of the Treasury, and other COVID-19 relief program funds provided by the State of Kansas totaling $13 in 2023, $274 in 2022, and $5,284 in 2021 to support the Hospital's COVID-19 pandemic response.

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
Management's Discussion and Analysis (Unaudited)
Years Ended December 31, 2023 and 2022

Using This Annual Report

The Hospital's financial statements consist of three statements—a balance sheet; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These statements, along with the accompanying notes, provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Hospital utilizes accounting practices for a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB).

The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Position

The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Position report information about the Hospital's resources and its activities in a way that helps the user determine its overall financial condition. These statements include all restricted and unrestricted assets, all liabilities and all deferred inflows of resources using the accrual basis of accounting. Under the accrual basis of accounting, all of the current year's revenues and expenses are considered regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes during the period. The Hospital's total net position—the difference between assets, liabilities and deferred inflows of resources—is one measure of the Hospital's financial health or financial position. Over time, increases in the Hospital's net position are one indicator that its financial health is improving. Other nonfinancial factors, such as changes in the Hospital's patient base, changes in medical staff, 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 Hospital.

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. This statement provides the user an understanding of the various sources and uses of cash for the Hospital.

The Hospital's Net Position

The Hospital's net position as illustrated in Table 1 below is the difference between its assets, liabilities and deferred inflows of resources reported in the Balance Sheet. Changes in net position were due to negative or positive financial operating results for the respective years. The 2021 comparative information has not been restated for the GASB Statement No. 96, *Subscription-Based IT Arrangements*, change in accounting principle, as described in *Note 21*.

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
Management's Discussion and Analysis (Unaudited)
Years Ended December 31, 2023 and 2022

Table 1: Assets, Liabilities, Deferred Inflows of Resources and Net Position

	2023	As Restated 2022	2021
Assets			
Cash and cash equivalents	$ 38,378	$ 18,378	$ 90,970
Patient accounts receivable, net	40,077	50,054	49,278
Other current assets	16,569	24,590	22,981
Total current assets	95,024	93,022	163,229
Noncurrent cash and investments	75,547	76,074	26,916
Capital assets, net	225,605	230,161	235,083
Lease assets, net	4,410	5,373	6,430
Subscription assets, net	38,727	44,034	-
Lease receivable	13,510	13,648	13,721
Other	1,853	1,681	1,808
Total other noncurrent assets	15,363	15,329	15,529
Total assets	$ 454,676	$ 463,993	$ 447,187
Liabilities			
Long-term debt	$ 87,461	$ 90,750	$ 92,527
Lease liabilities	3,201	4,241	5,313
Subscription liabilities	34,661	38,799	-
Other current and noncurrent liabilities	43,455	45,249	56,235
Total liabilities	168,778	179,039	154,075
Deferred Inflows of Resources - Leases	13,753	14,094	14,325
Net Position			
Net investment in capital assets	134,334	141,444	147,139
Restricted - expendable for			
Capital acquisition	3,220	1,820	2,076
Specific operating activities	-	33	93
Unrestricted	134,591	127,563	129,479
Total net position	272,145	270,860	278,787
Total liabilities, deferred inflows of resources and net position	$ 454,676	$ 463,993	$ 447,187

Cash and cash equivalents totaled $38,378 at December 31, 2023 and reflected an increase of $20,000 or 108.8% compared to a balance of $18,378 in 2022 and compared to the balance of $90,970 in 2021. The Hospital's cash position in 2021 was supported with Medicare Accelerated and Advanced payments of which the balance of $17,689 in funds were repaid from Medicare receipts in 2022. In 2022, the Hospital invested funds previously held in overnight deposits to longer term securities due to improved interest rates available.

Net patient accounts receivable decreased by $9,977 or 19.9% at December 31, 2023 compared to the balance at December 31, 2022 due to revenue cycle improvements implemented during the year. Net patient accounts receivable increased by $766 or 1.6% at December 31, 2022 compared to the balance at December 31, 2021.

Total noncurrent cash and investments at December 31, 2023 decreased $527 or 0.7% compared to the prior year end balance of $76,074 at December 31, 2022. Total noncurrent cash and investments at December 31, 2022 increased $49,158 or 182.6% compared to the prior year end balance of $26,916 at December 31, 2021. In 2022, the Hospital moved funds into securities with longer term maturities due to improved investment rates.

Net capital assets of $225,605 at December 31, 2023 decreased by $4,556 or 2.0% compared to net capital assets of $230,161 at December 31, 2022 when net capital assets decreased by $4,922 or 2.1% compared to net capital assets of $235,083 at December 31, 2021. The year over year decreases are primarily due to depreciation and asset retirements.

Net lease assets decreased by $963 or 17.9% at December 31, 2023 compared to the 2022 year-end balance when the balance decreased by $1,057 compared to the 2021 year-end balance. The year over year decreases were due to amortization of leased assets.

Similarly, lease receivable assets decreased by $138 at December 31, 2023 compared to the 2022 year-end balance when the balance decreased by $73 compared to the 2021 year-end balance.

Net subscription assets decreased by $5,307 or 12.1% at December 31, 2023 compared to the 2022 year-end balance. The decrease was due to amortization of subscription assets recorded per the adoption of GASB Statement No. 96, *Subscription-Based IT Arrangements*.

Long-term debt of $87,461 at December 31, 2023 decreased by $3,289 or 3.6% compared to the prior year and long-term debt of $90,750 reported at December 31, 2022 decreased by $1,777 or 1.9% compared to long-term debt of $92,527 at December 31, 2021 primarily due to principal payments on the 2018 Series bonds, note payable and other financing obligations.

Lease liabilities of $3,201 at December 31, 2023 decreased $1,040 or 24.5% compared to the 2022 year-end balance of $4,241 which decreased $1,072 when compared to the 2021 year-end balance.

Subscription liabilities of $34,661 at December 31, 2023 decreased $4,138 or 10.7% compared to the 2022 year-end balance.

Other current and noncurrent liabilities of $43,455 decreased by $1,794 or 4.0% in 2023 compared to the December 31, 2022 balance of $45,249. The 2022 balance decreased $10,986 or 19.5% in 2022 due to repayment of the remaining $17,689 of Medicare Accelerated and Advance Funds and final payment of deferred payroll taxes allowed for COVID-19 support in 2020.

The Hospital reports an acquisition of net assets that is applicable to a future reporting period as deferred inflows of resources in a separate section of its balance sheet. The December 31, 2023 balance of deferred inflows of resources decreased $341 compared to the balance at December 31, 2022 and decreased $231 compared to the balance reported at December 31, 2021.

Operating Results and Changes in the Hospital's Net Position

The Hospital's Revenues Over (Under) Expenses in 2023 were ($849), an increase of $7,738 or 90.1% increase over the prior year and a net margin of (0.2)%. In 2022, the Hospital reported expenses greater than revenues, generating a negative ($8,587) for Revenues Over (Under) Expenses for the year, a decrease of 185.6% from the prior year and a net margin of (2.5)%. The Hospital's Revenues Over (Under) Expenses in 2021 were $10,031, an increase of $5,974 when compared to results from the prior year and a net margin of 3.1%. The Revenues Over (Under) Expenses were the principal factor in the increase in net position of $1,285 in 2023, the decrease in net position of $7,927 in 2022, and the increase in net position of $13,241 in 2021, as shown in Table 2.

Table 2: Operating Results and Changes in Net Position

	2023	As Restated 2022	2021
Operating Revenues			
Net patient service revenue	$ 341,555	$ 333,417	$ 317,459
Other operating revenues	6,222	5,708	5,658
Total operating revenues	347,777	339,125	323,117
Operating Expenses			
Salaries and wages and employee benefits	183,792	174,625	172,878
Purchased services and professional fees	37,469	38,515	31,430
Depreciation and amortization	21,466	20,955	14,887
Other operating expenses	106,611	108,630	101,540
Total operating expenses	349,338	342,725	320,735
Operating Income (Loss)	(1,561)	(3,600)	2,382
Nonoperating Revenues (Expenses)			
Investment income (loss)	4,600	(1,121)	5,091
Interest income from leases	633	581	598
Interest expense	(5,503)	(5,880)	(4,001)
Contributions and other	126	536	5,568
Gain (loss) on sale of capital assets	(63)	6	(598)
Gain on investment in equity investees	919	891	991
Total nonoperating revenues (expenses), net	712	(4,987)	7,649
Revenues Over (Under) Expenses	(849)	(8,587)	10,031
Contributions Restricted for Acquisition of Capital Assets	2,134	660	3,210
Increase (Decrease) in Net Position	$ 1,285	$ (7,927)	$ 13,241

Operating Income (Loss)

The first component of the overall change in the Hospital's net position is its operating income or loss—generally, the difference between operating revenues and the expenses incurred to perform those services.

The Hospital ended 2023 with a net operating loss of $1,561, an improvement of $2,039 or 56.6% when compared to the net operating loss of $3,600 reported in the prior year.

In 2023, Hospital inpatient gross charge revenue increased 12.6% when compared to 2022. Adult and pediatric inpatient days of 28,450 increased 1,238 days or 4.5% when compared to 2022 patient days and total discharges increased by 7.3% for the same time period. The inpatient volume increase contributed to a 10.7% increase in room and bed gross charge revenue. Inpatient ancillary service charges increased $29,586 or 12.7% over the prior year with growth in surgical, imaging, laboratory and pharmacy services. Inpatient surgical cases increased 28.1% over the prior year and inpatient imaging service volumes increased 5.9% compared to prior year volumes.

Hospital outpatient ancillary services gross charge revenue in 2023 increased by 8.7% when compared to the prior year. Increases in pharmacy and oncology pharmacy revenues were significant contributors to the higher revenue generated for Hospital outpatient services. Growth in imaging, endoscopy, therapy, and surgical services were also a factor in the increase over prior year results.

Emergency department patient visits of 37,540 declined by 566 visits from the prior year, but gross charge revenues generated from services increased by 5.0% over prior year charges. Physician practice gross revenue remained fairly even with prior year results, but were impacted by a shift from providing drug infusion therapy services in a physician clinic setting to the Hospital's outpatient infusion clinic to improve operational efficiency and standardization of clinical care.

Deductions from revenue increased 9.8% in 2023 and were reported at 75.9% of gross revenue compared to deductions of 74.6% experienced in 2022. The resulting net patient revenue of $341,555 showed an increase of $8,138 or 2.4% over prior year results. Other operating revenue increased 9.0% in 2023 due to increases in provider quality incentive awards earned by the family and internal medicine physician groups for providing high quality services and preventative care to their patient base as part of the overall commitment to help reduce cost and increase the health of the community we serve. When combined with other operating revenues of $6,222, total operating revenues were $347,777 in 2023.

Total operating expenses of $349,338 increased $6,613 or 1.9% in 2023 compared to prior year expenses. Salaries and wages and employee benefits expense of $183,792 grew $9,167 or 5.2% over the prior year due to a 4.0% cost of living increase and market adjustments granted to non-contract clinical and support staff as part of an ongoing recruitment and retention plan. Due to progress with the recruitment and retention project, the Hospital was able to significantly reduce contract labor expense which was higher in the two preceding years. Contract labor expense included within purchased services totaled $7,502 in 2023 compared to $12,247 in 2022, a decrease of $4,745.

Despite the increased drug usage to treat patients during 2023, the Hospital was able to realize significant savings under the government's 340B drug purchasing program for which the Hospital was newly qualified. The 340B program produced savings for all drug expense, which decreased more than $5,040 from what was expended in the prior year. The significant decreases in both contract labor and drug expense helped mitigate the impact of inflation in other purchased services and supplies expense categories.

In 2022, the Hospital generated $3,600 in operating loss, a decrease of 251.1% compared to operating income of $2,382 generated in the prior year due to increased operating expenses without commensurate increases in revenues.

Hospital inpatient gross revenue in 2022 decreased $1,004 or 0.4% when compared to inpatient charges generated in 2021 despite an increase of 4.0% for inpatient days. Adult and pediatric days of 27,212 increased 1,044 patient days and routine room and bed charges increased by 7.0%; however, other inpatient service revenues declined when compared to the prior year. Pharmacy, respiratory therapy and central supply ancillary services revenues combined declined by $9,424 or 15.5% compared to the prior year and contributed to the overall decrease in gross revenue charges.

Gross revenue from Hospital outpatient ancillary services in 2022 increased by 7.1% when compared to the prior year. Oncology treatment volumes increased by 21.3% in 2022. The increase experienced in the Oncology department helped fuel increased revenues generated in the pharmacy for oncological drugs and in imaging services for exams provided to aid in the diagnosis and treatment of the oncology patients seen in 2022. Outpatient invasive cardiology revenue increased 10.5% over the prior year; and, combined, physical and occupational therapy services departments generated revenues 10.0% higher when compared to 2021.

Emergency department patient visits of 38,106 in 2022 increased 2,846 or 8.1% over the number of patient visits in the prior year generating an 8.8% increase in gross revenues for the same period. Physician practice gross revenue increased 6.8% in 2022 due to growth in the cardiology clinic's services and in the family practice clinics. The Free State Family Medicine clinic added in September 2021 was in place for the entirety of 2022 and contributed with revenues exceeding the prior year by $3,662 or 237.2%.

Overall deductions from revenue were consistent at 74.6% of gross revenue compared to deductions of 74.4% experienced in 2021 and resulted in net patient revenue in 2022 from all sources of $333,417 which increased by 5.0% over the prior year. When combined with other operating revenues of $5,708, subsequent total operating revenues were $339,125 in 2022.

Overall, 2022 Hospital operating expenses of $342,725 increased by $21,990 or 6.9% compared to prior year operating expenses of $320,735. Salaries and wages and employee benefits increased $1,747 or 1.0% over the prior year, which is below what was anticipated in light of cost of living increases provided to Hospital and clinic staff.

One of the bigger challenges in 2022 was the considerable cost of contract labor required to fill nursing, imaging and other support staff positions in order to maintain appropriate staffing levels required to care for patients. Contract labor expense included within purchased services totaled $12,247 in 2022, an increase of $7,066 from what was experienced in 2021 when staffing shortages became common in hospitals dealing with the COVID-19 pandemic.

Pharmacy drug expense increased due to higher volumes seen in the oncology department coupled with the utilization of higher cost drugs to treat patients in the oncology and infusion clinics. Drug shortages and supply chain pressures from inflation and transportation issues also contributed to high costs recorded in the year.

Included in other operating costs was the increase in the Kansas Healthcare Provider Assessment effective on July 1, 2022. Total assessment tax in 2022 was $4,143 compared to $799 in 2021. Going forward, the new annual assessment for the Hospital will be $7,487. The assessment was created to fund the state's Health Care Access Improvement Fund in order to receive federal matching funds to provide payment for health care services to hospital providers caring for Kansas Medicaid beneficiaries.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses typically consist primarily of investment earnings on the Hospital's fixed income and equity portfolios, income from the Hospital's investment in the Lawrence Surgery Center, LLC, Mid-America Service Solutions, LLC, interest income from leases and interest expense on bond financing, leases and subscription liabilities; however, in 2021 and to a lesser extent in 2022, the Hospital also recognized revenue from federal and state sources for COVID-19 funding. Only $13 in specific COVID-19-related funding was received in 2023. Conversely, in 2022, the Hospital recognized $112 in funding from the State of Kansas to be used specifically for attraction and retention of frontline health care workers by providing premium pay and bonuses during the COVID-19 surge. The Hospital also received and recognized $162 of *American Rescue Plan Act* funds from Douglas County, Kansas for equipment and expenses associated with the COVID-19 ongoing pandemic response.

In 2021, the Hospital recognized $1,971 of Health and Human Services (HHS) stimulus funds, $2,721 of CARES Act direct aid funding from Douglas County, Kansas, and the initial $592 of funding from the State of Kansas for attraction and retention of frontline health care workers.

Favorable market conditions resulted in investment income of $4,600 in 2023, an increase of $5,721 when compared to investment losses recorded in the prior year. Due to changes in the market value of investments, total investment losses of $1,121 were reported in 2022, a decrease of $6,212 when compared to investment income of $5,091 in 2021.

The Hospital recognized income of $919 as a result of the investment in Lawrence Surgery Center, LLC, and Mid-America Service Solutions, LLC, an increase of $28 when compared to income of $891 reported in 2022. Total non-operating income increased $5,699 in 2023 compared to non-operating losses of $4,987 reported in 2022 when non-operating losses decreased $12,636 compared to the 2021 results.

Capital Gifts

The Hospital received contributions restricted for acquisition of capital assets of $2,134 from LMH Health Foundation during 2023 compared to $660 in 2022 and $3,210 in 2021. Expended contributions are reflected in unrestricted net position at December 31, 2023 and 2022. Non-expended contributions of $3,220 are reflected in restricted net position at December 31, 2023.

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in operating income and non-operating revenues and expenses in 2023 and 2022, discussed earlier.

Capital Assets

The Hospital ended 2023 with $225,605 invested in capital assets, net of accumulated depreciation as detailed in *Note 5* to the financial statements, a decrease of $4,556 or 2.0% compared to the balance at the end of 2022. Lease and subscription assets decreased $963 and $5,307, respectively, in 2023 due to amortization of the right-to-use assets.

During 2023, the Hospital expended $1,950 for additional surgical booms and lights for remaining surgical suites not previously updated and for new surgical equipment to facilitate additional spine surgeries upon recruitment of a new surgeon. More than $3,100 was invested to update and improve infrastructure and leased tenant space in the 6th & Maine Street medical office building.

The Hospital ended 2022 with $230,161 invested in capital assets, net of accumulated depreciation as detailed in *Note 5* to the financial statements, a decrease of $4,922 or 2.1% compared to the balance at the end of 2021. Lease assets of $5,373 decreased $1,057 compared to the balance at December 31, 2021.

In 2022, the Hospital incurred a $2.4 million financing obligation to replace a primary air handler unit to service the main patient tower of the Hospital and invested more than $1.0 million to update the Hospital's main pharmacy to remain compliant with new regulations for intravenous drug preparation safety and storage and to help achieve operation efficiencies in workflow within the pharmacy department. Additional investments were made to replace and update building services infrastructure. The Hospital continued to invest in clinical technology by replacing lights and booms in four of the surgery suites and acquired updated information technology equipment to support the Hospital and physician clinic departments.

Debt

In May 2018, the Hospital issued $77,520 in Series 2018 revenue bonds to finance the LMH Health West construction project and other capital assets acquisitions. The bonds were issued with an $8 million premium. The amount outstanding for the Series 2018 Bonds at December 31, 2023 was $73,435. Other long-term debt consists of the remaining balance of $8,445 note payable of the $10,000 signed in 2018 to finance the purchase of the 6th & Maine Street medical office building and other obligations to finance imaging technology for the operating rooms, surgical robotic equipment acquired in 2021 and 2020, and to replace the Hospital's fleet of patient beds and stretchers in 2021. In 2022, the Hospital financed the installation of a new air handler unit for the main patient tower. No new debt was incurred in 2023. At the end of 2023, the Hospital had $90,357 in long-term debt obligations outstanding compared to $93,644 in 2022, a decrease of $3,287 or 3.5%.

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
Management's Discussion and Analysis (Unaudited)
Years Ended December 31, 2023 and 2022

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional information should be directed to the Chief Financial Officer by telephoning 785.505.6133.

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
Balance Sheets
December 31, 2023 and 2022

Assets

	2023	As Restated 2022
Current Assets		
Cash and cash equivalents	$ 38,378,162	$ 18,378,211
Current portion of assets held by trustee	2,585,312	2,535,006
Patient accounts receivable, net of allowance for doubtful accounts; 2023 – $15,295,516, 2022 – $24,031,584	40,076,606	50,053,637
Due from third-party payors	2,242,368	3,600,804
Lease receivable - discretely presented component unit	520,063	498,679
Lease receivable	570,712	451,174
Accounts receivable – other	1,040,640	2,030,865
Supplies	5,486,229	5,575,680
Prepaid expenses and other	4,123,367	9,897,616
Total current assets	95,023,459	93,021,672
Noncurrent Cash and Investments		
Held by trustee for debt service	2,585,312	2,535,006
Restricted by donors for capital acquisitions and specific operating activities	3,220,434	1,853,017
Other long-term investments	72,327,494	74,221,474
	78,133,240	78,609,497
Less amount required to meet current obligations	2,585,312	2,535,006
	75,547,928	76,074,491
Capital Assets, Net	225,605,406	230,161,194
Lease Assets, Net	4,410,223	5,372,684
Subscription Assets, Net	38,726,598	44,034,201
Other Assets		
Lease receivable - discretely presented component unit	9,961,550	10,481,613
Lease receivable	3,548,286	3,166,602
Other	1,852,719	1,680,571
	15,362,555	15,328,786
Total assets	$ 454,676,169	$ 463,993,028

See Notes to Financial Statements

Liabilities, Deferred Inflows of Resources and Net Position

	2023	As Restated 2022
Current Liabilities		
Current maturities of long-term debt	$ 2,895,151	$ 2,893,727
Current portion of lease liabilities	1,135,831	1,072,104
Current portion of subscription liabilities	4,803,980	5,182,009
Accounts payable	10,080,647	11,137,936
Accrued expenses	19,945,705	19,820,839
Accrued interest payable	2,187,113	2,285,668
Retirement plan obligation	1,686,365	1,536,011
Due to third-party payors	720,207	1,319,975
Total current liabilities	43,454,999	45,248,269
Other Liabilities		
Long-term debt	87,461,418	90,750,434
Lease liabilities	3,201,143	4,240,895
Subscription liabilities	34,660,646	38,799,032
Total other liabilities	125,323,207	133,790,361
Total liabilities	168,778,206	179,038,630
Deferred Inflows of Resources		
Leases - discretely presented component unit	9,972,988	10,636,345
Leases	3,779,790	3,457,932
	13,752,778	14,094,277
Net Position		
Net investment in capital assets	134,333,907	141,444,213
Restricted – expendable for		
Capital acquisition	3,220,434	1,820,434
Specific operating activities	-	32,583
Unrestricted	134,590,844	127,562,891
Total net position	272,145,185	270,860,121
Total liabilities, deferred inflows of resources and net position	$ 454,676,169	$ 463,993,028

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
LMH Health Foundation
Statements of Financial Position
December 31, 2023 and 2022

Assets

	2023	2022
Current Assets		
Cash and cash equivalents	$ 1,257,469	$ 1,485,819
Pledges receivable – current portion	618,792	1,531,544
Total current assets	1,876,261	3,017,363
Noncurrent Assets		
Pledges receivable, net of current portion	828,059	4,287,413
Beneficial interests	6,629,120	6,422,460
Investments	22,878,598	14,698,087
	30,335,777	25,407,960
Total assets	$ 32,212,038	$ 28,425,323

Liabilities and Net Assets

Current Liabilities		
Accounts payable	$ 5,964	$ 5,774
Total current liabilities	5,964	5,774
Net Assets		
Without donor restrictions		
Undesignated	6,787,555	1,195,313
Designated by the board for endowment	7,355,008	6,291,254
	14,142,563	7,486,567
With donor restrictions		
Purpose restrictions	9,126,579	8,547,154
Time restrictions	300,485	3,963,982
Perpetual in nature	8,636,447	8,421,846
	18,063,511	20,932,982
Total net assets	32,206,074	28,419,549
Total liabilities and net assets	$ 32,212,038	$ 28,425,323

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
Lawrence Surgery Center, LLC
Balance Sheets
December 31, 2023 and 2022

Assets

	2023	2022
Current Assets		
Cash and cash equivalents	$ 1,168,318	$ 867,323
Patient accounts receivables	1,447,718	1,337,537
Supplies	339,936	336,256
Prepaid expenses and other	98,570	95,837
Total current assets	3,054,542	2,636,953
Property and Equipment, at Cost		
Leasehold improvements	24,155	24,155
Major movable equipment	3,063,674	3,241,512
Furniture, fixtures and office equipment	87,102	87,102
Computer equipment and software	113,701	113,701
	3,288,632	3,466,470
Less accumulated depreciation	2,904,272	2,961,377
	384,360	505,093
Other Assets		
Right-of-use assets - operating leases - related party	11,592,098	12,158,852
Right-of-use assets - finance leases - related party	484,739	585,333
Right-of-use assets - operating leases	400,016	623,528
Right-of-use assets - finance leases	333,740	479,387
	12,810,593	13,847,100
Total assets	$ 16,249,495	$ 16,989,146

See Notes to Financial Statements

Liabilities and Members' Equity

	2023	2022
Current Liabilities		
Current portion of long-term debt	$ 40,653	$ 39,359
Accounts payable	350,234	185,981
Accrued expenses	874,741	855,515
Current portion of operating lease liabilities - related party	827,366	577,689
Current portion of finance lease liabilities - related party	102,371	94,927
Current portion of operating lease liabilities	232,012	221,047
Current portion of finance lease liabilities	149,211	114,145
Total current liabilities	2,576,588	2,088,663
Other Liabilities		
Long-term debt	10,094	45,919
Operating lease liabilities - related party	10,764,732	11,581,163
Finance lease liabilities - related party	389,732	622,395
Operating lease liabilities	168,004	402,481
Finance lease liabilities	198,179	250,333
Total other liabilities	11,530,741	12,902,291
Total liabilities	14,107,329	14,990,954
Members' Equity		
Capital contributions	1,237,825	1,182,625
Retained earnings	904,341	815,567
Total members' equity	2,142,166	1,998,192
Total liabilities and members' equity	$ 16,249,495	$ 16,989,146

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2023 and 2022

	2023	As Restated 2022
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2023 – $14,115,951, 2022 – $14,958,634	$ 341,555,464	$ 333,417,179
Other	6,222,069	5,707,521
Total operating revenues	347,777,533	339,124,700
Operating Expenses		
Salaries and wages	150,946,767	143,066,890
Employee benefits	32,844,946	31,558,600
Professional fees	15,101,307	12,734,195
Purchased services	22,368,055	25,780,672
Supplies	78,578,284	82,033,179
Utilities	4,092,806	4,484,974
Miscellaneous expenses	1,168,605	3,263,857
Licenses, taxes and Kansas provider assessment	8,030,506	4,259,126
Repairs and maintenance	10,481,855	10,744,625
Depreciation and amortization	21,466,275	20,954,622
Insurance	2,151,346	1,858,328
Other capital costs	2,107,709	1,985,836
Total operating expenses	349,338,461	342,724,904
Operating Loss	(1,560,928)	(3,600,204)
Nonoperating Revenues (Expenses)		
Investment income (loss)	4,600,254	(1,121,377)
Interest income from leases	632,921	581,490
Interest expense	(5,502,401)	(5,880,165)
Contributions and other	125,789	535,854
Gain (loss) on sale of capital assets	(63,166)	6,432
Gain on investment in equity investees	918,683	891,125
Total nonoperating revenues (expenses), net	712,080	(4,986,641)
Revenues Under Expenses	(848,848)	(8,586,845)
Contributions Restricted for Acquisition of Capital Assets	2,133,912	660,000
Increase (Decrease) in Net Position	1,285,064	(7,926,845)
Net Position, Beginning of Year	270,860,121	278,786,966
Net Position, End of Year	$ 272,145,185	$ 270,860,121

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
LMH Health Foundation
Statements of Activities
Years Ended December 31, 2023 and 2022

	2023			2022
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Support and Gains				
Special event revenue	$ 153,717	$ 43,159	$ 196,876	$ 417,298
Contributions	1,947,914	1,293,152	3,241,066	14,817,988
Contributions of nonfinancial assets	588,820	39,226	628,046	640,545
Interest and dividend income	321,169	242,232	563,401	363,251
Realized and unrealized gains (losses), net	1,290,356	1,226,736	2,517,092	(2,627,596)
Total support and revenue	4,301,976	2,844,505	7,146,481	13,611,486
Amounts released from restrictions	5,713,976	(5,713,976)	-	-
Total support, revenue and reclassifications	10,015,952	(2,869,471)	7,146,481	13,611,486
Expenses				
Program	2,836,787	-	2,836,787	1,558,914
General and administrative	218,729	-	218,729	227,605
Fundraising	304,440	-	304,440	310,262
Total expenses	3,359,956	-	3,359,956	2,096,781
Change in Net Assets	6,655,996	(2,869,471)	3,786,525	11,514,705
Net Assets, Beginning of Year	7,486,567	20,932,982	28,419,549	16,904,844
Net Assets, End of Year	$ 14,142,563	$ 18,063,511	$ 32,206,074	$ 28,419,549

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
Lawrence Surgery Center, LLC
Income Statements
Years Ended December 31, 2023 and 2022

	2023	2022
Operating Revenues		
Patient revenue	$ 12,052,721	$ 10,945,204
Other revenue	1,026	309,804
Total operating revenues	12,053,747	11,255,008
Operating Expenses		
Salaries and wages	2,896,157	2,730,488
Employee benefits	857,028	769,438
Supplies	4,350,274	3,600,043
Purchased services	404,844	358,479
Professional fees	94,542	89,402
Depreciation and amortization	453,636	471,440
Other expenses	1,879,986	1,873,464
Total operating expenses	10,936,467	9,892,754
Operating Income	1,117,280	1,362,254
Other Income (Expense)		
Interest income	4,276	156
Interest expense	(24,069)	(30,753)
Total other expense	(19,793)	(30,597)
Net Income	$ 1,097,487	$ 1,331,657

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
Statements of Cash Flows
Years Ended December 31, 2023 and 2022

	2023	As Restated 2022
Cash Flows from Operating Activities		
Receipts from and on behalf of patients	$ 352,291,163	$ 311,528,042
Payments to suppliers and contractors	(144,828,733)	(141,814,578)
Payments to employees	(183,779,960)	(176,670,760)
Other receipts, net	12,716,958	2,360,736
Net cash provided by (used in) operating activities	36,399,428	(4,596,560)
Cash Flows from Noncapital Financing Activities		
Noncapital gifts	125,789	535,854
Net cash provided by noncapital financing activities	125,789	535,854
Cash Flows from Capital and Related Financing Activities		
Principal paid on long-term debt	(2,893,727)	(3,563,145)
Interest paid on long-term debt	(4,126,174)	(4,328,380)
Principal paid on lease liabilities	(1,083,237)	(1,032,562)
Interest paid on lease liabilities	(181,934)	(213,098)
Principal paid on subscription liabilities	(5,182,008)	(5,422,608)
Interest paid on subscription liabilities	(1,686,713)	(1,345,793)
Principal payments received on leases receivable	981,199	842,158
Interest payments received on leases receivable	632,921	581,490
Purchase of capital assets	(10,463,659)	(5,416,338)
Purchase of subscription assets	(463,584)	(5,000)
Capital gifts	2,133,912	660,000
Proceeds from sale of capital assets	5,800	530,571
Net cash used in capital and related financing activities	(22,327,204)	(18,712,705)
Cash Flows from Investing Activities		
Interest and dividends on investments	4,018,149	2,369,792
Purchase of investments	(19,989,520)	(66,191,897)
Sale of investments	22,495,576	13,374,299
Advances to and investments in equity investee	(75,000)	-
Distributions from affiliates	800,427	486,649
Net cash provided by (used in) investing activities	7,249,632	(49,961,157)
Increase (Decrease) in Cash and Cash Equivalents	21,447,645	(72,734,568)
Cash and Cash Equivalents, Beginning of Year	22,914,569	95,649,137
Cash and Cash Equivalents, End of Year	$ 44,362,214	$ 22,914,569
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents in current assets	$ 38,378,162	$ 18,378,211
Cash and cash equivalents in noncurrent cash and investments	5,984,052	4,536,358
	$ 44,362,214	$ 22,914,569

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
Statements of Cash Flows (Continued)
Years Ended December 31, 2023 and 2022

	2023	As Restated 2022
Reconciliation of Operating Loss to		
Net Cash Provided by (Used in) Operating Activities		
Operating loss	$ (1,560,928)	$ (3,600,204)
Depreciation and amortization	21,466,275	20,954,622
Changes in operating assets and liabilities		
Patient accounts receivable, net	9,977,031	(775,782)
Other accounts receivable	919,432	(287,187)
Estimated amounts due from and to third-party payors	758,668	(21,113,355)
Accounts payable and accrued expenses	217,151	(521,094)
Deferred inflows of resources	(1,325,241)	(1,107,638)
Supplies	89,451	828,457
Prepaid expenses	5,774,249	938,697
Other	83,340	86,924
Net cash provided by (used in) operating activities	$ 36,399,428	$ (4,596,560)
Noncash Investing, Capital and Financing Activities		
Capital asset acquisitions included in accounts payable	$ 660,392	$ 1,659,612
Long-term debt incurred for purchase of capital assets	-	2,321,770
Lease obligation incurred for lease assets	107,212	2,024,667
Subscription obligation incurred for subscription assets	665,593	1,605,959
New lease receivables acquired through new or amended agreements	(983,742)	(876,726)
Amortization of original bond premium	(393,865)	(401,533)
Increase (decrease) in fair value of investments	566,300	(3,889,248)

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
Notes to Financial Statements
December 31, 2023 and 2022

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

Nature of Operations and Reporting Entity

The Lawrence Memorial Hospital (the Hospital), is a component unit of the City of Lawrence, Kansas (the City), which operates a hospital, clinics and other health care facilities for the residents of Lawrence, Kansas and surrounding communities. The Hospital is governed by a board of trustees composed of nine members who are appointed by the Mayor and confirmed by the City Commission.

Lawrence Physicians, LLC (LP, LLC) is considered a blended component unit and operates exclusively for the benefit of, to perform the functions of, and to carry out the purposes of the board of trustees of The Lawrence Memorial Hospital.

The Lawrence Memorial Hospital is the sole member of a nonprofit nonstock corporation, Reed Medical Group MDVIP Affiliate, Corporation (MDVIP). MDVIP is considered a blended component unit of the Hospital and was created to employ the two physicians associated with the Hospital's Reed Medical Group Physician Practice.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units*, LMH Health Foundation (the Foundation) is presented as a discretely presented component unit of the Hospital. See *Note 16* for additional information about the Foundation.

Lawrence Surgery Center, LLC (LSC, LLC) is an ambulatory surgical care center located in Lawrence, Kansas. The Hospital holds 70% ownership interest in LSC, LLC. As the Hospital holds a majority equity interest in LSC, LLC, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 90, *Majority Equity Interests*, the reporting includes LSC, LLC as a component unit of The Lawrence Memorial Hospital and is discretely presented in the Hospital's financial statements. LSC, LLC 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. See *Notes 6* and *17* for additional information about the Hospital's equity interest in LSC, LLC.

Basis of Accounting and Presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, liabilities and deferred inflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated or voluntary 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 and program-specific, government-mandated or voluntary nonexchange transactions. Government-mandated or voluntary nonexchange transactions that are not program specific (such as county appropriations), property taxes, investment income and

interest on capital asset-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available. The financial statements include the accounts of The Lawrence Memorial Hospital, Lawrence Physicians, LLC and Reed Medical Group MDVIP Affiliate, Corporation (collectively known as the Hospital). All significant inter-company balances and transactions have been eliminated.

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 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 Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. The Hospital considers uninvested cash held in investment accounts as cash or cash equivalents. At December 31, 2023, cash equivalents consisted primarily of repurchase agreements and money market mutual funds.

Patient Accounts Receivable

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payors, patients and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Supplies

Supply inventories are stated at the lower of cost or market. Costs are determined using the first-in, first-out (FIFO) method.

Investments and Investment Income

Investments in nonnegotiable certificates of deposit are carried at amortized cost. Investments in equity investees are reported on the equity method of accounting. All other investments are carried at fair value. Fair value is determined using quoted market prices.

Investment income includes dividend and interest income, realized gains and losses on investments carried at other than fair value and the net change for the year in the fair value of investments carried at fair value.

Noncurrent Cash and Investments

Noncurrent cash and investments include (1) assets held by trustees under bond indenture agreements, (2) assets restricted by donors for capital acquisitions and specific purposes and (3) undesignated and unrestricted investments. Amounts required to meet current liabilities of the Hospital are included in current assets. Such funds are primarily invested in money market mutual funds.

Capital Assets

Capital asset acquisitions over $5,000 are recorded at cost at the date of acquisition, or acquisition value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. The following estimated useful lives are being used by the Hospital:

Land improvements	2 – 25 years
Buildings	35 – 40 years
Leasehold improvements	5 – 10 years
Equipment	3 – 5 years
Computer software	3 – 5 years

Lease Assets

Lease assets are initially recorded at the initial measurement of the lease liability, plus lease payments made at or before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease, plus initial direct costs that are ancillary to place the asset into service. Lease assets are amortized on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset.

Lease Liabilities

Lease liabilities are initially recorded at present value of payments expected to be made during the lease term. The lease liabilities are reduced by the principal portion of the lease payments made.

Subscription Assets

Subscription assets are initially recorded at the initial measurement of the subscription liability, plus subscription payments made at or before the commencement of the subscription-based information technology arrangement (SBITA) term, less any SBITA vendor incentives received from the SBITA vendor at and certain payments made before the commencement of the SBITA term, plus capitalizable initial implementation costs. Subscription assets are amortized on a straight-line basis over the shorter of the SBITA term or the useful life of the underlying IT asset.

Capital, Lease, and Subscription Asset Impairment

The Hospital evaluates capital, lease, and subscription assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital, lease or subscription asset has occurred. If a capital, lease or subscription 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.

No asset impairment was recognized during the years ended December 31, 2023 and 2022.

Compensated Absences

Hospital policies permit most employees to accumulate paid-time off (PTO) and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as PTO benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Short-term leave benefits expected to be realized as paid-time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized.

Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as Social Security and Medicare taxes computed using rates in effect at that date.

Risk Management

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

The Hospital is self-insured for a portion of its exposure to risk of loss from employee health claims. Annual estimated provisions are accrued for the self-insured portion of employee health claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

The Hospital purchases medical malpractice insurance under a claims-made policy. Under such policy, only claims made and reported to the insurer are covered during the policy term, regardless of when the incident giving rise to the claim occurred. Under Kansas law, the Kansas Insurance Department provides excess liability insurance through the Kansas Healthcare Stabilization Fund.

Lease Receivable

The Hospital is a lessor for noncancellable leases of certain buildings and equipment and recognizes a related lease receivable and deferred inflows of resources. At the commencement of a lease, the Hospital initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflows of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflows of resources is recognized as revenue over the life of the lease term.

The Hospital monitors changes in circumstances that would require a remeasurement of its leases and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

Deferred Inflows of Resources

The Hospital reports an acquisition of net assets that is applicable to a future reporting period as deferred inflows of resources in a separate section of its balance sheets.

Net Position

Net position of the Hospital is classified in three components on its balance sheets.

- Net investment in capital assets consists of capital, lease and subscription assets net of accumulated depreciation and amortization 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 creditors, grantors or donors external to the Hospital, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings.
- 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 Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. Charges excluded from revenue under the Hospital's charity care policy were approximately $4,083,000 and $5,101,000 in 2023 and 2022, respectively.

The costs of charity care provided under the Hospital's charity care policy were approximately $1,009,000 and $1,580,000 in 2023 and 2022, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

Income Taxes

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

Note 2: Deposits, Investments and Investment Income

Deposits

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

State law requires collateralization of all deposits with federal depository insurance and other acceptable collateral having an aggregate value at least equal to the amount of the deposits.

At December 31, 2023 and 2022, none of the Hospital's bank deposit balances of approximately $263,000 and $228,000, respectively, were exposed to custodial credit risk.

Investments

The Hospital 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 and in bank repurchase agreements. It may also invest to a limited extent in corporate bonds and equity securities.

At December 31, 2023 and 2022, the Hospital had the following investments and maturities:

	December 31, 2023		
		Maturities in Less	
Type	Fair Value	Than 1 Year	1 – 5
U.S. agencies obligations	$ 46,722,195	$ 15,677,500	$ 31,044,695
Repurchase agreements	41,370,181	41,370,181	-
Money market mutual funds	2,763,618	2,763,618	-
Accrued interest	415,130	415,130	-
	91,271,124	$ 60,226,429	$ 31,044,695
Equity securities	25,011,863		
	$ 116,282,987		

	December 31, 2022		
		Maturities in Less	
Type	Fair Value	Than 1 Year	1 – 5
U.S. agencies obligations	$ 49,691,400	$ 7,796,092	$ 41,895,308
Repurchase agreements	19,661,878	19,661,878	-
Money market mutual funds	2,683,341	2,683,341	-
Accrued interest	8,075	8,075	-
	72,044,694	$ 30,149,386	$ 41,895,308
Equity securities	23,982,414		
	$ 96,027,108		

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the Hospital's investment policy limits its investment portfolio to maturities of five years. The money market mutual funds are presented as investments with a maturity of less than one year because they are immediately redeemable in full.

Credit Risk

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. It is the Hospital's policy to limit its investments in corporate bonds to those that are rated Baa, or better, by Moody's Investor Services, Inc. and to equity securities included in the Russell 1000 Value Index. At December 31, 2023 and 2022, ratings of the Hospital's investments in money market mutual funds were rated AAA by Moody's Investor Services, Inc.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Hospital will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. All of the underlying securities for the Hospital's investments in repurchase agreements at December 31, 2023 and 2022 are held by the third-party custodians in the Hospital's name. The Hospital's investment policy requires that a third-party safekeeping agreement be obtained for all third-party custodians.

Concentration of Credit Risk

The Hospital places a limit on the amount that may be invested in any single non-federal debt issuer or holdings of equity securities of a single company to no more than 6% of the Hospital's portfolio value. At December 31, 2023 and 2022, the Hospital's investments not directly guaranteed by the U.S. government that constituted more than 5% of its total investments are as follows:

	2023	2022
Repurchase agreements with Commerce Bank, n.a.	36%	21%

Summary of Carrying Values

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

	2023	2022
Carrying value		
Deposits[1]	$ 228,415	$ 960,600
Investments	116,282,987	96,027,108
	$ 116,511,402	$ 96,987,708
Included in the following balance sheet captions		
Cash and cash equivalents	$ 38,378,162	$ 18,378,211
Current portion of assets held by trustee	2,585,312	2,535,006
Noncurrent cash and investments	75,547,928	76,074,491
	$ 116,511,402	$ 96,987,708

[1]The Hospital utilizes an overnight repurchase agreement for its bank deposits to maximize investment return. At December 31, 2023 and 2022, the overnight repurchase agreement amounted to approximately $41,370,000 and $19,662,000, respectively, and its carrying value is included in the investments above. The repurchase agreement balance is included as a cash equivalent on the balance sheets at year end.

Investment Income (Loss)

Investment income (loss) for the years ended December 31, 2023 and 2022 consisted of:

	2023	2022
Interest and dividend income	$ 4,033,954	$ 2,767,871
Net increase (decrease) in fair value of investments	566,300	(3,889,248)
	$ 4,600,254	$ (1,121,377)

Note 3: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payor agreements. Patient accounts receivable at December 31, 2023 and 2022 consisted of:

	2023	2022
Medicare	$ 7,754,686	$ 10,139,587
Medicaid	1,425,900	2,268,469
Other third-party payors	28,356,101	35,491,938
Patients	17,835,435	26,185,227
	55,372,122	74,085,221
Less allowance for uncollectible accounts	15,295,516	24,031,584
	$ 40,076,606	$ 50,053,637

Note 4: Leases Receivable

The Hospital leases a portion of its real estate to various third parties, the terms of which expire 2025 through 2040. Annual payments increase periodically on several of the leases based upon the terms of the lease agreements. The leases were measured based upon the payments at lease commencement. The Hospital leases certain equipment to Lawrence Surgery Center, LLC, a discretely presented component unit of the Hospital. Annual payments are based upon the terms of the lease agreements.

Revenue recognized under lease contracts during the years ended December 31, 2023 and 2022, were approximately $1,821,000 and $1,424,000, respectively, which includes both lease revenue and interest.

The following schedule is expected future minimum lease payments by year as of December 31, 2023:

Year Ending December 31,	Total to be Paid	Principal	Interest
2024	$ 1,659,645	$ 1,090,775	$ 568,870
2025	1,661,961	1,138,751	523,210
2026	1,622,384	1,146,358	476,026
2027	1,537,186	1,106,850	430,336
2028	1,395,183	1,008,770	386,413
2029-2033	5,659,479	4,274,559	1,384,920
2034-2038	4,136,832	3,502,710	634,122
2039-2040	1,378,944	1,331,838	47,106
	$ 19,051,614	$ 14,600,611	$ 4,451,003

Note 5: Capital, Lease, and Subscription Assets

Capital assets activity for the years ended December 31, 2023 and 2022, was:

	2023				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 12,437,303	$ 145,539	$ -	$ 9,461	$ 12,592,303
Land improvements	9,314,320	253,975	(70,867)	163,475	9,660,903
Buildings and leasehold improvements	250,732,754	2,113,703	(332,048)	2,611,545	255,125,954
Fixed equipment	1,604,694	-	(36,891)	-	1,567,803
Major movable equipment	102,328,006	3,927,806	(4,068,413)	1,298,363	103,485,762
Construction in progress	3,733,699	3,023,416	-	(4,082,844)	2,674,271
	380,150,776	9,464,439	(4,508,219)	-	385,106,996
Less accumulated depreciation					
Land improvements	3,676,604	453,598	(70,867)	-	4,059,335
Buildings and leasehold improvements	77,608,980	6,584,890	(332,048)	-	83,861,822
Fixed equipment	666,938	79,664	(36,891)	-	709,711
Major movable equipment	68,037,060	6,841,670	(4,008,008)	-	70,870,722
	149,989,582	13,959,822	(4,447,814)	-	159,501,590
Capital Assets, Net	$ 230,161,194	$ (4,495,383)	$ (60,405)	$ -	$ 225,605,406

	2022				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 12,628,353	$ 164,500	$ (355,550)	$ -	$ 12,437,303
Land improvements	9,331,910	-	(17,590)	-	9,314,320
Buildings and leasehold improvements	246,596,901	2,985,466	(318,581)	1,468,968	250,732,754
Fixed equipment	1,623,685	-	(18,991)	-	1,604,694
Major movable equipment	103,747,962	2,500,267	(4,805,230)	885,007	102,328,006
Construction in progress	2,363,436	3,724,238	-	(2,353,975)	3,733,699
	376,292,247	9,374,471	(5,515,942)	-	380,150,776
Less accumulated depreciation					
Land improvements	3,236,187	458,007	(17,590)	-	3,676,604
Buildings and leasehold improvements	71,467,505	6,353,829	(212,354)	-	77,608,980
Fixed equipment	603,906	82,023	(18,991)	-	666,938
Major movable equipment	65,901,962	6,877,966	(4,742,868)	-	68,037,060
	141,209,560	13,771,825	(4,991,803)	-	149,989,582
Capital Assets, Net	$ 235,082,687	$ (4,397,354)	$ (524,139)	$ -	$ 230,161,194

Lease assets activity for the years ended December 31, 2023 and 2022, was:

	2023			
	Beginning Balance	Additions	Disposals	Ending Balance
Buildings	$ 3,627,171	$ -	$ -	$ 3,627,171
Equipment	3,791,994	107,212	-	3,899,206
	7,419,165	107,212	-	7,526,377
Less accumulated amortization				
Buildings	864,608	432,304	-	1,296,912
Equipment	1,181,873	637,369	-	1,819,242
	2,046,481	1,069,673	-	3,116,154
Lease Assets, Net	$ 5,372,684	$ (962,461)	$ -	$ 4,410,223

	2022			
	Beginning Balance	Additions	Disposals	Ending Balance
Buildings	$ 3,627,171	$ -	$ -	$ 3,627,171
Equipment	3,791,994	-	-	3,791,994
	7,419,165	-	-	7,419,165
Less accumulated amortization				
Buildings	432,304	432,304	-	864,608
Equipment	557,013	624,860	-	1,181,873
	989,317	1,057,164	-	2,046,481
Lease Assets, Net	$ 6,429,848	$ (1,057,164)	$ -	$ 5,372,684

Subscription assets activity for the years ended December 31, 2023 and 2022, was:

	2023			
	Beginning Balance	Additions	Disposals	Ending Balance
Subscription IT assets	$ 50,110,428	$ 1,129,177	$ (153,250)	$ 51,086,355
	50,110,428	1,129,177	(153,250)	51,086,355
Less accumulated amortization Subsciption IT assets	6,076,227	6,436,780	(153,250)	12,359,757
	6,076,227	6,436,780	(153,250)	12,359,757
Subscription Assets, Net	$ 44,034,201	$ (5,307,603)	$ -	$ 38,726,598

	2022 - As Restated			
	Beginning Balance	Additions	Disposals	Ending Balance
Subscription IT assets	$ 48,548,875	$ 1,610,959	$ (49,406)	$ 50,110,428
	48,548,875	1,610,959	(49,406)	50,110,428
Less accumulated amortization Subsciption IT assets	-	6,125,633	(49,406)	6,076,227
	-	6,125,633	(49,406)	6,076,227
Subscription Assets, Net	$ 48,548,875	$ (4,514,674)	$ -	$ 44,034,201

Note 6: Other Assets

Investment in Lawrence Surgery Center, LLC

The Hospital has a 70% membership interest in Lawrence Surgery Center, LLC (LSC, LLC). The net investment totaled approximately $1,500,000 and $1,399,000 at December 31, 2023 and 2022, respectively. The remaining 30% membership interest is held by several physicians who are on the Hospital's active medical staff.

Investment in Mid-America Service Solutions, LLC

In 2022, the Hospital had a 10% membership interest in Mid-America Service Solutions, LLC. In 2023, the Hospital's interest increased to 33%. The net investment totaled approximately $259,000 and $200,000 at December 31, 2023 and 2022, respectively. The remaining membership interest is held by two other health care organizations in the Midwestern United States.

Note 7: Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses included in current liabilities at December 31, 2023 and 2022 consisted of:

	2023	2022
Payable to suppliers and contractors	$ 10,080,647	$ 11,137,936
Payable to employees (including payroll taxes and benefits)	17,272,148	17,410,749
Other	2,673,557	2,410,090
	$ 30,026,352	$ 30,958,775

Note 8: Long-Term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the years ended December 31, 2023 and 2022:

	2023				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Revenue bonds payable Series 2018	$ 74,865,000	$ -	$ 1,430,000	$ 73,435,000	$ 1,500,000
Unamortized premiums	6,200,932	-	393,865	5,807,067	-
Note from direct borrowing	8,734,132	-	289,305	8,444,827	301,091
Other financing obligations	3,844,097	-	1,174,422	2,669,675	1,094,060
Total long-term debt	93,644,161	-	3,287,592	90,356,569	2,895,151
Other long-term liabilities					
Lease liabilities	5,312,999	107,212	1,083,237	4,336,974	1,135,831
Subscription liabilities	43,981,041	665,593	5,182,008	39,464,626	4,803,980
Total other long-term liabilities	49,294,040	772,805	6,265,245	43,801,600	5,939,811
Total long-term obligations	$ 142,938,201	$ 772,805	$ 9,552,837	$ 134,158,169	$ 8,834,962

	2022 - As Restated				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Revenue bonds payable					
Series 2018	$ 76,225,000	$ -	$ 1,360,000	$ 74,865,000	$ 1,430,000
Unamortized premiums	6,602,465	-	401,533	6,200,932	-
Note from direct borrowing	9,012,111	-	277,979	8,734,132	289,305
Other financing obligations	3,447,493	2,321,770	1,925,166	3,844,097	1,174,422
Total long-term debt	95,287,069	2,321,770	3,964,678	93,644,161	2,893,727
Other long-term liabilities					
Medicare advanced and accelerated payments	17,689,190	-	17,689,190	-	-
Deferred social security payments	2,105,000	-	2,105,000	-	-
Lease liabilities	6,345,561	-	1,032,562	5,312,999	1,072,104
Subscription liabilities	47,797,690	1,605,959	5,422,608	43,981,041	5,182,009
Total other long-term liabilities	73,937,441	1,605,959	26,249,360	49,294,040	6,254,113
Total long-term obligations	$ 169,224,510	$ 3,927,729	$ 30,214,038	$ 142,938,201	$ 9,147,840

Revenue Bonds Payable

The City issued Series 2018 Hospital Revenue Bonds (Bonds) under a Bond Indenture dated June 1, 1994, as amended and supplemented, to finance expansion and renovation of Hospital facilities, acquire equipment and property, refinance prior bond issues and reimburse the Hospital for certain capital expenditures. Under related Lease and Guaranty Agreements dated June 1, 1994, as amended and supplemented, the Hospital leases its facilities and substantially all equipment from the City. The Bonds and interest thereon are special, limited obligations of the City payable solely from: (i) lease payments from the Hospital, (ii) a pledge of the Hospital's gross revenues, (iii) a pledge of most Hospital facilities and equipment and (iv) amounts on deposit with the Bond Trustee. Therefore, both the Hospital facilities and equipment and bonds payable are recorded in the accompanying financial statements.

The indenture agreements require that certain funds be established with the trustee. Accordingly, these funds are included as assets held by trustee for debt service in the balance sheets. The indenture agreements also require the Hospital to comply with certain restrictive covenants including minimum insurance coverage, maintaining a historical debt-service coverage ratio of at least 1.10 to 1.00, and restrictions on incurrence of additional debt.

Bond premiums are amortized over the life of the bonds using the effective interest method.

Additional information about the bond Series 2018 is as follows:

	Original Balance	Interest Rates	Final Maturity
Series 2018	$ 77,520,000	3.50% - 5.00%	7/1/2048

Note from Direct Borrowing

The Hospital's outstanding note from direct borrowing of approximately $8,445,000 is secured by, among other things, the Assignment, Mortgage, and other Loan Documents (Security Instruments). This outstanding note contains (1) a provision that in an event of default, the timing of repayment of outstanding amounts become immediately due if any payment of principal and interest or any other required payment is not received by the lender on or before five days after the date that such payment is due; and (2) a provision that if the Hospital is unable to make payment, outstanding amounts are due immediately. The note also contains a subjective acceleration clause that allows the lender to accelerate payment of the entire principal amount to become immediately due if the lender determines that a material adverse change occurs. Monthly payments include principal and interest of 4.0% with the term expiring in 2043.

Debt Service Requirements

Debt service requirements on long-term debt other than lease and subscription liabilities as of December 31, 2023, are as follows:

Year Ending December 31,	Total to be Paid	Bonds		Direct Borrowings	
		Principal	Interest	Principal	Interest
2024	$ 5,020,563	$ 1,500,000	$ 3,520,563	$ 301,091	$ 332,313
2025	5,020,563	1,575,000	3,445,563	313,358	320,046
2026	5,021,813	1,655,000	3,366,813	326,125	307,279
2027	5,019,063	1,735,000	3,284,063	339,412	293,992
2028	5,022,313	1,825,000	3,197,313	353,240	280,164
2029-2033	25,104,065	10,580,000	14,524,065	1,994,164	1,172,857
2034-2038	25,104,615	13,185,000	11,919,615	2,434,867	732,154
2039-2043	25,692,500	16,900,000	8,792,500	2,382,570	203,831
2044-2048	28,271,500	24,480,000	3,791,500	-	-
	$ 129,276,995	$ 73,435,000	$ 55,841,995	$ 8,444,827	$ 3,642,636

Other Financing Obligations

The Hospital is obligated under certain financings for purchase of equipment totaling approximately $2,670,000 and $3,844,000 at December 31, 2023 and 2022, respectively. Monthly payments of obligations include principal plus interest ranging from 3.25% to 4.0%, terms expire in various years through 2026.

Medicare Accelerated and Advanced Payment Program

During the year ended December 31, 2020, the Hospital requested accelerated Medicare payments as provided for in the CARES Act, which allows for eligible health care facilities to request up to six months of advance Medicare payments for acute care hospitals or up to three months of advance Medicare payments for other health care providers. These amounts are expected to be recaptured by the Centers for Medicare and Medicaid Services (CMS) according to the payback provisions.

Effective September 30, 2020, the payback provisions were revised and extended the payback period to begin one year after the issuance of the advance payment through a phased payback period approach. The first 11 months of the payback period will be at 25% of the remittance advice payment followed by a six-month payback period at 50% of the remittance advice payment. After 29 months, CMS expects any amount not paid back through the withhold amounts to be paid back in a lump sum or interest will begin to accrue subsequent to the 29 month at a rate of 4%.

During the year ended December 31, 2020, the Hospital received approximately $28,102,000 from these accelerated Medicare payment requests. As of December 31, 2022, all accelerated and advanced payments were recaptured by CMS.

Payroll Tax Credits

The CARES Act provides for a deferral of payments of the employer portion of payroll tax incurred during the pandemic, allowing half of such payroll taxes be deferred until December 2021 and the remaining half until December 2022. As of December 31, 2022, no deferred payroll taxes remained.

Note 9: Lease Liabilities

The Hospital leases equipment and real estate, the terms of which expire in various years through 2036. The leases were measured based upon the discount rate at lease commencement.

The following is a schedule by year of payments under the leases as of December 31, 2023:

Year Ending December 31,	Total to be Paid	Principal	Interest
2024	$ 1,281,823	$ 1,135,831	$ 145,992
2025	763,025	646,291	116,734
2026	341,232	241,800	99,432
2027	322,181	233,043	89,138
2028	310,251	231,276	78,975
2029-2033	1,584,932	1,340,472	244,460
2034-2036	531,125	508,261	22,864
	$ 5,134,569	$ 4,336,974	$ 797,595

Note 10: Subscription Liabilities

The Hospital has various subscription-based information technology arrangements (SBITAs), the terms of which expire in various years through 2033. Variable payments of certain subscriptions are based upon the Consumer Price Index (Index). The subscriptions were measured based upon the Index at commencement of the SBITA term. Variable payments based upon the use of the underlying asset are not included in the subscription liability because they are not fixed in substance.

The following is a schedule by year of payments under the SBITAs as of December 31, 2023:

Year Ending December 31,	Total to be Paid	Principal	Interest
2024	$ 6,276,120	$ 4,803,980	$ 1,472,140
2025	5,908,956	4,625,342	1,283,614
2026	5,728,008	4,626,511	1,101,497
2027	5,082,818	4,156,708	926,110
2028	4,684,638	3,918,978	765,660
2029-2033	18,727,501	17,333,107	1,394,394
	$ 46,408,041	$ 39,464,626	$ 6,943,415

Note 11: Assets Held in Trust

Prior to 2023, the Hospital was the recipient of investment income from a perpetual endowment fund created under the last will and testament of Elizabeth M. Watkins. The will stipulated that the corpus is to be maintained inviolate under the administration of a trustee and the net investment income is to be distributed each year to the Hospital as long as the Hospital continues to be a charitable institution. The market value of the trust was approximately $2,202,000 at December 31, 2022. Assets of this trust are not included in the accompanying financial statements. Trust income received is reported as other nonoperating income.

In 2023, it was deemed proper, appropriate, and consistent with Elizabeth M. Watkins' probable intentions that the terms of the trust be modified so that the income of the trust be distributed to the LMH Health Foundation. No income distributions were received by the Hospital in 2023.

Note 12: Medical Malpractice Claims

The Hospital 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 Hospital's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Note 13: Employee Health Claims

Substantially all of the Hospital's employees and their dependents are eligible to participate in the Hospital's employee health insurance plan. The Hospital is self-insured for health claims of participating employees and dependents up to an annual aggregate amount of $250,000 and $200,000 per individual in 2023 and 2022, respectively. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount.

A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the Hospital's estimate will change by a material amount in the near term.

Activity in the Hospital's accrued employee health claims liability during 2023 and 2022 is summarized as follows:

	2023	2022
Balance, beginning of year	$ 1,958,365	$ 2,188,365
Claims incurred	14,321,797	13,697,071
Claims and expenses paid	(14,521,752)	(13,927,071)
Balance, end of year	$ 1,758,410	$ 1,958,365

Note 14: Net Patient Service Revenue

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

Medicare. Certain inpatient acute care services are paid at prospectively determined rates per discharge based on clinical, diagnostic and other factors. Certain services are paid based on cost-reimbursement methodologies subject to certain limits. Physician services are paid based upon established fee schedules. Outpatient services are paid using prospectively determined rates. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor.

Medicaid. Reimbursements for Medicaid services are generally paid at prospectively determined rates per discharge, per occasion of service or per covered member. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid administrative contractor.

Other. Payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Approximately 33% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2023 and 2022. 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.

Note 15: Employee Benefit Plans

457b Defined Contribution Plan

The Hospital sponsors a defined contribution retirement plan covering substantially all employees over age 18 with 1,000 hours of service. The plan is administered by a committee appointed by the board of trustees.

The plan provides retirement benefits to plan members. Benefit provisions are contained in the plan document and were established and can be amended by action of the board of trustees. Contributions made by plan members totaled approximately $9,042,000 and $7,376,000 in 2023 and 2022, respectively. The Hospital does not contribute to the 457b defined contribution plan.

401a Defined Contribution Plan

The Hospital contributes to a defined contribution plan covering substantially all employees over the age of 18 with 1,000 hours of service. Retirement expense is recorded for the amount of the Hospital's required contributions, determined in accordance with the terms of the plan. The plan is administered by a committee appointed by the board of trustees.

The plan provides retirement benefits to plan members. Benefit provisions are contained in the plan document and were established and can be amended by action of the board of trustees.

Contributions aggregated approximately $6,669,000 and $6,004,000 during 2023 and 2022, respectively. Employer contributions to the plan are based on the following contribution types:

Employer Basic Contributions

All participants other than physicians are eligible to receive an allocation of employer basic contributions. The employer basic contribution to which a participant is entitled for each quarter of a plan year shall be 2% of the participant's compensation for such quarter plan year. Only those participants who are employed on the last day of the quarter plan year shall be entitled to an allocation of employer basic contributions for such quarter of the plan year.

Employer Matching Contributions

All participants other than physicians are eligible to receive an allocation of employer matching contributions. Except as limited below, the employer matching contributions to which a participant is entitled for a plan year is an amount equal to 50% of the participant's elective deferral contributions to the 457(b) defined contribution plan for such plan year. However, employer matching contributions for participants whose employment classification is not administrative or director level shall not exceed 2% of the participant's compensation for the plan year, and employer matching contributions for participants whose employment classification is administrative or director level shall not exceed 4% of the participant's compensation for such plan year.

Employee Deferral Agreements

The Hospital may, at its discretion, enter into individual compensation deferral agreements with certain employees and physicians, wherein the Hospital agrees to contribute a specified amount of deferred compensation on an annual basis to the plan.

Note 16: LMH Health Foundation

The LMH Health Foundation (the Foundation) is a legally separate tax-exempt component unit of the Hospital. The Foundation is exclusively dedicated to the support of the Hospital. The Foundation's operations are managed by a board of directors separate from the Hospital's board.

In October 1984, the City, upon request of the Hospital, passed an ordinance granting the Hospital's board of trustees the power to transfer personal property and funds previously donated to the Hospital to the Foundation to be held in trust for the benefit of the Hospital. A trust agreement was established between the Hospital and the Foundation.

Although the Hospital does not control the timing or amount of receipts from the Foundation, substantially all of the Foundation's resources and related income are restricted by donors for the benefit of the Hospital. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the Hospital, the Foundation is considered a component unit of the Hospital and is discretely presented in the Hospital's financial statements.

During the years ended December 31, 2023 and 2022, the Foundation provided approximately $2,134,000 and $1,057,000 of support to the Hospital, respectively. Complete financial statements of the Foundation may be obtained from its Administrative Office at the following address: LMH Health Foundation, 325 Maine Street, Lawrence, Kansas 66044.

The Foundation 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 Hospital's financial reporting entity for these differences.

Note 17: Lawrence Surgery Center, LLC

Lawrence Surgery Center, LLC (LSC, LLC) is a legally separate tax-exempt component unit of the Hospital. LSC, LLC is a joint venture between the Hospital and several physicians who are on the Hospital's active medical staff. LSC, LLC's operations are managed by a board of directors separate from the Hospital's board. LSC, LLC reports under the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC).

LSC, LLC has entered into agreements with the Hospital to lease certain equipment and for certain information technology support services. In connection with these agreements LSC, LLC paid the Hospital approximately $110,000 and $115,000 for these services during 2023 and 2022, respectively. LSC, LLC leased certain real estate from the Hospital for approximately $975,000 during 2023 and 2022. As a result of these agreements, LSC, LLC has approximately $12,084,000 in related party lease liabilities recorded on its balance sheet at December 31, 2023. The Hospital has corresponding related party lease receivables of approximately $10,482,000 recorded on its balance sheet at December 31, 2023. As LSC, LLC's related party lease liabilities are recorded under those standards issued by the FASB, LSC, LLC's related party lease liabilities will not equal those related party lease receivables recorded on the Hospital's balance sheets, which are recorded under those standards issued by the GASB.

LSC, LLC approved member distributions to the Hospital of approximately $729,000 and $932,000 during the years ended December 31, 2023 and 2022, respectively.

Complete financial statements of LSC, LLC may be obtained from its Administrative Office at the following address: Lawrence Surgery Center, LLC, 6265 Rock Chalk Dr., Lawrence, Kansas 66049.

Note 18: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2023 and 2022:

Type	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2023				
U.S. agencies obligations	$ 46,722,195	$ -	$ 46,722,195	$ -
Repurchase agreements	41,370,181	41,370,181	-	-
Money market mutual funds	2,763,618	2,763,618	-	-
Equity securities	25,011,863	25,011,863	-	-
	115,867,857	$ 69,145,662	$ 46,722,195	$ -
Accrued interest	415,130			
	$ 116,282,987			
December 31, 2022				
U.S. agencies obligations	$ 49,691,400	$ -	$ 49,691,400	$ -
Repurchase agreements	19,661,878	19,661,878	-	-
Money market mutual funds	2,683,341	2,683,341	-	-
Equity securities	23,982,414	23,982,414	-	-
	96,019,033	$ 46,327,633	$ 49,691,400	$ -
Accrued interest	8,075			
	$ 96,027,108			

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

Note 19: Contingencies

Litigation

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Hospital's commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Investments

The Hospital invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying balance sheets.

Note 20: Condensed Combining Information

The following tables (*in thousands*) include condensed combining balance sheet information for the Hospital and its blended component units as of December 31, 2023 and 2022:

	December 31, 2023				
	The Lawrence Memorial Hospital	Lawrence Physicians, LLC	Reed Medical Group MDVIP	Eliminations	Combined
Assets					
Current assets	$ 88,384	$ 6,481	$ 159	$ -	$ 95,024
Capital assets	225,605	-	-	-	225,605
Other assets	140,528	-	-	(6,481)	134,047
Total assets	$ 454,517	$ 6,481	$ 159	$ (6,481)	$ 454,676
Liabilities					
Current liabilities	$ 43,285	$ -	$ 170	$ -	$ 43,455
Noncurrent liabilities	125,323	-	-	-	125,323
Total liabilities	168,608	-	170	-	168,778
Deferred Inflows of Resources	13,753	-	-	-	13,753
Net Position					
Net investment in capital and lease assets	134,334	-	-	-	134,334
Restricted - expendable for Capital acquisition	3,220	-	-	-	3,220
Unrestricted	134,602	6,481	(11)	(6,481)	134,591
Total net position	272,156	6,481	(11)	(6,481)	272,145
Total liabilities, deferred inflows of resources and net position	$ 454,517	$ 6,481	$ 159	$ (6,481)	$ 454,676

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
Notes to Financial Statements
December 31, 2023 and 2022

	December 31, 2022 - As Restated				
	The Lawrence Memorial Hospital	Lawrence Physicians, LLC	Reed Medical Group MDVIP	Eliminations	Combined
Assets					
Current assets	$ 84,615	$ 8,268	$ 139	$ -	$ 93,022
Capital assets	230,161	-	-	-	230,161
Other assets	149,078	-	-	(8,268)	140,810
Total assets	$ 463,854	$ 8,268	$ 139	$ (8,268)	$ 463,993
Liabilities					
Current liabilities	$ 45,099	$ -	$ 150	$ -	$ 45,249
Noncurrent liabilities	133,790	-	-	-	133,790
Total liabilities	178,889	-	150	-	179,039
Deferred Inflows of Resources	14,094	-	-	-	14,094
Net Position					
Net investment in capital and lease assets	141,444	-	-	-	141,444
Restricted - expendable for					
Capital acquisition	1,820	-	-	-	1,820
Specific operating activities	33	-	-	-	33
Unrestricted	127,574	8,268	(11)	(8,268)	127,563
Total net position	270,871	8,268	(11)	(8,268)	270,860
Total liabilities, deferred inflows of resources and net position	$ 463,854	$ 8,268	$ 139	$ (8,268)	$ 463,993

The following tables (*in thousands*) include condensed combining statements of revenues, expenses and changes in net position information for the Hospital and its blended component units for the years ended December 31, 2023 and 2022:

	Year Ended December 31, 2023				
	The Lawrence Memorial Hospital	Lawrence Physicians, LLC	Reed Medical Group MDVIP	Eliminations	Combined
Operating Revenues					
Net patient service revenue	$ 279,632	$ 60,085	$ 1,838	$ -	$ 341,555
Other operating revenues	108,548	2,916	-	(105,242)	6,222
Total operating revenues	388,180	63,001	1,838	(105,242)	347,777
Operating Expenses					
Salaries and wages and employee benefits	182,725	-	1,507	(440)	183,792
Purchased services and professional fees	37,468	104,624	29	(104,652)	37,469
Other operating expenses	127,925	-	302	(150)	128,077
Total operating expenses	348,118	104,624	1,838	(105,242)	349,338
Operating Income (Loss)	40,062	(41,623)	-	-	(1,561)
Nonoperating Expenses	(1,075)	-	-	1,787	712
Revenues Over (Under) Expenses	38,987	(41,623)	-	1,787	(849)
Contributions Restricted for Acquisition of Capital Assets	2,134	-	-	-	2,134
Transfers from Hospital	(39,836)	39,836	-	-	-
Increase (Decrease) in Net Position	1,285	(1,787)	-	1,787	1,285
Beginning Net Position	270,871	8,268	(11)	(8,268)	270,860
Ending Net Position	$ 272,156	$ 6,481	$ (11)	$ (6,481)	$ 272,145

	Year Ended December 31, 2022 - As Restated				
	The Lawrence Memorial Hospital	Lawrence Physicians, LLC	Reed Medical Group MDVIP	Eliminations	Combined
Operating Revenues					
Net patient service revenue	$ 276,367	$ 55,402	$ 1,648	$ -	$ 333,417
Other operating revenues	101,398	2,565	-	(98,255)	5,708
Total operating revenues	377,765	57,967	1,648	(98,255)	339,125
Operating Expenses					
Salaries and wages and employee benefits	173,635	-	1,410	(420)	174,625
Purchased services and professional fees	38,515	97,702	21	(97,723)	38,515
Other operating expenses	129,480	-	217	(112)	129,585
Total operating expenses	341,630	97,702	1,648	(98,255)	342,725
Operating Income (Loss)	36,135	(39,735)	-	-	(3,600)
Nonoperating Expenses	(5,758)	-	-	771	(4,987)
Revenues Over (Under) Expenses	30,377	(39,735)	-	771	(8,587)
Contributions Restricted for Acquisition of Capital Assets	660	-	-	-	660
Transfers from Hospital	(38,964)	38,964	-	-	-
Decrease in Net Position	(7,927)	(771)	-	771	(7,927)
Beginning Net Position	278,798	9,039	(11)	(9,039)	278,787
Ending Net Position	$ 270,871	$ 8,268	$ (11)	$ (8,268)	$ 270,860

The following tables (*in thousands*) include condensed combining statements of cash flows information for the Hospital and its blended component units for the years ended December 31, 2023 and 2022:

	Year Ended December 31, 2023				
	The Lawrence Memorial Hospital	Lawrence Physicians, LLC	Reed Medical Group MDVIP	Eliminations	Combined
Net Cash Provided by (Used in) Operating Activities	$ 76,260	$ (39,836)	$ (25)	$ -	$ 36,399
Net Cash Provided by (Used in) Noncapital Financing Activities	(39,710)	39,836	-	-	126
Net Cash Used in Capital and Related Financing Activities	(22,328)	-	-	-	(22,328)
Net Cash Provided by Investing Activities	7,250	-	-	-	7,250
Change in Cash and Cash Equivalents	21,472	-	(25)	-	21,447
Cash and Cash Equivalents, Beginning of Year	22,824	-	91	-	22,915
Cash and Cash Equivalents, End of Year	$ 44,296	$ -	$ 66	$ -	$ 44,362

	Year Ended December 31, 2022 - As Restated				
	The Lawrence Memorial Hospital	Lawrence Physicians, LLC	Reed Medical Group MDVIP	Eliminations	Combined
Net Cash Provided by (Used in) Operating Activities	$ 34,358	$ (38,964)	$ 9	$ -	$ (4,597)
Net Cash Provided by (Used in) Noncapital Financing Activities	(38,428)	38,964	-	-	536
Net Cash Used in Capital and Related Financing Activities	(18,713)	-	-	-	(18,713)
Net Cash Used in Investing Activities	(49,960)	-	-	-	(49,960)
Change in Cash and Cash Equivalents	(72,743)	-	9	-	(72,734)
Cash and Cash Equivalents, Beginning of Year	95,567	-	82	-	95,649
Cash and Cash Equivalents, End of Year	$ 22,824	$ -	$ 91	$ -	$ 22,915

Note 21: Change in Accounting Principle

In 2023, the Hospital adopted Governmental Accounting Standards Board Statement No. 96, *Subscription-Based Information Technology Arrangements* (SBITAs). The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for SBITAs by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain SBITA assets and liabilities for SBITAs that previously were classified as operating expenses and recognized as outflows of resources based on the payment provisions of the contract. It establishes a single model for SBITA accounting based on the foundational principle that SBITAs are contracts that convey control of the right to use another party's (an SBITA vendor's) IT software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction. Under this Statement, a government is required to recognize an SBITA liability and an intangible right-to-use SBITA asset thereby enhancing the relevance and consistency of information about governments' SBITA activities.

Because of this implementation, the year ended December 31, 2022, was required to be retroactively restated as follows:

	As Previously Reported	GASB 96 Adoption Impact	As Restated 2022
Balance Sheet			
Assets			
Prepaid expenses and other	$ 10,875,213	$ (977,597)	$ 9,897,616
Total current assets	93,999,269	(977,597)	93,021,672
Subscription assets, net	-	44,034,201	44,034,201
Total assets	420,936,424	43,056,604	463,993,028
Liabilities			
Current portion of subscription liabilities	-	5,182,009	5,182,009
Accrued interest payable	1,819,707	465,961	2,285,668
Total current liabilities	39,600,299	5,647,970	45,248,269
Subscription liabilities	-	38,799,032	38,799,032
Total other liabilities	94,991,329	38,799,032	133,790,361
Total liabilities	134,591,628	44,447,002	179,038,630
Net Position			
Net investment in capital assets	141,857,014	(412,801)	141,444,213
Unrestricted	128,540,488	(977,597)	127,562,891
Total net position	272,250,519	(1,390,398)	270,860,121
Total liabilities, deferred inflows of resources and net position	420,936,424	43,056,604	463,993,028

	As Previously Reported	GASB 96 Adoption Impact	As Restated 2022
Statement of Revenues, Expenses and Changes in Net Position			
Operating Expenses			
Depreciation and amortization	$ 14,828,989	$ 6,125,633	$ 20,954,622
Repairs and maintenance	17,291,614	(6,546,989)	10,744,625
Total operating expenses	343,146,260	(421,356)	342,724,904
Operating Loss	(4,021,560)	421,356	(3,600,204)
Nonoperating Revenues (Expenses)			
Interest expense	(4,068,411)	1,811,754	(5,880,165)
Total nonoperating revenues (expenses), net	(3,174,887)	1,811,754	(4,986,641)
Revenues Under Expenses	(7,196,447)	1,390,398	(8,586,845)
Increase (Decrease) in Net Position	(6,536,447)	1,390,398	(7,926,845)
Net Position, End of Year	272,250,519	1,390,398	270,860,121
Statement of Cash Flows			
Operating Activities			
Payments to suppliers and contractors	(148,587,979)	(6,773,401)	(141,814,578)
Net cash provided by (used in) operating activities	(11,369,961)	(6,773,401)	(4,596,560)
Capital and Related Financing Activities			
Principal paid on subscription liabilities	-	5,422,608	(5,422,608)
Interest paid on subscription liabilities	-	1,345,793	(1,345,793)
Purchase of subscription assets	-	5,000	(5,000)
Net cash used in capital and related financing activities	(11,939,304)	6,773,401	(18,712,705)
Reconciliation of Net Operating Revenues to Net Cash Provided by (Used in) Operating Activities			
Operating loss	(4,021,560)	(421,356)	(3,600,204)
Depreciation and amortization	14,828,989	(6,125,633)	20,954,622
Changes in operating assets and liabilities			
Prepaid expenses	712,285	(226,412)	938,697
Net cash provided by (used in) operating activities	(11,369,961)	(6,773,401)	(4,596,560)
Noncash Investing, Capital and Financing Activities			
Subscription obligations incurred for subscription assets	-	(1,605,959)	1,605,959