The Lawrence Memorial Hospital

A Component Unit of the City of Lawrence, Kansas

Independent Auditor's Report, and Financial Statements

December 31, 2022 and 2021



The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
December 31, 2022 and 2021

Contents

Independent Auditor's Report **1**

Management's Discussion and Analysis (Unaudited) **4**

Financial Statements

Balance Sheets 14

The Lawrence Memorial Hospital Endowment Association – Statements of Financial Position 15

Lawrence Surgery Center, LLC – Balance Sheets 16

Statements of Revenues, Expenses and Changes in Net Position 17

The Lawrence Memorial Hospital Endowment Association – Statements of Activities 18

Lawrence Surgery Center, LLC – Income Statements 19

Statements of Cash Flows 20

Notes to Financial Statements 22

Supplementary Information

Schedule of Expenditures of Federal Awards 57

Notes to the Schedule of Expenditures of Federal Awards 58

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* – Independent Auditor's Report **59**

Report on Compliance for the Major Federal Program and Report on Internal Control Over Compliance – Independent Auditor's Report **61**

Schedule of Findings and Questioned Costs **64**

Summary Schedule of Prior Audit Findings **66**

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Independent Auditor's Report

Board of Trustees
The Lawrence Memorial Hospital
Lawrence, Kansas

Report on the Audit of the Financial Statements

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, 2022 and 2021, 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, 2022 and 2021, 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 The Lawrence Memorial Hospital Endowment Association, a discretely presented component unit of the Hospital, which represent 63 percent and 55 percent, respectively, of the assets and revenues of the aggregate discretely presented component units as of December 31, 2022; and, which represent 82 percent and 36 percent, respectively, of the assets and revenues of the aggregate discretely presented component units as of December 31, 2021. 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 the aggregate discretely presented component units, 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), the *Kansas Municipal Audit and Accounting Guide* and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). 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.

The financial statements of The Lawrence Memorial Hospital Endowment Association and Lawrence Surgery Center, LLC, component units included in the financial statements of the aggregate discretely presented component units, were not audited in accordance with *Government Auditing Standards.*

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Emphasis of Matter

As discussed in *Note 21* of the financial statements, in 2022, the Hospital adopted Governmental Accounting Standards Board Statement No. 87, *Leases*. Our opinions are not modified with respect to this matter.

Responsibilities of Management 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, the *Kansas Municipal Audit and Accounting Guide* and *Government Auditing Standards* 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, the *Kansas Municipal Audit and Accounting Guide* and *Government Auditing Standards*, 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 audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

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.

Supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hospital's basic financial statements. The schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 26, 2023, on our consideration of The Lawrence Memorial Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of The Lawrence Memorial Hospital's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Lawrence Memorial Hospital's internal control over financial reporting and compliance.

FORVIS, LLP

Kansas City, Missouri
May 26, 2023

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
Management's Discussion and Analysis (Unaudited)
Years Ended December 31, 2022 and 2021

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, 2022 and 2021. 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, The Lawrence Memorial Hospital Endowment Association and Lawrence Surgery Center, LLC. Dollar amounts are in thousands.

Financial Highlights

- Cash and investments totaled $96,987 on December 31, 2022, a decrease of $23,409 or 19.4 percent from the balance reported December 31, 2021 when cash and investments totaled $120,396, a decrease of $4,622 or 3.7 percent from the balance reported at December 31, 2020.

- The Hospital's net position decreased $6,536 or 2.3 percent in 2022 compared to an increase of $13,421 or 5.0 percent in 2021.

- The Hospital reported operating loss of $4,021 in 2022 compared to operating income of $2,382 in 2021 and to the operating loss of $6,922 in 2020 when the Hospital experienced the impact of closing elective procedures in early 2020 due to the COVID-19 pandemic.

- The Hospital experienced investment losses of $1,121 in 2022, a change of $6,212 or 122.0 percent compared to the prior year investment income of $5,091 in 2021, which increased by $4,291 or 536.4 percent compared to the prior year investment income of $800 in 2020. The year-to-year changes were impacted by unrealized market losses and gains experienced over the years due to volatile market conditions impacted by the COVID-19 pandemic, periods of recovery and subsequent inflation factors in the economy.

- Nonoperating revenues includes CARES Act contributions, 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 $274 in 2022, $5,284 in 2021 and $15,053 in 2020, 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, 2022 and 2021

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 and all liabilities 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 2020 comparative information has not been restated for the change in accounting principle.

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
Management's Discussion and Analysis (Unaudited)
Years Ended December 31, 2022 and 2021

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

	2022	As Restated 2021	2020
Assets			
Cash and cash equivalents	$ 18,378	$ 90,970	$ 91,198
Patient accounts receivable, net	50,054	49,278	41,569
Other current assets	25,568	22,981	20,147
Total current assets	94,000	163,229	152,914
Noncurrent cash and investments	76,074	26,916	31,309
Capital assets, net	230,161	235,083	243,211
Lease assets, net	5,373	6,430	-
Lease receivable	13,648	13,721	-
Other	1,681	1,808	938
Total other noncurrent assets	15,329	15,529	938
Total assets	$ 420,937	$ 447,187	$ 428,372
Liabilities			
Long-term debt	$ 90,750	$ 92,527	$ 95,244
Lease liabilities	4,241	5,313	-
Other current and noncurrent liabilities	39,601	56,235	67,582
Total liabilities	134,592	154,075	162,826
Deferred Inflows of Resources - Leases	14,094	14,325	-
Net Position			
Net investment in capital assets	141,857	147,139	152,968
Restricted - expendable for			
Capital acquisition	1,820	2,076	-
Specific operating activities	33	93	4
Unrestricted	128,541	129,479	112,574
Total net position	272,251	278,787	265,546
Total liabilities, deferred inflows of resources and net position	$ 420,937	$ 447,187	$ 428,372

Cash and cash equivalents totaled $18,378 at December 31, 2022 and reflected a decrease of $72,592 or 79.8 percent compared to a balance of $90,970 in 2021 and compared to the balance of $91,198 in 2020. The Hospital's cash position in 2020 was supported with $28,102 in Medicare Accelerated and Advanced payments of which $10,413 were repaid from Medicare receipts beginning in April 2021 with the balance of $17,689 repaid 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 increased by $766 or 1.6 percent at December 31, 2022 compared to the balance at December 31, 2021. Net patient accounts receivable increased by $7,709 or 18.5 percent at December 31, 2021 compared to December 31, 2020.

Total noncurrent cash and investments at December 31, 2022 increased $49,158 or 182.6 percent comparted to the prior year end balance of $26,916 on December 31, 2021. Total noncurrent cash and investments at December 31, 2021 decreased $4,393 or 14.0 percent compared to the prior year end balance of $31,309 at December 31, 2020. In 2022, the Hospital moved funds into securities with longer term maturities due to improved investment rates. The decrease in total noncurrent cash and investments in 2021 resulted from maturities of long-term investments and from expenditures from the Series 2018 Bond Project Fund for construction and capital asset acquisitions in 2020.

Net capital assets of $230,161 at December 31, 2022 decreased by $4,922 or 2.1 percent compared to net capital assets of $235,083 at December 31, 2021 when net capital assets decreased by $8,128 or 3.3 percent compared to net capital assets of $243,211 at December 31, 2020. The year over year decreases are primarily due to depreciation and asset retirements.

Long-term debt of $90,750 at December 31, 2022 decreased by $1,777 or 1.9 percent compared to the prior year and long-term debt of $92,527 reported at December 31, 2021 decreased by $2,717 or 2.9 percent compared long-term debt of $95,244 at December 31, 2020 primarily due to principal payments on the 2018 Series bonds, note payable and other financing obligations.

Other current and noncurrent liabilities decreased by $16,634 or 29.6 percent 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.

Operating Results and Changes in the Hospital's Net Position

For 2022, the Hospital reported expenses greater than revenues generating a negative ($7,196) for Revenues Over (Under) Expenses for the year, a decrease of 171.7 percent from the prior year and a net margin or (2.1) percent. The Hospital's Revenues Over (Under) Expenses in 2021 were $10,301, an increase of $5,974 when compared to results from the prior year and a net margin of 3.1 percent. The Hospital's Revenues over (under) Expenses in 2020 were $4,057 for a net margin of 1.4 percent. The Revenues Over (Under) Expenses were the principal factor in the decrease in net position of $6,536 in 2022 and the increase in net position of $13,241 in 2021, as shown in Table 2. The 2020 comparative information has not been restated for the changes in accounting principle.

Table 2: Operating Results and Changes in Net Position

	2022	As Restated 2021	2020
Operating Revenues			
Net patient service revenue	$ 333,417	$ 317,459	$ 281,917
Other operating revenues	5,708	5,658	4,734
Total operating revenues	339,125	323,117	286,651
Operating Expenses			
Salaries and wages and employee benefits	174,625	172,878	153,846
Purchased services and professional fees	38,515	31,430	36,092
Depreciation and amortization	14,829	14,887	11,257
Other operating expenses	115,177	101,540	92,378
Total operating expenses	343,146	320,735	293,573
Operating Income (Loss)	(4,021)	2,382	(6,922)
Nonoperating Revenues (Expenses)			
Investment income (loss)	(1,121)	5,091	800
Interest income from leases	581	598	-
Interest expense	(4,068)	(4,001)	(3,735)
Contributions and other	536	5,568	15,259
Gain (loss) on sale of capital assets	6	(598)	-
Gain (loss) on investment in equity investees	891	991	(1,345)
Total nonoperating revenues (expenses), net	(3,175)	7,649	10,979
Revenues Over (Under) Expenses	(7,196)	10,031	4,057
Contributions Restricted for Acquisition of Capital Assets	660	3,210	3,220
Increase (Decrease) in Net Position	$ (6,536)	$ 13,241	$ 7,277

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.

In 2022, the Hospital generated $4,021 in operating loss, a decrease of 268.8 percent 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 percent when compared to inpatient charges generated in 2021 despite an increase of 4.0 percent 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 percent; 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 percent 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 percent when compared to the prior year. Oncology treatment volumes increased by 21.3 percent 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 percent over the prior year; and, combined, physical and occupational therapy services departments generated revenues 10.0 percent higher when compared to 2021.

Emergency department patient visits of 38,106 in 2022 increased 2,846 or 8.1 percent over the number of patient visits in the prior year generating an 8.8 percent increase in gross revenues for the same period. Physician practice gross revenue increased 6.8 percent 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 percent.

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

Overall, 2022 Hospital operating expenses of $343,146 increased by $22,411 or 7.0 percent compared to prior year operating expenses of $320,735. Salaries and wages increased $2,741 or 2.0 percent 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 with 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 for the year.

Included in other operating costs was the increase in the Kansas Healthcare Provider Assessment effective on July 1, 2022. Total assessment tax for 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.

The Hospital realized net operating income of $2,382 in 2021 compared to a net operating loss of $6,922 reported for 2020, an increase of $9,304 or 134.4 percent change from prior year results. Net patient service revenue of $317,459 for 2021 increased by $35,542 or 12.6 percent when compared to net patient service revenue generated in the prior year.

In 2021, Hospital inpatient gross revenue increased 9.8 percent when compared to 2020. Adult and pediatric inpatient days of 26,168 increased 1,549 days or 6.3 percent when compared to 2020 patient days; however, total discharges decreased by 2.3 percent for the same time period. The COVID-19 pandemic continued to increase inpatient census due to longer lengths of stay for patients with a COVID-19 diagnosis. Ancillary laboratory, pharmacy and imaging services generated higher inpatient revenues during the year.

Gross revenue from Hospital outpatient ancillary services increased by 18.2 percent when compared to the prior year when many outpatient services were curtailed as a result of the COVID-19 pandemic. Imaging, pharmacy, surgical and laboratory services all experienced significant volume and revenue increases in 2021. Elective outpatient procedures delayed in 2020 due to the pandemic were likely contributors to increased volumes in 2021. Laboratory and imaging services used to diagnose COVID-19 were heavily utilized in 2021 during periods of high disease transmission in the local community. Some surgical procedures historically provided on an inpatient basis were performed on an outpatient basis to lower the risk of COVID-19 transmission and resulted in higher outpatient service revenue.

In 2021, physician practice gross revenue increased 18.3 percent over prior year results largely due to a full year of services without the impact of a COVID-19 lockdown as experienced in 2020, individuals seeking services for delayed care, and individuals seeking care related to COVID-19 illness. The revenue increases were bolstered by the addition of new providers added in late 2020 with the opening of LMH First Med clinic and in 2021 with the addition of Free State Family Medicine providers.

Total Emergency department revenues in 2021 declined by 5.3 percent when compared to the prior year despite a 13.0 percent increase in the number of patient visits. The Hospital's facility-based revenue from emergency department operations increased by 17.4 percent; however, this increase was offset due to the change in revenue capture for physician services provided in the emergency department. In November 2020, the Hospital entered into a new provider service agreement with the emergency room physician providers allowing the group to bill and collect revenue for their professional services provided in the Hospital department. Prior to the change, revenue for the professional services was included as outpatient revenue of the Hospital.

Net patient revenue from all sources in 2021 increased by 12.6 percent over the prior year and overall deductions from revenue were 74.4 percent of gross revenue compared to deductions of 73.5 percent experienced for 2020.

Other operating revenue increased 19.5 percent in 2021 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. Total net operating revenue for 2021 improved 12.7 percent from the 2020 operating results.

Total operating expenses increased 9.3 percent in 2021 due to increased patient volumes and challenges of providing care during a surge of COVID-19 transmission in the last six months of the year. Along with other hospitals in the region, the Hospital faced staffing challenges and had to rely on very high-cost contract nurse staffing and other pay incentives to ensure the appropriate level of care was provided to patients at all times. Supply chain challenges dealing with shortages and high transportation costs increased the overall cost of medical and drug supplies required for patient care and support operations.

Total salaries and benefits in 2021 increased 12.4 percent over the prior year as more elective services were provided for outpatient therapy, endoscopy and surgery than were provided in 2020 due to the pandemic. The Hospital employed new providers for gastroenterology, family medicine and internal medicine resulting in higher salary cost. In October 2020, the Hospital employed its hospitalist physicians resulting in a full year of salary expense being recognized in 2021 as opposed to the cost previously reported as professional services in 2020. Professional fees further declined due to a reduction in emergency medicine provider costs effective November 2020. This cost reduction was offset by much higher contract labor cost for nurse staffing. Pharmacy drug expense and medical supply expense increased due to higher volumes and the higher costs charged by suppliers due to supply chain challenges.

Depreciation and amortization expense increased 32.2 percent due to a full year of amortization for the LMH Health West building and equipment and new assets acquired in 2021.

The Hospital reported net operating income of $2,382 in 2021 compared to a net operating loss of $6,922 in 2020 for an improvement of 134.4 percent over prior year results.

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 and leases; however, in 2021 and 2020, the items of most significance were contributions from federal and state sources for COVID-19 funding.

In 2022, the Hospital recognized a remaining balance of $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.

In 2020, the Hospital has recognized $9,933 of Health and Human Services (HHS) stimulus funds, $4,840 of CARES Act direct aid funding from Douglas County, Kansas, and an additional $280 of funding from the State of Kansas to offset expenditures and lost revenues associated with the Hospital's COVID-19 pandemic response efforts for the community.

Due to changes in the market value of investments, total investment losses of $1,121 were reported for 2022, a decrease of $6,212 when compared to investment income in the prior year. Investment income in 2021 increased $4,291 when compared to investment income of $800 recorded in 2020.

The Hospital recognized income of $894 as a result of the investment in Lawrence Surgery Center, LLC, a decrease of $97 when compared to income reported in 2021. Total non-operating losses of $3,175 reported in 2022 decreased $10,824 compared to the 2021 increase of $3,330.

Capital Gifts

The Hospital received contributions restricted for acquisition of capital assets of $660 from The Lawrence Memorial Endowment Association during 2022 compared to $1,057 in 2021 and $3,220 in 2020. In 2021, the Hospital received $2,153 for acquisition of capital assets from other sources. The contributions were used to fund capital equipment purchases for clinical and support departments throughout the Hospital and toward expenditures related to the LMH Health West development. Expended contributions are reflected in unrestricted net position as of December 31, 2022 and 2021. Non-expended contributions of $1,853 are reflected in restricted net position as of December 31, 2022.

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 2022 and 2021, discussed earlier.

Capital Assets

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 percent compared to the balance at the end of 2021.

The Hospital incurred $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 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.

The Hospital ended 2021 with $235,083 invested in capital assets, net of accumulated depreciation as detailed in *Note 5* to the financial statements, a decrease of $8,128 or 3.3 percent compared to the balance at the end of 2020.

Due to the age of existing beds and with the increase in inpatient cases as a result of the COVID-19 pandemic, the Hospital invested more than $2 million to replace all inpatient hospital beds and stretchers so all beds in the facility function similarly and with the same technology. This investment helped increase patient safety as providers use the same technology in every nursing unit and clinical care area so training is consistent house-wide. The Hospital continued to invest in clinical and information technology to support both the main hospital and the physician clinic operations.

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, 2022 was $74,865. Other long-term debt consists of the remaining balance of $8,734 note payable of the $10,000 signed in 2018 to finance the purchase of the Sixth and 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. At the end of 2022, the Hospital had $90,750 in long-term debt obligations outstanding compared to $92,527 in 2021, a decrease of $1,777 or 1.9 percent.

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, 2022 and 2021

Assets

	2022	As Restated 2021
Current Assets		
Cash and cash equivalents	$ 18,378,211	$ 90,970,027
Current portion of assets held by trustee	2,535,006	2,510,151
Patient accounts receivable, net of allowance for doubtful accounts; 2022 – $24,031,584, 2021 – $22,456,902	50,053,637	49,277,855
Due from third-party payors	3,600,804	339,123
Lease receivable - discretely presented component unit	498,679	478,184
Lease receivable	451,174	363,974
Accounts receivable – other	2,030,865	1,298,385
Supplies	5,575,680	6,404,137
Prepaid expenses and other	10,875,213	11,587,498
Total current assets	93,999,269	163,229,334
Noncurrent Cash and Investments		
Held by trustee for debt service	2,535,006	2,510,151
Restricted by donors for capital acquisitions and specific operating activities	1,853,017	2,168,980
Other long-term investments	74,221,474	24,746,689
	78,609,497	29,425,820
Less amount required to meet current obligations	2,535,006	2,510,151
	76,074,491	26,915,669
Capital Assets, Net	230,161,194	235,082,687
Lease Assets, Net	5,372,684	6,429,848
Other Assets		
Lease receivable - discretely presented component unit	10,481,613	10,980,292
Lease receivable	3,166,602	2,741,050
Other	1,680,571	1,808,312
	15,328,786	15,529,654
Total assets	$ 420,936,424	$ 447,187,192

See Notes to Financial Statements

Liabilities, Deferred Inflows of Resources and Net Position

	2022	As Restated 2021
Current Liabilities		
Current maturities of long-term debt	$ 2,893,727	$ 2,759,736
Current portion of lease liabilities	1,072,104	1,032,562
Accounts payable	11,137,936	7,944,111
Accrued expenses	19,820,839	21,960,570
Accrued interest payable	1,819,707	1,891,241
Retirement plan obligation	1,536,011	1,474,836
Due to third-party payors	1,319,975	19,171,649
Total current liabilities	39,600,299	56,234,705
Other Liabilities		
Long-term debt	90,750,434	92,527,333
Lease liabilities	4,240,895	5,312,999
Total other liabilities	94,991,329	97,840,332
Total liabilities	134,591,628	154,075,037
Deferred Inflows of Resources		
Leases - discretely presented component unit	10,636,345	11,299,702
Leases	3,457,932	3,025,487
	14,094,277	14,325,189
Net Position		
Net investment in capital assets	141,857,014	147,139,241
Restricted – expendable for		
Capital acquisition	1,820,434	2,075,702
Specific operating activities	32,583	93,278
Unrestricted	128,540,488	129,478,745
Total net position	272,250,519	278,786,966
Total liabilities, deferred inflows of resources and net position	$ 420,936,424	$ 447,187,192

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
The Lawrence Memorial Hospital Endowment Association
Statements of Financial Position
December 31, 2022 and 2021

Assets

	2022	2021
Current Assets		
Cash and cash equivalents	$ 1,485,819	$ 730,039
Pledges receivable – current portion	1,531,544	930,169
Total current assets	3,017,363	1,660,208
Noncurrent Assets		
Pledges receivable, net of current portion	4,287,413	1,177,418
Beneficial interests	6,422,460	-
Investments	14,698,087	14,072,139
	25,407,960	15,249,557
Total assets	$ 28,425,323	$ 16,909,765

Liabilities and Net Assets

Current Liabilities		
Accounts payable	$ 5,774	$ 4,814
Liability to beneficiaries of split-interest agreements	-	107
Total current liabilities	5,774	4,921
Net Assets		
Without donor restrictions		
Undesignated	1,195,313	477,209
Designated by the board for endowment	6,291,254	7,380,043
	7,486,567	7,857,252
With donor restrictions		
Purpose restrictions	8,547,154	7,092,318
Time restrictions	3,963,982	-
Perpetual in nature	8,421,846	1,955,274
	20,932,982	9,047,592
Total net assets	28,419,549	16,904,844
Total liabilities and net assets	$ 28,425,323	$ 16,909,765

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
Lawrence Surgery Center, LLC
Balance Sheets
December 31, 2022 and 2021

Assets

	2022	2021
Current Assets		
Cash and cash equivalents	$ 867,323	$ 609,924
Patient accounts receivables	1,337,537	1,323,810
Supplies	336,256	327,794
Prepaid expenses and other	95,837	23,782
Total current assets	2,636,953	2,285,310
Property and Equipment, at Cost		
Leasehold improvements	24,155	36,357
Major movable equipment	3,241,512	3,703,286
Furniture, fixtures and office equipment	87,102	82,757
Computer equipment and software	113,701	111,892
	3,466,470	3,934,292
Less accumulated depreciation	2,961,377	2,570,196
	505,093	1,364,096
Other Assets		
Right-of-use assets - operating leases - related party	12,158,852	-
Right-of-use assets - finance leases - related party	585,333	-
Right-of-use assets - operating leases	623,528	-
Right-of-use assets - finance leases	479,387	-
	13,847,100	-
Total assets	$ 16,989,146	$ 3,649,406

See Notes to Financial Statements

Liabilities and Members' Equity

Current Liabilities		
Current portion of long-term debt	$ 39,359	$ 143,192
Accounts payable	185,981	260,565
Accrued expenses	855,515	549,631
Current portion of operating lease liabilities - related party	577,689	-
Current portion of finance lease liabilities - related party	94,927	-
Current portion of operating lease liabilities	221,047	-
Current portion of finance lease liabilities	114,145	-
Total current liabilities	2,088,663	953,388
Other Liabilities		
Long-term debt	45,919	659,284
Operating lease liabilities - related party	11,581,163	-
Finance lease liabilities - related party	622,395	-
Operating lease liabilities	402,481	-
Finance lease liabilities	250,333	-
Total other liabilities	12,902,291	659,284
Total liabilities	14,990,954	1,612,672
Members' Equity		
Capital contributions	1,182,625	1,237,825
Retained earnings	815,567	798,909
Total members' equity	1,998,192	2,036,734
Total Liabilities and Members' Equity	$ 16,989,146	$ 3,649,406

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, 2022 and 2021

	2022	As Restated 2021
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2022 – $14,958,634, 2021 – $15,636,407	$ 333,417,179	$ 317,459,355
Other	5,707,521	5,657,696
Total operating revenues	339,124,700	323,117,051
Operating Expenses		
Salaries and wages	143,066,890	140,325,489
Employee benefits	31,558,600	32,552,812
Professional fees	12,734,195	11,037,562
Purchased services	25,780,672	20,392,654
Supplies	82,033,179	74,644,241
Utilities	4,484,974	4,119,750
Miscellaneous expenses	3,263,857	2,121,172
Licenses, taxes and Kansas provider assessment	4,259,126	977,489
Repairs and maintenance	17,291,614	16,217,549
Depreciation and amortization	14,828,989	14,887,485
Insurance	1,858,328	1,547,532
Other capital costs	1,985,836	1,911,124
Total operating expenses	343,146,260	320,734,859
Operating Income (Loss)	(4,021,560)	2,382,192
Nonoperating Revenues (Expenses)		
Investment income (loss)	(1,121,377)	5,091,457
Interest income from leases	581,490	598,492
Interest expense	(4,068,411)	(4,001,016)
Contributions and other	535,854	5,567,556
Gain (loss) on sale of capital assets	6,432	(598,228)
Gain on investment in equity investees	891,125	991,237
Total nonoperating revenues (expenses), net	(3,174,887)	7,649,498
Revenues Over (Under) Expenses	(7,196,447)	10,031,690
Contributions Restricted for Acquisition of Capital Assets	660,000	3,209,559
Increase (Decrease) in Net Position	(6,536,447)	13,241,249
Net Position, Beginning of Year	278,786,966	265,545,717
Net Position, End of Year	$ 272,250,519	$ 278,786,966

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
The Lawrence Memorial Hospital Endowment Association
Statements of Activities
Years Ended December 31, 2022 and 2021

	2022			2021
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Support and Gains				
Special event revenue	$ -	$ 417,298	$ 417,298	$ 91,250
Contributions	851,486	13,966,502	14,817,988	3,540,719
Contributions of nonfinancial assets	587,846	52,699	640,545	621,768
Interest and dividend income	163,465	199,786	363,251	339,185
Realized and unrealized gains (losses), net	(1,254,148)	(1,373,448)	(2,627,596)	1,391,157
Total support and revenue	348,649	13,262,837	13,611,486	5,984,079
Amounts released from restrictions	1,377,447	(1,377,447)	-	-
Total support, revenue and reclassifications	1,726,096	11,885,390	13,611,486	5,984,079
Expenses				
Program	1,558,914	-	1,558,914	3,323,078
General and administrative	227,605	-	227,605	218,852
Fundraising	310,262	-	310,262	243,918
Total expenses	2,096,781	-	2,096,781	3,785,848
Change in Net Assets	(370,685)	11,885,390	11,514,705	2,198,231
Net Assets, Beginning of Year	7,857,252	9,047,592	16,904,844	14,706,613
Net Assets, End of Year	$ 7,486,567	$ 20,932,982	$ 28,419,549	$ 16,904,844

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
Lawrence Surgery Center, LLC
Income Statements
Years Ended December 31, 2022 and 2021

	2022	2021
Operating Revenues		
Patient revenue	$ 10,945,204	$ 9,673,621
Other revenue	309,804	24,395
Total operating revenues	11,255,008	9,698,016
Operating Expenses		
Salaries and wages	2,730,488	2,617,413
Employee benefits	769,438	593,303
Supplies	3,600,043	3,198,913
Purchased services	358,479	460,596
Professional fees	89,402	140,368
Depreciation and amortization	471,440	365,923
Other expenses	1,873,464	1,795,639
Total operating expenses	9,892,754	9,172,155
Operating Income	1,362,254	525,861
Other Income (Expense)		
Gain from extinguishment of debt	-	1,082,838
Interest income	156	158
Interest expense	(30,753)	(25,581)
Total other income (expense), net	(30,597)	1,057,415
Net Income	$ 1,331,657	$ 1,583,276

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	As Restated 2021
Cash Flows from Operating Activities		
Receipts from and on behalf of patients	$ 311,528,042	$ 299,556,578
Payments to suppliers and contractors	(148,587,979)	(137,804,187)
Payments to employees	(176,670,760)	(171,938,775)
Other receipts, net	2,360,736	3,298,722
Net cash used in operating activities	(11,369,961)	(6,887,662)
Cash Flows from Noncapital Financing Activities		
Noncapital gifts	535,854	5,567,556
Net cash provided by noncapital financing activities	535,854	5,567,556
Cash Flows from Capital and Related Financing Activities		
Principal paid on long-term debt	(3,563,145)	(2,777,527)
Interest paid on long-term debt	(4,328,380)	(4,149,309)
Principal paid on lease liabilities	(1,032,562)	(1,073,604)
Interest paid on lease liabilities	(213,098)	(231,701)
Principal payments received on leases receivable	842,158	1,664,699
Interest payments received on leases receivable	581,490	598,492
Purchase of capital assets	(5,416,338)	(5,811,807)
Capital gifts	660,000	3,209,559
Proceeds from sale of capital assets	530,571	37,902
Net cash used in capital and related financing activities	(11,939,304)	(8,533,296)
Cash Flows from Investing Activities		
Interest and dividends on investments	2,369,792	2,039,804
Purchase of investments	(66,191,897)	(10,695,321)
Sale of investments	13,374,299	20,305,621
Distributions from affiliates	486,649	140,000
Net cash provided by (used in) investing activities	(49,961,157)	11,790,104
Increase (Decrease) in Cash and Cash Equivalents	(72,734,568)	1,936,702
Cash and Cash Equivalents, Beginning of Year	95,649,137	93,712,435
Cash and Cash Equivalents, End of Year	$ 22,914,569	$ 95,649,137
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents in current assets	$ 18,378,211	$ 90,970,027
Cash and cash equivalents in noncurrent cash and investments	4,536,358	4,679,110
	$ 22,914,569	$ 95,649,137

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
Statements of Cash Flows (Continued)
Years Ended December 31, 2022 and 2021

	2022	As Restated 2021
Reconciliation of Net Operating Revenues to Net Cash Used in Operating Activities		
Operating income (loss)	$ (4,021,560)	$ 2,382,192
Depreciation and amortization	14,828,989	14,887,485
Changes in operating assets and liabilities		
Patient accounts receivable, net	(775,782)	(7,708,557)
Other accounts receivable	(287,187)	(455,964)
Estimated amounts due from and to third-party payors	(21,113,355)	(10,194,220)
Accounts payable and accrued expenses	(521,094)	(1,609,527)
Deferred inflows of resources	(1,107,638)	(1,903,010)
Supplies	828,457	(964,325)
Prepaid expenses	712,285	(1,302,216)
Other	86,924	(19,520)
Net cash used in operating activities	$ (11,369,961)	$ (6,887,662)
Noncash Investing, Capital and Financing Activities		
Capital asset acquisitions included in accounts payable	$ 1,659,612	$ 23,249
Long-term debt incurred for purchase of capital assets	2,321,770	981,627
Lease obligation incurred for lease assets	-	2,024,667
New lease receivables acquired through new or amended agreements	(876,726)	-
Amortization of original bond premium	(401,533)	(408,829)
Increase (decrease) in fair value of investments	(3,889,248)	3,224,126

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
Notes to Financial Statements
December 31, 2022 and 2021

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*, The Lawrence Memorial Hospital Endowment Association (the Endowment Association) is presented as a discretely presented component unit of the Hospital. See *Note 15* for additional information about the Endowment Association.

Lawrence Surgery Center, LLC (LSC, LLC) is an ambulatory surgical care center located in Lawrence, Kansas. The Hospital holds 70 percent 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 *16* 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 and liabilities 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, 2022, 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.

Capital and Lease Asset Impairment

The Hospital evaluates capital and lease assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital or lease asset has occurred. If a capital or lease 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, 2022 and 2021.

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 sheet.

Net Position

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

- Net investment in capital assets consists of capital and lease 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 $5,101,000 and $7,395,000 in 2022 and 2021, respectively.

The costs of charity care provided under the Hospital's charity care policy were approximately $1,580,000 and $2,176,000 for 2022 and 2021, 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.

Revision

Certain revisions have been made to the 2021 financial statements to conform to the 2022 financial statement presentation for gains or losses on the sale of capital assets as a nonoperating transaction. These revisions had no effect on the change in net position. See *Note 21* for additional information.

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, 2022 and 2021, none of the Hospital's bank deposit balances of approximately $228,000 and $223,000, 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, 2022 and 2021, the Hospital had the following investments and maturities:

	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		

	December 31, 2021		
		Maturities in Less	
Type	Fair Value	Than 1 Year	1 – 5
Repurchase agreements	$ 92,573,293	$ 92,573,293	$ -
Money market mutual funds	2,510,130	2,510,130	-
Accrued interest	21	21	-
	95,083,444	$ 95,083,444	$ -
Equity securities	24,745,464		
	$ 119,828,908		

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, 2022 and 2021, ratings of the Hospital's investments in money market mutual funds ranged from Baa to AAA as rated 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, 2022 and 2021 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 percent of the Hospital's portfolio value. At December 31, 2022 and 2021, the Hospital's investments not directly guaranteed by the U.S. government that constituted more than 5 percent of its total investments are as follows:

	2022	2021
Repurchase agreements with Commerce Bank, n.a.	21%	77%

Summary of Carrying Values

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

	2022	2021
Carrying value		
Deposits[(1)]	$ 960,600	$ 566,939
Investments	96,027,108	119,828,908
	$ 96,987,708	$ 120,395,847
Included in the following balance sheet captions		
Cash and cash equivalents	$ 18,378,211	$ 90,970,027
Current portion of assets held by trustee	2,535,006	2,510,151
Noncurrent cash and investments	76,074,491	26,915,669
	$ 96,987,708	$ 120,395,847

[(1)]The Hospital utilizes an overnight repurchase agreement for its bank deposits to maximize investment return. At December 31, 2022 and 2021, the overnight repurchase agreement amounted to approximately $19,662,000 and $92,573,000, 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, 2022 and 2021 consisted of:

	2022	2021
Interest and dividend income	$ 2,767,871	$ 1,867,331
Net increase (decrease) in fair value of investments	(3,889,248)	3,224,126
	$ (1,121,377)	$ 5,091,457

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, 2022 and 2021 consisted of:

	2022	2021
Medicare	$ 10,139,587	$ 8,345,120
Medicaid	2,268,469	2,401,439
Other third-party payors	35,491,938	36,382,139
Patients	26,185,227	24,606,059
	74,085,221	71,734,757
Less allowance for uncollectible accounts	24,031,584	22,456,902
	$ 50,053,637	$ 49,277,855

Note 4: Leases Receivable

The Hospital leases a portion of its real estate to various third parties, the terms of which expire 2023 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, 2022 and 2021, were approximately $1,424,000 and $2,263,000, respectively, which includes both lease revenue and interest.

The following schedule is expected future minimum lease payments by year as of December 31, 2022:

Year Ending December 31,	Total to be Paid	Principal	Interest
2023	$ 1,522,108	$ 949,853	$ 572,255
2024	1,502,599	969,621	532,978
2025	5,912,731	1,012,517	4,900,214
2026	1,460,123	1,009,814	450,309
2027	1,374,616	964,472	410,144
2028-2032	5,729,808	4,208,775	1,521,033
2033-2037	4,165,310	3,393,600	771,710
2038-2040	2,206,309	2,089,416	116,893
	$ 23,873,604	$ 14,598,068	$ 9,275,536

Note 5: Capital and Lease Assets

Capital assets activity for the years ended December 31, 2022 and 2021, was:

	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

	2021 - As Restated				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 12,628,353	$ -	$ -	$ -	$ 12,628,353
Land improvements	9,336,168	-	(4,258)	-	9,331,910
Buildings and leasehold improvements	248,963,453	673,062	(3,208,145)	168,531	246,596,901
Fixed equipment	1,648,086	-	(24,401)	-	1,623,685
Major movable equipment	107,511,331	3,336,276	(7,635,223)	535,578	103,747,962
Construction in progress	670,713	2,396,832	-	(704,109)	2,363,436
	380,758,104	6,406,170	(10,872,027)	-	376,292,247
Less accumulated depreciation					
Land improvements	2,771,761	468,687	(4,261)	-	3,236,187
Buildings and leasehold improvements	67,992,742	6,398,762	(2,923,999)	-	71,467,505
Fixed equipment	545,248	83,060	(24,402)	-	603,906
Major movable equipment	66,237,538	6,947,659	(7,283,235)	-	65,901,962
	137,547,289	13,898,168	(10,235,897)	-	141,209,560
Capital Assets, Net	$ 243,210,815	$ (7,491,998)	$ (636,130)	$ -	$ 235,082,687

Lease assets activity for the years ended December 31, 2022 and 2021, was:

	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

	2021 - As Restated			
	Beginning Balance	Additions	Disposals	Ending Balance
Buildings	$ 3,627,171	$ -	$ -	$ 3,627,171
Equipment	1,767,327	2,024,667	-	3,791,994
	5,394,498	2,024,667	-	7,419,165
Less accumulated amortization				
Buildings	-	432,304	-	432,304
Equipment	-	557,013	-	557,013
	-	989,317	-	989,317
Lease Assets, Net	$ 5,394,498	$ 1,035,350	$ -	$ 6,429,848

Note 6: Other Assets

Investment in Lawrence Surgery Center, LLC

The Hospital has a 70 percent membership interest in Lawrence Surgery Center, LLC (LSC, LLC). The net investment totaled approximately $1,399,000 and $1,437,000 at December 31, 2022 and 2021, respectively. The remaining 30 percent membership interest is held by several physicians who are on the Hospital's active medical staff.

Investment in Mid-America Service Solutions, LLC

The Hospital has a 10 percent membership interest in Mid-America Service Solutions, LLC. The net investment totaled approximately $200,000 and $203,000 at December 31, 2022 and 2021, respectively. The remaining membership interest is held by 10 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, 2022 and 2021 consisted of:

	2022	2021
Payable to suppliers and contractors	$ 11,137,936	$ 7,944,111
Payable to employees (including payroll taxes and benefits)	17,410,749	19,517,194
Other	2,410,090	2,443,376
	$ 30,958,775	$ 29,904,681

Note 8: Long-Term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the years ended December 31, 2022 and 2021:

	2022				
	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 liability	6,345,561	-	1,032,562	5,312,999	1,072,104
Total other long-term liabilities	26,139,751	-	20,826,752	5,312,999	1,072,104
Total long-term obligations	$ 121,426,820	$ 2,321,770	$ 24,791,430	$ 98,957,160	$ 3,965,831

	2021 - As Restated				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Revenue bonds payable Series 2018	$ 77,520,000	$ -	$ 1,295,000	$ 76,225,000	$ 1,360,000
Unamortized premiums	7,011,294	-	408,829	6,602,465	-
Note from direct borrowing	9,279,958	-	267,847	9,012,111	277,979
Other financing obligations	3,680,546	981,627	1,214,680	3,447,493	1,121,757
Total long-term debt	97,491,798	981,627	3,186,356	95,287,069	2,759,736
Other long-term liabilities					
Medicare advanced and accelerated payments	28,101,716	-	10,412,526	17,689,190	17,689,190
Deferred social security payments	4,206,665	-	2,101,665	2,105,000	2,105,000
Lease liability	5,394,498	2,024,667	1,073,604	6,345,561	1,032,562
Total other long-term liabilities	37,702,879	2,024,667	13,587,795	26,139,751	20,826,752
Total long-term obligations	$ 135,194,677	$ 3,006,294	$ 16,774,151	$ 121,426,820	$ 23,586,488

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 $8,734,000 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.

Debt Service Requirements

Debt service requirements on long-term debt other than lease liabilities as of December 31, 2022, are as follows:

Year Ending December 31,	Total to be Paid	Bonds		Direct Borrowings	
		Principal	Interest	Principal	Interest
2023	$ 5,022,063	$ 1,430,000	$ 3,592,063	$ 289,305	$ 344,100
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
2028-2032	25,102,815	10,075,000	15,027,815	1,916,099	1,250,922
2033-2037	25,107,490	12,670,000	12,437,490	2,339,550	827,471
2038-2042	25,110,688	15,575,000	9,535,688	2,856,583	310,438
2043-2047	28,219,750	23,265,000	4,954,750	52,609	175
2048	5,654,250	5,385,000	269,250	-	-
	$ 128,644,808	$ 74,865,000	$ 59,434,058	$ 8,734,132	$ 3,986,736

Other Financing Obligations

The Hospital is obligated under certain financings for purchase of equipment totaling approximately $3,844,000 and $3,447,000 at December 31, 2022 and 2021, respectively. Monthly payments of obligations include principal plus interest ranging from 3.25 percent to 4.0 percent, 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 percent of the remittance advice payment followed by a six-month payback period at 50 percent 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 percent.

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 have been recaptured by CMS. At December 31, 2021, approximately $17,689,000 of accelerated Medicare payment requests are recorded as current liabilities under the caption due to third-party payors in the accompanying balance sheets and none as noncurrent liabilities.

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. At December 31, 2021, the remaining balance of deferred payroll taxes of approximately $2,105,000 is recorded as part of accrued expenses in the accompanying balance sheets. As of December 31, 2022, no deferred payroll taxes remain.

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, 2022:

Year Ending December 31,	Total to be Paid	Principal	Interest
2023	$ 1,249,879	$ 1,072,104	$ 177,775
2024	1,256,162	1,116,792	139,370
2025	737,365	625,760	111,605
2026	315,571	219,659	95,912
2027	296,521	209,167	87,354
2028-2032	1,559,132	1,262,749	296,383
2033-2036	856,486	806,768	49,718
	$ 6,271,116	$ 5,312,999	$ 958,117

Note 10: Assets Held in Trust

The Hospital is 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 and $2,784,000 at December 31, 2022 and 2021, respectively. Assets of this trust are not included in the accompanying financial statements. Trust income received is reported as other nonoperating income.

Note 11: 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 12: 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 $200,000 per individual in both 2022 and 2021. 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 2022 and 2021 is summarized as follows:

	2022	2021
Balance, beginning of year	$ 2,188,365	$ 2,266,758
Claims incurred	13,697,071	15,487,207
Claims and expenses paid	(13,927,071)	(15,565,600)
Balance, end of year	$ 1,958,365	$ 2,188,365

Note 13: 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 percent and 30 percent of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2022 and 2021, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

Note 14: 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 $7,376,000 and $7,158,000 in 2022 and 2021, 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 $6,004,000 and $5,667,000 during 2022 and 2021, 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 percent 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 percent 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 percent 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 percent 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 15: The Lawrence Memorial Hospital Endowment Association

The Lawrence Memorial Hospital Endowment Association (Endowment Association) is a legally separate tax-exempt component unit of the Hospital. The Endowment Association is exclusively dedicated to the support of the Hospital. The Endowment Association'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 Endowment Association to be held in trust for the benefit of the Hospital. A trust agreement was established between the Hospital and the Endowment Association.

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

During the years ended December 31, 2022 and 2021, the Endowment Association provided approximately $660,000 and $1,057,000 of support to the Hospital, respectively. Complete financial statements of the Endowment Association may be obtained from its Administrative Office at the following address: Lawrence Memorial Hospital Endowment Association, 325 Maine Street, Lawrence, Kansas 66044.

The Endowment Association 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 Endowment Association's statements in the Hospital's financial reporting entity for these differences.

Note 16: 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). In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). This ASU requires lessees to recognize a lease liability and a right-of-use (ROU) asset on a discounted basis, for substantially all leases. In July 2018, the FASB issued ASU 2018-11, *Leases* (Topic 842): *Targeted Improvements*, which provides an optional transition method of applying the new lease standard. Topic 842 can be applied using either a modified retrospective approach at the

beginning of the earliest period presented or, as permitted by ASU 2018-11, at the beginning of the period in which it is adopted, *i.e.*, the comparatives under ASC 840 option.

LSC, LLC adopted Topic 842 on January 1, 2022 (the effective date), using the comparatives under ASC 840 transition method, which applies Topic 842 at the beginning of the period in which it is adopted. Prior period amounts have not been adjusted in connection with the adoption of this standard. LSC, LLC elected the package of practical expedients under the new standard, which permits entities to not reassess lease classification, lease identification or initial direct costs for existing or expired leases prior to the effective date. LSC, LLC elected to keep short-term leases with an initial term of 12 months or less off the balance sheet. Also, LSC, LLC did elect the hindsight practical expedient in determining the lease term for existing leases as of January 1, 2022.

The most significant impact of adoption was the recognition of operating lease ROU assets of approximately $13,581,000 and operating lease liabilities of approximately $13,581,000 while the accounting for existing capital leases (now referred to as finance leases) remained substantially unchanged. As part of adopting the standard, previously recognized liabilities for deferred rent and lease incentives were reclassified as a component of the ROU assets.

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 $115,000 and $126,000 for these services during 2022 and 2021, respectively. LSC, LLC leased certain real estate from the Hospital for approximately $975,000 and $1,134,000 during 2022 and 2021, respectively. As a result of these agreements, LSC, LLC has approximately $12,876,000 in related party lease liabilities recorded on its balance sheet at December 31, 2022. The Hospital has corresponding related party lease receivables totaling $10,980,292 recorded on its balance sheet at December 31, 2022. 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 made member distributions to the Hospital of approximately $932,000 and $140,000 during the years ended December 31, 2022 and 2021, respectively.

On April 16, 2020, LSC, LLC obtained a Paycheck Protection Program (PPP) loan in the amount of approximately $531,000. On March 12, 2021, LSC, LLC obtained a second PPP loan in the amount of approximately $552,000. Both loans were forgiven in their entirety, including principal and interest, during 2021. Revenue from the forgiveness of these loans is recorded in gain from extinguishment of debt on LSC, LLC's income statement in the amount of approximately $1,083,000.

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 17: 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, 2022 and 2021:

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, 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			
December 31, 2021				
Repurchase agreements	$ 92,573,293	$ 92,573,293	$ -	$ -
Money market mutual funds	2,510,130	2,510,130	-	-
Equity securities	24,745,464	24,745,464	-	-
	119,828,887	$ 119,828,887	$ -	$ -
Accrued interest	21			
	$ 119,828,908			

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 18: 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 19: COVID-19 Pandemic & CARES Act Funding

On March 11, 2020, the World Health Organization designated the SARS-CoV-2 virus and the incidence of COVID-19 (COVID-19) as a global pandemic. Patient volumes and the related revenues were significantly affected by COVID-19 as various policies were implemented by federal, state and local governments in response to the pandemic that led many people to remain at home and forced the closure of or limitations on certain businesses, as well as suspended elective procedures by health care facilities.

The extent of the COVID-19 pandemic's adverse effect on the Hospital's operating results and financial condition has been and will continue to be driven by many factors, most of which are beyond the Hospital's control and ability to forecast.

Because of these and other uncertainties, the Hospital cannot estimate the length or severity of the effect of the pandemic on the Hospital's business. Decreases in cash flows and results of operations may have an effect on debt covenant compliance and on the inputs and assumptions used in significant accounting estimates, including estimated bad debts and contractual adjustments related to uninsured and other patient accounts.

Provider Relief Fund

During the year ended December 31, 2021, the Hospital received approximately $1,970,000 of distributions from the CARES Act Provider Relief Fund. These distributions from the Provider Relief Fund are not subject to repayment, provided the Hospital is able to attest to and comply with

the terms and conditions of the funding, including demonstrating that the distributions received have been used for qualifying expenses or lost revenue attributable to COVID-19, as defined by the Department of Health and Human Services.

The Hospital is accounting for such payments as voluntary nonexchange transactions. Payments are recognized as eligibility requirements have been met. Based on an analysis of the compliance and reporting requirements of the Provider Relief Fund and the effect of the pandemic on the Hospital's operating revenues and expenses through year-end, the Hospital recognized approximately $1,971,000 during the year ended December 31, 2021 related to the Provider Relief Fund and these payments are recorded as nonoperating revenue – "contributions and other" in the Hospital's statements of revenues, expenses and changes in net position.

No Provider Relief Fund payments were received or recognized as revenue in the year ended December 31, 2022.

The Hospital will continue to monitor compliance with the terms and conditions of the Provider Relief Fund and the effect of the pandemic on the Hospital's revenues and expenses. The terms and conditions governing the Provider Relief Fund are complex and subject to interpretation and change. If the Hospital is unable to attest to or comply with current or future terms and conditions, the Hospital's ability to retain some or all of the distributions received may be affected. Additionally, the amounts recorded in the financial statements compared to the Hospital's Provider Relief Fund reporting could differ. Provider Relief Fund payments are subject to government oversight, including potential audits.

Coronavirus Relief Fund

During the year ended December 31, 2021, the Hospital received approximately $2,721,000 of CARES Act Coronavirus Relief Fund monies. Funds were passed through Douglas County, Kansas to the Hospital. These Coronavirus Relief Fund monies are not subject to repayment, provided the Hospital is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for qualifying expenses attributable to COVID-19, as defined by the U.S. Department of the Treasury.

The Hospital is accounting for such payments as voluntary nonexchange transactions. Payments are recognized as eligibility requirements have been met. Based on an analysis of the compliance and reporting requirements of the Coronavirus Relief Fund and the effect of the pandemic on the Hospital's operating expenses through year-end, the Hospital recognized approximately $2,721,000 during the year ended December 31, 2021, related to the Coronavirus Relief Fund. These payments are recorded as nonoperating revenue – "contributions and other" in the Hospital's statements of revenues, expenses and changes in net position.

No Coronavirus Relief Fund payments were received or recognized as revenue in the year ended December 31, 2022.

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, 2022 and 2021:

	December 31, 2022				
	The Lawrence Memorial Hospital	Lawrence Physicians, LLC	Reed Medical Group MDVIP	Eliminations	Combined
Assets					
Current assets	$ 85,592	$ 8,268	$ 139	$ -	$ 93,999
Capital assets	230,161	-	-	-	230,161
Other assets	105,044	-	-	(8,268)	96,776
Total assets	$ 420,797	$ 8,268	$ 139	$ (8,268)	$ 420,936
Liabilities					
Current liabilities	$ 39,450	$ -	$ 150	$ -	$ 39,600
Noncurrent liabilities	94,992	-	-	-	94,992
Total liabilities	134,442	-	150	-	134,592
Deferred Inflows of Resources	14,094	-	-	-	14,094
Net Position					
Net investment in capital and lease assets	141,857	-	-	-	141,857
Restricted - expendable for					
Capital acquisition	1,820	-	-	-	1,820
Specific operating activities	33	-	-	-	33
Unrestricted	128,551	8,268	(11)	(8,268)	128,540
Total net position	272,261	8,268	(11)	(8,268)	272,250
Total liabilities, deferred inflows of resources and net position	$ 420,797	$ 8,268	$ 139	$ (8,268)	$ 420,936

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
Notes to Financial Statements
December 31, 2022 and 2021

	December 31, 2021 - As Restated				
	The Lawrence Memorial Hospital	Lawrence Physicians, LLC	Reed Medical Group MDVIP	Eliminations	Combined
Assets					
Current assets	$ 154,031	$ 9,039	$ 159	$ -	$ 163,229
Capital assets	235,083	-	-	-	235,083
Other assets	57,914	-	-	(9,039)	48,875
Total assets	$ 447,028	$ 9,039	$ 159	$ (9,039)	$ 447,187
Liabilities					
Current liabilities	$ 56,065	$ -	$ 170	$ -	$ 56,235
Noncurrent liabilities	97,840	-	-	-	97,840
Total liabilities	153,905	-	170	-	154,075
Deferred Inflows of Resources	14,325	-	-	-	14,325
Net Position					
Net investment in capital and lease assets	147,139	-	-	-	147,139
Restricted - expendable for					
Capital acquisition	2,076	-	-	-	2,076
Specific operating activities	93	-	-	-	93
Unrestricted	129,490	9,039	(11)	(9,039)	129,479
Total net position	278,798	9,039	(11)	(9,039)	278,787
Total liabilities, deferred inflows of resources and net position	$ 447,028	$ 9,039	$ 159	$ (9,039)	$ 447,187

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, 2022 and 2021:

	Year Ended December 31, 2022				
	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	129,902	-	217	(112)	130,007
Total operating expenses	342,052	97,702	1,648	(98,255)	343,147
Operating Income (Loss)	35,713	(39,735)	-	-	(4,022)
Nonoperating Expenses	(3,946)	-	-	771	(3,175)
Revenues Over (Under) Expenses	31,767	(39,735)	-	771	(7,197)
Contributions Restricted for Acquisition of Capital Assets	660	-	-	-	660
Transfers from Hospital	(38,964)	38,964	-	-	-
Decrease in Net Position	(6,537)	(771)	-	771	(6,537)
Beginning Net Position	278,798	9,039	(11)	(9,039)	278,787
Ending Net Position	$ 272,261	$ 8,268	$ (11)	$ (8,268)	$ 272,250

	Year Ended December 31, 2021 - As Restated				
	The Lawrence Memorial Hospital	Lawrence Physicians, LLC	Reed Medical Group MDVIP	Eliminations	Combined
Operating Revenues					
Net patient service revenue	$ 261,871	$ 54,401	$ 1,187	$ -	$ 317,459
Other operating revenues	99,322	2,382	-	(96,046)	5,658
Total operating revenues	361,193	56,783	1,187	(96,046)	323,117
Operating Expenses					
Salaries and wages and employee benefits	172,094	-	1,040	(256)	172,878
Purchased services and professional fees	31,430	95,707	21	(95,728)	31,430
Other operating expenses	116,363	-	126	(62)	116,427
Total operating expenses	319,887	95,707	1,187	(96,046)	320,735
Operating Income (Loss)	41,306	(38,924)	-	-	2,382
Nonoperating Revenues	10,314	-	-	(2,665)	7,649
Revenues Over (Under) Expenses	51,620	(38,924)	-	(2,665)	10,031
Contributions Restricted for Acquisition of Capital Assets	3,210	-	-	-	3,210
Transfers from Hospital	(41,589)	41,589	-	-	-
Increase in Net Position	13,241	2,665	-	(2,665)	13,241
Beginning Net Position	265,557	6,374	(11)	(6,374)	265,546
Ending Net Position	$ 278,798	$ 9,039	$ (11)	$ (9,039)	$ 278,787

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, 2022 and 2021:

	Year Ended December 31, 2022				
	The Lawrence Memorial Hospital	Lawrence Physicians, LLC	Reed Medical Group MDVIP	Eliminations	Combined
Net Cash Provided by (Used in) Operating Activities	$ 27,585	$ (38,964)	$ 9	$ -	$ (11,370)
Net Cash Provided by (Used in) Noncapital Financing Activities	(38,428)	38,964	-	-	536
Net Cash Used in Capital and Related Financing Activities	(11,939)	-	-	-	(11,939)
Net Cash Used In Investing Activities	(49,961)	-	-	-	(49,961)
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

	Year Ended December 31, 2021 - As Restated				
	The Lawrence Memorial Hospital	Lawrence Physicians, LLC	Reed Medical Group MDVIP	Eliminations	Combined
Net Cash Provided by (Used in) Operating Activities	$ 34,683	$ (41,589)	$ 18	$ -	$ (6,888)
Net Cash Provided by (Used in) Noncapital Financing Activities	(36,021)	41,589	-	-	5,568
Net Cash Used in Capital and Related Financing Activities	(8,533)	-	-	-	(8,533)
Net Cash Provided by Investing Activities	11,790	-	-	-	11,790
Change in Cash and Cash Equivalents	1,919	-	18	-	1,937
Cash and Cash Equivalents, Beginning of Year	93,648	-	64	-	93,712
Cash and Cash Equivalents, End of Year	$ 95,567	$ -	$ 82	$ -	$ 95,649

Note 21: Change in Accounting Principle and Revision

On January 1, 2021, the Hospital adopted GASB Statement No. 87, *Leases*, using a retrospective method of adoption to all leases in place and not yet completed at the beginning of the earliest period presented. The statement requires lessees to recognize a lease liability, measured at the present value of payments expected to be made during the lease term, an intangible right-to-use lease asset and remove old capital leases. The statement requires lessors to recognize a lease receivable, measured at the present value of payments expected to be received during the lease term, a lease asset and to remove old capital leases. The 2021 financial statements and disclosures were restated to reflect the impact of this adoption.

In addition, certain revisions have been made to the 2021 financial statements to conform to the 2022 financial statement presentation. These revisions had no effect on the change in net position.

The effect of the changes for the adoption of GASB 87 and the revisions made to the accompanying balance sheet, statement of revenues, expenses and changes in net position, and statement of cash flows as of and for the year ended December 31, 2021 are as follows:

	As Previously Reported	Revision Impact	GASB 87 Adoption Impact	As Restated 2021
Balance Sheet				
Assets				
Lease receivable - discretely presented component unit	$ -	$ -	$ 478,184	$ 478,184
Lease receivable	-	-	363,974	363,974
Total current assets	162,591,370	-	637,964	163,229,334
Capital Assets, Net	236,903,807	-	(1,821,120)	235,082,687
Lease Assets, Net	-	-	6,429,848	6,429,848
Lease receivable - discretely presented component unit	-	-	10,980,292	10,980,292
Lease receivable	-	-	2,741,050	2,741,050
Total other assets	1,808,312	-	13,721,342	15,529,654
Total assets	428,219,158	-	18,968,034	447,187,192
Liabilities				
Current maturities of long-term debt	3,241,492	-	(481,756)	2,759,736
Current portion of lease liablities	-	-	1,032,562	1,032,562
Total current liabilities	55,885,499	-	349,206	56,234,705
Long-term debt	93,542,018	-	(1,014,685)	92,527,333
Lease liabilities	-	-	5,312,999	5,312,999
Total other liabilties	-	-	97,840,332	97,840,332
Total liabilities	149,427,517	-	4,647,520	154,075,037
Deferred Inflows of Resourses				
Leases - discretely presented component unit	-	-	11,299,702	11,299,702
Leases	-	-	3,025,487	3,025,487
Total deferred inflows of resources	-	-	14,325,189	14,325,189
Net Position				
Net investment in capital assets	147,379,633	-	(240,392)	147,139,241
Unrestricted	129,243,028	-	235,717	129,478,745
Total net position	278,791,641	-	(4,675)	278,786,966
Total liabilities, deferred inflows of resources and net position	428,219,158	-	18,968,034	447,187,192

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
Notes to Financial Statements
December 31, 2022 and 2021

	As Previously Reported	Revision Impact	GASB 87 Adoption Impact	As Restated 2021
Statement of Revenues, Expenses and Changes in Net Position				
Operating Revenues				
Other	$ 6,014,759	$ -	$ (357,063)	$ 5,657,696
Total operating revenues	323,474,114	-	(357,063)	323,117,051
Operating Expenses				
Depreciation and amortization	14,101,715	-	785,770	14,887,485
Loss on sale of disposal	598,228	(598,228)	-	-
Other capital costs	2,647,381	-	(736,257)	1,911,124
Total operating expenses	321,283,574	(598,228)	49,513	320,734,859
Operating Income (Loss)	2,190,540	598,228	(406,576)	2,382,192
Nonoperating Revenues (Expenses)				
Interest income from leases	-	-	(598,492)	598,492
Interest expense	(3,804,425)	-	196,591	(4,001,016)
Gain (loss) on sale of capital assets	-	598,228	-	(598,228)
Total nonoperating revenues, net	7,845,825	-	196,327	7,649,498
Revenues Over (Under) Expenses	10,036,365	-	4,675	10,031,690
Increase (Decrease) in Net Position	13,245,924	-	4,675	13,241,249
Net Position, End of Year	278,791,641	-	4,675	278,786,966
Statement of Cash Flows				
Operating Activities				
Payments to suppliers and contractors	(138,540,444)	-	(736,257)	(137,804,187)
Other receipts, net	5,354,601	-	2,055,879	3,298,722
Net cash used in operating activities	(5,366,440)	-	1,521,222	(6,887,662)
Capital and Related Financing Activities				
Principal paid on long-term debt	(3,305,753)	-	(528,226)	(2,777,527)
Interest paid on long-term debt	(4,184,419)	-	(35,110)	(4,149,309)
Principal paid on lease liabilties	-	-	1,073,604	(1,073,604)
Interest paid on lease liabilities	-	-	231,701	(231,701)
Principal payments received on leases receivable	-	-	(1,664,699)	1,664,699
Interest payments received on leases receivable	-	-	(598,492)	598,492
Net cash used in capital and related financing activities	(10,054,518)	-	(1,521,222)	(8,533,296)
Reconciliation of Net Operating Revenues to Net Cash Used in Operating Activities				
Operating income	2,190,540	-	(191,652)	2,382,192
Depreciation and amortization	14,101,715	-	(785,770)	14,887,485
Loss on sale of disposal	598,228	598,228	-	-
Deferred inflows of resources	-	-	1,903,010	(1,903,010)
Net cash used in operating activities	(5,366,440)	-	1,521,222	(6,887,662)
Noncash Investing, Capital and Financing Activities				
Capital asset acquisitions included in accounts payable	3,006,294	-	3,006,294	-
Long-term debt incurred for purchase of capital assets	-	-	(981,627)	981,627
Lease obligation incurred for lease assets	-	-	(2,024,667)	2,024,667

Note 22: Future Change in Accounting Principle

GASB recently issued its Statement No. 96, *Subscription-Based Information Technology Arrangements*. The statement addresses the accounting for the costs related to cloud computing arrangements, defined as subscription-based information technology arrangements. The standard defines these arrangements, establishes the arrangements would result in a right-to-use asset and a corresponding liability, provides capitalization criteria and requires new note disclosures. The Hospital expects to first apply GASB No. 96 during the year ending December 31, 2023, using a retrospective recognition method. The impact of applying the statement has not been determined.

Supplementary Information

The Lawrence Memorial Hospital
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2022

Federal Grantor/ Pass-Through Grantor/Program Title	Federal Assistance Listing Number	Pass-Through Entity or Other Identifying Number	Provided to Subrecipients	Total Federal Expenditures
U.S. Department of Treasury pass through				
Douglas County, Kansas				
COVID-19 Coronavirus State and Local Fiscal Recovery Fund	21.027	None	$ -	$ 274,300
U.S. Department of Health and Human Services				
COVID-19 Provider Relief Fund (PRF) and American Rescue Plan (ARP) Rural Distribution	93.498	None	-	1,970,081
			$ -	$ 2,244,381

The accompanying notes are an integral part of this Schedule.

The Lawrence Memorial Hospital

Notes to the Schedule of Expenditures of Federal Awards

Year Ended December 31, 2022

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of The Lawrence Memorial Hospital under programs of the federal government for the year ended December 31, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Hospital, it is not intended to and does not present the financial position, changes in net position or cash flows of the Hospital.

Note 2: Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance or the awards, terms and conditions and FAQ's issued by the U.S. Department of Health and Human Services, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Note 3: Indirect Cost Rate

The Hospital has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

Board of Trustees
The Lawrence Memorial Hospital
Lawrence, Kansas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the business-type activities and the aggregate discretely presented component units of The Lawrence Memorial Hospital (the "Hospital"), as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated May 26, 2023, which contained an "Emphasis of Matter" paragraph for a change in accounting principle. Our report also includes reference to other auditors who audited the financial statements of The Lawrence Memorial Hospital Endowment Association, as described in our report on The Lawrence Memorial Hospital's financial statements. The financial statements of The Lawrence Memorial Hospital Endowment Association were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or compliance and other matters associated with The Lawrence Memorial Hospital Endowment Association or that are reported on separately by those auditors who audited The Lawrence Memorial Hospital Endowment Association.

The financial statements of Lawrence Surgery Center, LLC, a component unit included in the financial statements of the aggregate discretely presented components units, were not audited in accordance with *Government Auditing standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with Lawrence Surgery Center, LLC.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hospital's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Hospital's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

FORVIS, LLP

Kansas City, Missouri
May 26, 2023

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Report on Compliance for the Major Federal Program and Report on Internal Control Over Compliance

Independent Auditor's Report

Board of Trustees
The Lawrence Memorial Hospital
Lawrence, Kansas

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited The Lawrence Memorial Hospital's (the "Hospital") compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on the Hospital's major federal program for the year ended December 31, 2022. The Hospital's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Hospital complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2022.

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the "Auditor's Responsibilities for the Audit of Compliance" section of our report.

We are required to be independent of the Hospital and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of the Hospital's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Hospital's federal program.

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Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Hospital's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Hospital's compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material noncompliance, 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 Hospital's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

- Obtain an understanding of the Hospital's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the "Auditor's Responsibilities for the Audit of Compliance" section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

FORVIS, LLP

Kansas City, Missouri
May 26, 2023

The Lawrence Memorial Hospital
Schedule of Findings and Questioned Costs
Year Ended December 31, 2022

Section I – Summary of Auditor's Results

Financial Statements

1. Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

   ☒ Unmodified ☐ Qualified ☐ Adverse ☐ Disclaimer

2. Internal control over financial reporting:

   Significant deficiency(ies) identified? ☐ Yes ☒ None reported

   Material weakness(es) identified? ☐ Yes ☒ No

3. Noncompliance material to the financial statements noted? ☐ Yes ☒ No

Federal Awards

4. Internal control over major federal award program:

   Significant deficiency(ies) identified? ☐ Yes ☒ None reported

   Material weakness(es) identified? ☐ Yes ☒ No

5. Type of auditor's report issued on compliance for the major federal program:

   ☒ Unmodified ☐ Qualified ☐ Adverse ☐ Disclaimer

6. Any audit findings disclosed that are required to be reported by 2 CFR 200.516(a)? ☐ Yes ☒ No

7. Identification of major federal program:

Assistance Listing Number(s)	Name of Federal Program or Cluster
93.498	COVID-19 Provider Relief Fund (PRF) and American Rescue Plan (ARP) Rural Distribution

8. Dollar threshold used to distinguish between Type A and Type B programs: $750,000.

9. Auditee qualified as a low-risk auditee? ☐ Yes ☒ No

The Lawrence Memorial Hospital
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2022

Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

The Lawrence Memorial Hospital

Summary Schedule of Prior Year Audit Findings

Year Ended December 31, 2022

Reference Number	Summary of Finding	Status
2021-001	**Finding: Stryker Mako Robot** **Condition –** The Hospital's discretely presented component unit, Lawrence Surgery Center, LLC (the Surgery Center), improperly recorded an equipment lease as an operating lease. The lease should have been treated as a capital lease under ASC Topic 840. **Effect –** A material adjustment was posted to correct the Surgery Center's financial statements, adding the capital lease of approximately $224,000 to the Surgery Center's balance sheet.	**Corrected**
2021-002	**Finding: Prior Year Audit Entries** **Condition –** The Hospital's discretely presented component unit, Lawrence Surgery Center, LLC (the Surgery Center), did not properly record audit adjustments from the fiscal year 2020 audit, leading to misstatements within the fiscal year 2021 financial statements. **Effect –** Adjustments were posted to correct the Surgery Center's financial statements, posting those audit adjustments not previously recorded by management.	**Corrected**