

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas

Independent Auditor's Report and Financial Statements

December 31, 2021 and 2020



The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
December 31, 2021 and 2020

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Independent Auditor's Report

Board of Trustees
The Lawrence Memorial Hospital
Lawrence, Kansas

Opinions

We have audited the financial statements of The Lawrence Memorial Hospital (Hospital), a component unit of the City of Lawrence, Kansas, and The Lawrence Memorial Hospital Endowment Association and Lawrence Surgery Center, LLC as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise The Lawrence Memorial Hospital's basic financial statements as listed in the table of contents.

In our opinion, based on our audits and the report of other auditors, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of The Lawrence Memorial Hospital and of its discretely presented component units as of December 31, 2021 and 2020, 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 Lawrence Memorial Hospital, which represents 82 percent and 32 percent, respectively, of the assets and revenues of the aggregate discretely presented component units as of December 31, 2021, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended. 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) and the *Kansas Municipal Audit and Accounting Guide*. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of The Lawrence Memorial 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.

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 Lawrence Memorial Hospital's ability to continue as a going concern within one year after the date that these financial statements are available to be issued.

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 opinion. 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 will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- 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 audits 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 Lawrence Memorial 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 Lawrence Memorial 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 auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

BKD, LLP

Kansas City, Missouri
April 20, 2022

The Lawrence Memorial Hospital

A Component Unit of the City of Lawrence, Kansas

Management's Discussion and Analysis (Unaudited)

Years Ended December 31, 2021 and 2020

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, 2021 and 2020. 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 \$120,396 on December 31, 2021, a decrease of \$4,622 or 3.7 percent from the balance reported at December 31, 2020 when cash and investments totaled \$125,018, a decrease of \$1,567 or 1.2 percent from the balance reported at December 31, 2019.
- The Hospital's net position increased \$13,246 or 5.0 percent in 2021 compared to an increase of \$7,277 or 2.8 percent in 2020.
- The Hospital reported operating income of \$2,190 in 2021 compared 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 and to the operating loss of \$14,809 in 2019.
- Investment income of \$5,091 in 2021 increased by \$4,291 or 536.0 percent compared to the prior year investment income of \$800 in 2020, which decreased by \$5,870 or 88.0 percent compared to the prior year investment income of \$6,670 in 2019. The year-to-year changes were impacted by unrealized market gains experienced in 2021, unrealized losses in 2020 due to market declines, and unrealized market gains in 2019.
- 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 \$5,284 and \$15,053 in 2021 and 2020, respectively, to support the Hospital's COVID-19 pandemic response.

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).

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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 and liabilities—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 and liabilities reported in the Balance Sheet. Changes in net position were due to negative or positive financial operating results for the respective years.

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
Management's Discussion and Analysis (Unaudited)
Years Ended December 31, 2021 and 2020

Table 1: Assets, Liabilities, and Net Position

	2021	2020	2019
Assets			
Cash and cash equivalents	\$ 90,970	\$ 91,198	\$ 52,940
Patient accounts receivable, net	49,278	41,569	38,946
Other current assets	22,344	20,147	18,492
Total current assets	<u>162,592</u>	<u>152,914</u>	<u>110,378</u>
Noncurrent cash and investments	26,916	31,309	52,574
Held by trustee for debt service and capital acquisitions	-	-	19,208
Total noncurrent cash and investments	<u>26,916</u>	<u>31,309</u>	<u>71,782</u>
Capital assets, net	<u>236,904</u>	<u>243,211</u>	<u>210,307</u>
Other noncurrent assets	<u>1,808</u>	<u>938</u>	<u>845</u>
Total assets	<u>\$ 428,220</u>	<u>\$ 428,372</u>	<u>\$ 393,312</u>
Liabilities			
Long-term debt	\$ 93,542	\$ 95,244	\$ 94,803
Other current and noncurrent liabilities	<u>55,886</u>	<u>67,582</u>	<u>40,240</u>
Total liabilities	<u>149,428</u>	<u>162,826</u>	<u>135,043</u>
Net Position			
Net investment in capital assets	147,380	152,968	141,443
Restricted - expendable for			
Debt service	-	-	93
Capital acquisition	2,076	-	21
Specific operating activities	93	4	4
Unrestricted	<u>129,243</u>	<u>112,574</u>	<u>116,708</u>
Total net position	<u>278,792</u>	<u>265,546</u>	<u>258,269</u>
Total liabilities and net position	<u>\$ 428,220</u>	<u>\$ 428,372</u>	<u>\$ 393,312</u>

Cash and cash equivalents totaled \$90,970 at December 31, 2021 and reflected a decrease of \$228 or 0.3 percent compared to balance of \$91,198 in 2020 and compared to the balance of \$52,940 in 2019. 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 scheduled to be repaid in 2022.

Net patient accounts receivable increased by \$7,709 or 18.5 percent at December 31, 2021 compared to December 31, 2020. Net patient accounts receivable increased by \$2,623 or 6.7 percent at December 31, 2020 compared to December 31, 2019.

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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. Total noncurrent cash and investments at December 31, 2020 decreased \$40,473 or 56.4 percent compared to the prior year end balance of \$71,782 at December 31, 2019. The decrease in total noncurrent cash and investments resulted from maturities of long-term investments in 2021 and from expenditures from the Series 2018 Bond Project Fund for construction and capital asset acquisitions in 2020.

Net capital assets of \$236,904 decreased by \$6,307 or 2.6 percent in 2021 compared to net capital assets of \$243,211 at December 31, 2020 due to depreciation and asset retirements. Net capital assets of \$243,211 increased by \$32,904 or 15.6 percent in 2020 compared to net capital assets of \$210,307 at December 31, 2019. The increase in 2020 is due to expenditures related to the LMH Health West construction and other capital building and equipment additions.

Long-term debt of \$93,542 reported at December 31, 2021 decreased by \$1,702 or 1.8 percent compared to the prior year due to principal payments on note and lease obligations. Long-term debt of \$95,244 at December 31, 2020 reflected an increase of \$441 or 0.5 percent when compared to the balance at December 31, 2019 due to capital lease obligations for two surgical robots.

Operating Results and Changes in the Hospital's Net Position

The Hospital's Revenues over Expenses in 2021 were \$10,036, an increase of \$5,979 when compared to results from the prior year and a net margin of 3.1 percent. The Hospital's Revenues over Expenses in 2020 were \$4,057 for a net margin of 1.4 percent and an increase of \$12,771 when compared to results in 2019. The Revenues over Expenses were the principle factor in the increase in net position of \$13,246 in 2021 and the increase in net position of \$7,277 in 2020, as shown in Table 2.

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Table 2: Operating Results and Changes in Net Position

	2021	2020	2019
Operating Revenues			
Net patient service revenue	\$ 317,459	\$ 281,917	\$ 278,616
Other operating revenues	6,015	4,734	3,768
Total operating revenues	<u>323,474</u>	<u>286,651</u>	<u>282,384</u>
Operating Expenses			
Salaries and wages and employee benefits	172,878	153,846	153,045
Purchased services and professional fees	31,430	36,092	44,899
Depreciation and amortization	14,102	11,257	9,234
Other operating expenses	102,874	92,378	90,015
Total operating expenses	<u>321,284</u>	<u>293,573</u>	<u>297,193</u>
Operating Income (Loss)	<u>2,190</u>	<u>(6,922)</u>	<u>(14,809)</u>
Nonoperating Revenues (Expenses)			
Investment income	5,091	800	6,670
Contributions and other	5,568	15,259	148
Interest expense	(3,804)	(3,735)	(1,185)
Gain (loss) on investment in equity investees	991	(1,345)	462
Total nonoperating revenues, net	<u>7,846</u>	<u>10,979</u>	<u>6,095</u>
Revenues Over (Under) Expenses	10,036	4,057	(8,714)
Contributions Restricted for Acquisition of Capital Assets	<u>3,210</u>	<u>3,220</u>	<u>2,777</u>
Increase (Decrease) in Net Position	<u><u>\$ 13,246</u></u>	<u><u>\$ 7,277</u></u>	<u><u>\$ (5,937)</u></u>

Operating Income (Loss)

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

The Hospital realized net operating income of \$2,190 in 2021 compared to a net operating loss of \$6,922 reported for 2020, an increase of \$9,112 or 131.6 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.

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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 27.1 percent 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 12.8 percent from the 2020 operating results.

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Total operating expenses increased 9.4 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 25.3 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 \$2,190 in 2021 compared to a net operating loss of \$6,922 in 2020 for an improvement of 131.6 percent over prior year results.

Non-operating revenue in 2021 decreased \$3,133 when compared to 2020, when the Hospital received more support from CARES Act contributions and other COVID-19 relief programs from federal, state and county governments, but included increased gains in investment income. Resulting net income of \$10,036 increased \$5,979 or 147.4 percent over the 2020 results.

The Hospital ended 2020 with a net operating loss of \$6,922 compared to a net operating loss of \$14,809 reported in 2019 reflecting an increase of \$7,887 or 53.3 percent change from the prior year end results. Net patient service revenue of \$281,917 increased \$3,301 or 1.2 percent compared to net patient service revenue achieved in the prior year.

Hospital gross inpatient revenue increased by 5.8 percent in 2020 despite a 6.2 percent decrease in patient discharges during the year. The impact of the COVID-19 pandemic translated to additional patient days due to longer lengths of stay for patients with a COVID-19 diagnosis. The revenue growth was driven by increased services provided in the inpatient nursing units and key ancillary services like Pharmacy, Laboratory, CT Scan and Respiratory Therapy whose services were highly utilized for the diagnosis and treatment of COVID-19 patients.

The Lawrence Memorial Hospital
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Hospital outpatient and physician practice revenues in 2020 were hampered by the suspension of elective procedures from mid-March until early June as part of the community-wide response to conserve personal protective equipment (PPE) and to help limit the spread of the COVID-19 virus. Significant revenue declines were experienced during the shut-down. Volumes and revenue rebounded to an extent with the reopening of services, but not to the levels expected prior to the pandemic. Overall outpatient imaging services experienced a decline of 8.8 percent compared to revenue generated in the prior year while surgical services revenue increased by 6.7 percent and heart catheterization lab revenues increased by 10.7 percent. Hospital outpatient supply revenue increased by 19.4 percent due to higher utilization of surgical and cardiac implants.

Emergency department revenues in 2020 declined by 11.0 percent when compared to the prior year due in part to the lower number of patient visits. Emergency department visits decreased by 6,892 visits or 18.1 percent compared to the number of patient visits in 2019. The decline in emergency visits indicated a continued trend by patients to delay care except when critically needed due to ongoing COVID-19 pandemic concerns.

Physician practice revenues in 2020 increased 2.3 percent over the prior year primarily due to increased volumes for gastroenterology, cardiology and pain management services. New revenue was generated with the addition of the First Med LMH Health urgent care clinic that opened in August 2020 in southern Lawrence to fill a need for access to health care in a previously underserved area of the city.

Net patient revenue from all sources in 2020 increased by 1.2 percent over the prior year and overall deductions from revenue were 73.5 percent of gross revenue compared to deductions of 73.3 percent experienced in 2019.

Total operating expenses in 2020 declined by 1.2 percent when compared to 2019 and are the net result of planned cost reduction strategies implemented during the year, favorable reductions in employee health insurance claims expense, and other expense reductions offset by new costs experienced due to the Hospital's pandemic response efforts.

Salaries expense increased 3.4 percent in 2020 but was offset by a 10.2 percent overall decrease in employee benefits expenses due to a \$3.0 million or 19.0 percent decrease in employee health insurance claims expense. Purchased services and professional fees decreased in 2020 as a result of contractual changes with the hospitalist and emergency department physician groups. Effective in October 2020, the hospitalist physicians became employees of the Hospital and in November 2020, the contract with the emergency physicians transitioned to an agreement structured for the physicians to directly bill and collect for professional services reducing the fees incurred by the Hospital. Drug supply expense continued to increase with the ongoing growth in oncology and infusion therapy as well as higher drug costs associated with the treatment of COVID-19 patients. The Hospital incurred additional contract labor, professional services and supply expense due to COVID-19 testing of patients and staff and treatment of COVID-19 patients throughout the year.

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Building and equipment depreciation expense increased 21.9 percent over 2019 as a result of opening the LMH Health West outpatient campus in September 2020. Other operating costs for utilities, maintenance and property taxes also increased with the addition of the new facility.

The Hospital realized a net operating loss of \$14,809 in 2019 compared to net operating income of \$11,753 achieved in 2018, a decrease of \$26,562 or 226.0 percent change from prior year results. Net patient service revenue of \$278,616 increased by \$652 or 0.2 percent when compared to net patient service revenue generated in the prior year.

Nonoperating Revenues and Expenses

Non-operating 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 and interest expense on bond financing; however, in 2021 and 2020, the items of most significance were contributions from federal and state sources for COVID-19 funding.

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 \$592 of 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.

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.

Investment income in 2021 increased \$4,291 when compared to investment income of \$800 recorded in 2020 due to changes in the market value of investments. The Hospital recognized income of \$991 as a result of the investment in Lawrence Surgery Center, LLC, an increase of \$2,336 when compared to the net loss reported in 2020. Total non-operating revenues in 2021 decreased \$3,133 compared to the 2020 increase of \$4,884.

Capital Gifts

The Hospital received contributions restricted for acquisition of capital assets of \$1,057 from The LMH Health Foundation during 2021 compared to \$3,220 in 2020 and \$2,777 in 2019. 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, 2021 and 2020. Non-expended contributions of \$2,076 are reflected in restricted net position as of December 31, 2021.

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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 2021 and 2020, discussed earlier.

Capital Assets

The Hospital ended 2021 with \$236,904 invested in capital assets, net of accumulated depreciation as detailed in *Note 4* to the financial statements, a decrease of \$6,307 or 2.6 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.

The Hospital ended 2020 with \$243,211 invested in capital assets, net of accumulated depreciation as detailed in *Note 4* to the financial statements, an increase of \$32,904 or 15.6 percent compared to the balance at the end of 2019.

Construction of the LMH Health West facility was completed in late summer 2020 and total building and equipment expenditures contributed more than \$35,965 to the increase in capital assets in 2020. The Hospital invested nearly \$5,000 to implement the Cerner Revenue Cycle system to enhance billing and customer experience as well as to more fully integrate Hospital and physician division financial operations with the implementation culminating in August 2020. Through the relocation of services to the LMH Health West Campus, the Hospital was able to reduce the amount of leased space by 28,000 square feet. Additional investments were made for leasehold improvements for the new First Med LMH Health urgent care clinic and to replace surgical robot equipment with upgraded technology in order to enhance and expand surgical capabilities.

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, 2021 was \$76,225. Other long-term debt consists of the remaining balance of \$9,012 note payable of the \$10,000 signed in 2018 to finance the purchase of the Sixth and Maine Street medical office building and capital leases 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. At the end of 2021, the Hospital had \$93,542 in long-term debt obligations outstanding compared to \$95,244 in 2020, a decrease of \$1,702 or 1.8 percent.

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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, 2021 and 2020

Assets

	2021	2020
Current Assets		
Cash and cash equivalents	\$ 90,970,027	\$ 91,198,298
Current portion of assets held by trustee	2,510,151	2,510,074
Patient accounts receivable, net of allowance for doubtful accounts; 2021 – \$22,456,902, 2020 – \$21,233,302	49,277,855	41,569,298
Due from third-party payors	339,123	1,069,123
Accounts receivable – other	1,502,579	842,421
Supplies	6,404,137	5,439,812
Prepaid expenses and other	11,587,498	10,285,282
	<hr/>	<hr/>
Total current assets	162,591,370	152,914,308
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Noncurrent Cash and Investments		
Held by trustee for debt service	2,510,151	2,510,074
Restricted by donors for capital acquisitions and specific operating activities	2,168,980	4,063
Other long-term investments	24,746,689	31,305,357
	<hr/>	<hr/>
	29,425,820	33,819,494
Less amount required to meet current obligations	2,510,151	2,510,074
	<hr/>	<hr/>
	26,915,669	31,309,420
	<hr/>	<hr/>
Capital Assets, Net	236,903,807	243,210,815
	<hr/>	<hr/>
Other Assets	1,808,312	937,555
	<hr/>	<hr/>
Total assets	\$ 428,219,158	\$ 428,372,098
	<hr/> <hr/>	<hr/> <hr/>

Liabilities and Net Position

	2021	2020
Current Liabilities		
Current maturities of long-term debt	\$ 3,241,492	\$ 2,248,230
Accounts payable	7,944,111	11,251,865
Accrued expenses	22,162,170	18,686,361
Accrued interest payable	1,891,241	1,862,406
Retirement plan obligation	1,474,836	1,334,749
Due to third-party payors	19,171,649	7,423,703
Total current liabilities	55,885,499	42,807,314
Other Long-term Liabilities	-	24,775,499
Long-term Debt	93,542,018	95,243,568
Total liabilities	149,427,517	162,826,381
Net Position		
Net investment in capital assets	147,379,633	152,967,466
Restricted – expendable for		
Capital acquisition	2,075,702	-
Specific operating activities	93,278	4,063
Unrestricted	129,243,028	112,574,188
Total net position	278,791,641	265,545,717
Total liabilities and net position	\$ 428,219,158	\$ 428,372,098

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, 2021 and 2020

Assets

	2021	2020
Current Assets		
Cash and cash equivalents	\$ 730,039	\$ 713,923
Pledges receivable – current portion	930,169	363,477
Total current assets	<u>1,660,208</u>	<u>1,077,400</u>
Noncurrent Assets		
Pledges receivable, net of current portion	1,177,418	506,259
Investments	14,072,139	13,210,000
	<u>15,249,557</u>	<u>13,716,259</u>
Total assets	<u><u>\$ 16,909,765</u></u>	<u><u>\$ 14,793,659</u></u>

Liabilities and Net Assets

Current Liabilities		
Accounts payable	\$ 4,814	\$ 5,930
Refundable advance	-	80,000
Liability to beneficiaries of split-interest agreements	107	1,116
Total current liabilities	<u>4,921</u>	<u>87,046</u>
Net Assets		
Without donor restrictions		
Undesignated	477,209	1,168,909
Designated by the board for endowment	7,380,043	6,568,519
	<u>7,857,252</u>	<u>7,737,428</u>
With donor restrictions		
Purpose restrictions	7,092,318	5,078,807
Perpetual in nature	1,955,274	1,890,378
	<u>9,047,592</u>	<u>6,969,185</u>
Total net assets	<u>16,904,844</u>	<u>14,706,613</u>
Total liabilities and net assets	<u><u>\$ 16,909,765</u></u>	<u><u>\$ 14,793,659</u></u>

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
Lawrence Surgery Center, LLC
Balance Sheets
December 31, 2021 and 2020

Assets

	2021	2020
Current Assets		
Cash and cash equivalents	\$ 609,924	\$ 391,305
Accounts receivable	1,326,318	887,549
Supplies	327,794	301,261
Prepaid expenses	21,274	56,523
	<u>2,285,310</u>	<u>1,636,638</u>
Total current assets		
	<u>2,285,310</u>	<u>1,636,638</u>
Property and Equipment, at Cost		
Leasehold improvements	36,357	7,171
Major movable equipment	3,703,286	3,130,346
Furniture, fixtures and office equipment	82,757	57,969
Computer equipment and software	111,892	108,674
	<u>3,934,292</u>	<u>3,304,160</u>
Less accumulated depreciation	2,570,196	2,260,993
	<u>1,364,096</u>	<u>1,043,167</u>
Total assets	<u><u>\$ 3,649,406</u></u>	<u><u>\$ 2,679,805</u></u>

Liabilities and Members' Equity

Current Liabilities		
Current portion of long-term debt	\$ 143,192	\$ 647,274
Line of credit	-	75,000
Accounts payable	260,565	286,214
Accrued expenses	549,631	537,343
	<u>953,388</u>	<u>1,545,831</u>
Total current liabilities		
	<u>953,388</u>	<u>1,545,831</u>
Long-term Debt	<u>659,284</u>	<u>451,714</u>
Total liabilities	<u>1,612,672</u>	<u>1,997,545</u>
Members' Equity		
Capital contributions	1,237,825	1,237,825
Retained earnings	798,909	(555,565)
	<u>2,036,734</u>	<u>682,260</u>
Total members' equity		
	<u>2,036,734</u>	<u>682,260</u>
Total Liabilities and Members' Equity	<u><u>\$ 3,649,406</u></u>	<u><u>\$ 2,679,805</u></u>

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, 2021 and 2020

	2021	2020
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2021 – \$15,636,407, 2020 – \$18,866,704	\$ 317,459,355	\$ 281,917,363
Other	6,014,759	4,733,924
Total operating revenues	323,474,114	286,651,287
Operating Expenses		
Salaries and wages	140,325,489	125,213,043
Employee benefits	32,552,812	28,633,162
Professional fees	11,037,562	21,695,535
Purchased services	20,392,654	14,396,411
Supplies	74,644,241	66,986,194
Utilities	4,119,750	3,184,819
Miscellaneous expenses	2,121,172	1,831,616
Licenses, taxes and Kansas provider assessment	977,489	1,000,592
Repairs and maintenance	16,217,549	15,196,831
Depreciation	14,101,715	11,257,170
Loss on sale or disposal of property and equipment	598,228	30,920
Insurance	1,547,532	1,326,877
Other capital costs	2,647,381	2,820,590
Total operating expenses	321,283,574	293,573,760
Operating Income (Loss)	2,190,540	(6,922,473)
Nonoperating Revenues (Expenses)		
Investment income	5,091,457	800,349
Contributions and other	5,567,556	15,259,112
Interest expense	(3,804,425)	(3,735,208)
Gain (loss) on investment in equity investees	991,237	(1,344,979)
Total nonoperating revenues, net	7,845,825	10,979,274
Revenues Over Expenses	10,036,365	4,056,801
Contributions Restricted for Acquisition of Capital Assets	3,209,559	3,219,668
Increase in Net Position	13,245,924	7,276,469
Net Position, Beginning of Year	265,545,717	258,269,248
Net Position, End of Year	\$ 278,791,641	\$ 265,545,717

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, 2021 and 2020

	2021			2020
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Support and Gains				
Special event revenue	\$ 3,400	\$ 87,850	\$ 91,250	\$ 169,297
Contributions	438,311	3,102,408	3,540,719	2,518,427
In-kind contributions	596,874	24,894	621,768	580,600
Interest and dividend income	180,794	158,391	339,185	241,243
Realized and unrealized gains, net	751,495	639,662	1,391,157	844,887
Total support and revenue	1,970,874	4,013,205	5,984,079	4,354,454
Amount released from restrictions	2,396,368	(2,396,368)	-	-
Total support, revenue and reclassifications	4,367,242	1,616,837	5,984,079	4,354,454
Expenses				
Program	3,323,078	-	3,323,078	4,152,390
General and administrative	218,852	-	218,852	179,391
Fundraising	243,918	-	243,918	223,534
Total expenses	3,785,848	-	3,785,848	4,555,315
Change in Net Assets	581,394	1,616,837	2,198,231	(200,861)
Changes in Restrictions	(461,570)	461,570	-	-
Net Assets, Beginning of Year	7,737,428	6,969,185	14,706,613	14,907,474
Net Assets, End of Year	\$ 7,857,252	\$ 9,047,592	\$ 16,904,844	\$ 14,706,613

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
Lawrence Surgery Center, LLC
Income Statements
Years Ended December 31, 2021 and 2020

	2021	2020
Operating Revenues		
Patient revenue	\$ 9,673,621	\$ 6,377,253
Other revenue	24,395	54,014
Total operating revenues	<u>9,698,016</u>	<u>6,431,267</u>
Operating Expenses		
Salaries and wages	2,617,413	2,260,318
Employee benefits	593,303	543,295
Supplies	3,198,913	1,890,135
Purchased services	460,596	235,474
Professional fees	140,368	106,597
Depreciation	365,923	277,047
Other expenses	<u>1,795,639</u>	<u>1,270,733</u>
Total operating expenses	<u>9,172,155</u>	<u>6,583,599</u>
Operating Income (Loss)	<u>525,861</u>	<u>(152,332)</u>
Other Income (Expense)		
Gain from extinguishment of debt	1,082,838	-
Interest income	158	187
Interest expense	<u>(25,581)</u>	<u>(15,591)</u>
Total other income (expense), net	<u>1,057,415</u>	<u>(15,404)</u>
Net Income (Loss)	<u><u>\$ 1,583,276</u></u>	<u><u>\$ (167,736)</u></u>

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
Statements of Cash Flows
Years Ended December 31, 2021 and 2020

	2021	2020
Operating Activities		
Receipts from and on behalf of patients	\$ 299,556,578	\$ 308,469,146
Payments to suppliers and contractors	(138,540,444)	(129,802,885)
Payments to employees	(171,737,175)	(152,919,466)
Other receipts, net	5,354,601	5,576,506
Net cash provided by (used in) operating activities	(5,366,440)	31,323,301
Noncapital Financing Activities		
Noncapital gifts	5,567,556	15,259,112
Net cash provided by noncapital financing activities	5,567,556	15,259,112
Capital and Related Financing Activities		
Principal paid on long-term debt	(3,305,753)	(1,069,887)
Interest paid on long-term debt	(4,184,419)	(4,150,983)
Purchase of capital assets	(5,811,807)	(45,728,416)
Capital gifts	3,209,559	3,219,668
Proceeds from sale of capital assets	37,902	217,762
Net cash used in capital and related financing activities	(10,054,518)	(47,511,856)
Investing Activities		
Interest and dividends on investments	2,039,804	963,789
Purchase of investments	(10,695,321)	(13,119,870)
Sale of investments	20,305,621	52,147,943
Advances to and investments in equity investee	-	(1,470,000)
Distributions from affiliates	140,000	32,094
Net cash provided by investing activities	11,790,104	38,553,956
Increase in Cash and Cash Equivalents	1,936,702	37,624,513
Cash and Cash Equivalents, Beginning of Year	93,712,435	56,087,922
Cash and Cash Equivalents, End of Year	<u>\$ 95,649,137</u>	<u>\$ 93,712,435</u>
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents in current assets	\$ 90,970,027	\$ 91,198,298
Cash and cash equivalents in noncurrent cash and investments	4,679,110	2,514,137
	<u>\$ 95,649,137</u>	<u>\$ 93,712,435</u>

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
Statements of Cash Flows (Continued)
Years Ended December 31, 2021 and 2020

	2021	2020
Reconciliation of Net Operating Revenues to		
Net Cash Provided by (Used in) Operating Activities		
Operating income (loss)	\$ 2,190,540	\$ (6,922,473)
Depreciation	14,101,715	11,257,170
Loss on sale or disposal of property and equipment	598,228	30,920
Changes in operating assets and liabilities		
Patient accounts receivable, net	(7,708,557)	(2,623,070)
Other accounts receivable	(660,158)	842,582
Estimated amounts due from and to third-party payors	(10,194,220)	29,174,853
Accounts payable and accrued expenses	(1,407,927)	1,739,887
Supplies	(964,325)	(204,215)
Prepaid expenses	(1,302,216)	(1,972,353)
Other	(19,520)	-
	<u>\$ (5,366,440)</u>	<u>\$ 31,323,301</u>
Supplemental Cash Flows Information		
Capital asset acquisitions included in accounts payable	\$ 23,249	\$ 410,513
Capital assets acquired through capital lease obligation	3,006,294	3,726,168
Amortization of original bond premium	(408,829)	(415,775)
Increase (decrease) in fair value of investments	3,224,126	(10,881)

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
Notes to Financial Statements
December 31, 2021 and 2020

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. In 2020, the Hospital increased its ownership interest in LSC, LLC to 70 percent. As the Hospital now holds a majority equity interest in LSC, LLC, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 90, *Majority Equity Interests*, the reporting entity changed to include 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 5 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

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
Notes to Financial Statements
December 31, 2021 and 2020

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 and liabilities 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 does not consider uninvested cash held in investment accounts as cash or cash equivalents. At December 31, 2021, 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.

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
Notes to Financial Statements
December 31, 2021 and 2020

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 following guidelines of the American Hospital Association. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. Amortization of assets subject to capital leases is reported as part of depreciation expense. 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

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 Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
Notes to Financial Statements
December 31, 2021 and 2020

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.

Net Position

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

- Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets.
- Restricted expendable net position is made up of noncapital assets that must be used for a particular purpose, as specified by 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 \$7,395,000 and \$8,050,000 in 2021 and 2020, respectively.

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
Notes to Financial Statements
December 31, 2021 and 2020

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.

Revisions

Certain immaterial revisions have been made to the 2020 financial statements for classification of net position components on the balance sheet and for capital assets activity in *Note 4*. These revisions did not have a significant impact on the 2020 financial statement line items impacted and did not have an impact on the total balance sheet, statement of revenues, expenses and changes in net position or the statement of cash flows.

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, 2021 and 2020, none of the Hospital's bank deposit balances of approximately \$223,000 and \$391,000, 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.

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
Notes to Financial Statements
December 31, 2021 and 2020

At December 31, 2021 and 2020, the Hospital had the following investments and maturities:

Type	December 31, 2021	
	Fair Value	Maturities in Less Than 1 Year
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	
	<u>\$ 119,828,908</u>	

Type	December 31, 2020	
	Fair Value	Maturities in Less Than 1 Year
Corporate bonds	\$ 11,351,675	\$ 11,351,675
Repurchase agreements	90,736,845	90,736,845
Money market mutual funds	2,510,074	2,510,074
Accrued interest	172,494	172,494
	104,771,088	\$ 104,771,088
Equity securities	19,781,188	
	<u>\$ 124,552,276</u>	

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.

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
Notes to Financial Statements
December 31, 2021 and 2020

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, 2021 and 2020, ratings of the Hospital's investments in corporate bonds and 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, 2021 and 2020 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, 2021 and 2020, 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:

	2021	2020
Morgan Stanley	0%	4%
Citigroup	0%	5%
Repurchase agreements with Commerce Bank, n.a.	77%	73%

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
Notes to Financial Statements
December 31, 2021 and 2020

Summary of Carrying Values

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

	2021	2020
Carrying value		
Deposits ⁽¹⁾	\$ 566,939	\$ 465,516
Investments	<u>119,828,908</u>	<u>124,552,276</u>
	<u><u>\$ 120,395,847</u></u>	<u><u>\$ 125,017,792</u></u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 90,970,027	\$ 91,198,298
Current portion of assets held by trustee	2,510,151	2,510,074
Noncurrent cash and investments	<u>26,915,669</u>	<u>31,309,420</u>
	<u><u>\$ 120,395,847</u></u>	<u><u>\$ 125,017,792</u></u>

⁽¹⁾The Hospital utilizes an overnight repurchase agreement for its bank deposits to maximize investment return. At December 31, 2021 and 2020, the overnight repurchase agreement amounted to approximately \$92,573,000 and \$90,737,000, 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

Investment income for the years ended December 31, 2021 and 2020 consisted of:

	2021	2020
Interest and dividend income	\$ 1,867,331	\$ 811,230
Net increase (decrease) in fair value of investments	<u>3,224,126</u>	<u>(10,881)</u>
	<u><u>\$ 5,091,457</u></u>	<u><u>\$ 800,349</u></u>

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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, 2021 and 2020 consisted of:

	<u>2021</u>	<u>2020</u>
Medicare	\$ 8,345,120	\$ 7,585,783
Medicaid	2,401,439	1,550,801
Other third-party payors	36,382,139	33,588,491
Patients	<u>24,606,059</u>	<u>20,077,525</u>
	71,734,757	62,802,600
Less allowance for uncollectible accounts	<u>22,456,902</u>	<u>21,233,302</u>
	<u><u>\$ 49,277,855</u></u>	<u><u>\$ 41,569,298</u></u>

Note 4: Capital Assets

Capital assets activity for the years ended December 31, 2021 and 2020, was:

	<u>2021</u>				
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Ending Balance</u>
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	5,360,943	(7,635,223)	535,578	105,772,629
Construction in progress	<u>670,713</u>	<u>2,396,832</u>	<u>-</u>	<u>(704,109)</u>	<u>2,363,436</u>
	380,758,104	8,430,837	(10,872,027)	-	378,316,914
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	<u>66,237,538</u>	<u>7,151,206</u>	<u>(7,283,235)</u>	<u>-</u>	<u>66,105,509</u>
	137,547,289	14,101,715	(10,235,897)	-	141,413,107
Capital assets, net	<u><u>\$ 243,210,815</u></u>	<u><u>\$ (5,670,878)</u></u>	<u><u>\$ (636,130)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 236,903,807</u></u>

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	2020				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 12,628,353	\$ -	\$ -	\$ -	\$ 12,628,353
Land improvements	3,851,944	58,093	-	5,426,131	9,336,168
Buildings and leasehold improvements	168,244,181	1,378,926	(128,710)	79,469,056	248,963,453
Fixed equipment	664,050	-	(5,170)	989,206	1,648,086
Major movable equipment	89,243,893	4,607,128	(4,508,188)	18,168,498	107,511,331
Construction in progress	66,358,540	38,365,064	-	(104,052,891)	670,713
	<u>340,990,961</u>	<u>44,409,211</u>	<u>(4,642,068)</u>	<u>-</u>	<u>380,758,104</u>
Less accumulated depreciation					
Land improvements	2,473,864	297,897	-	-	2,771,761
Buildings and leasehold improvements	62,932,304	5,162,822	(102,384)	-	67,992,742
Fixed equipment	503,942	46,476	(5,170)	-	545,248
Major movable equipment	64,773,395	5,749,975	(4,285,832)	-	66,237,538
	<u>130,683,505</u>	<u>11,257,170</u>	<u>(4,393,386)</u>	<u>-</u>	<u>137,547,289</u>
Capital assets, net	<u>\$ 210,307,456</u>	<u>\$ 33,152,041</u>	<u>\$ (248,682)</u>	<u>\$ -</u>	<u>\$ 243,210,815</u>

Note 5: 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 \$1,437,000 and \$586,000 at December 31, 2021 and 2020, 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 10 percent membership interest in Mid-America Service Solutions, LLC. The net investment totaled approximately \$203,000 and \$204,000 at December 31, 2021 and 2020, respectively. The remaining membership interest is held by 10 other health care organizations in the Midwestern United States.

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Note 6: Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses included in current liabilities at December 31, 2021 and 2020 consisted of:

	<u>2021</u>	<u>2020</u>
Payable to suppliers and contractors	\$ 7,944,111	\$ 11,251,865
Payable to employees (including payroll taxes and benefits)	19,718,794	17,308,811
Other	<u>2,443,376</u>	<u>1,377,550</u>
	<u><u>\$ 30,106,281</u></u>	<u><u>\$ 29,938,226</u></u>

Note 7: Long-Term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the years ended December 31, 2021 and 2020:

	<u>2021</u>				
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
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
Capital lease obligations	<u>3,680,546</u>	<u>3,006,294</u>	<u>1,742,906</u>	<u>4,943,934</u>	<u>1,603,513</u>
Total long-term debt	<u>97,491,798</u>	<u>3,006,294</u>	<u>3,714,582</u>	<u>96,783,510</u>	<u>3,241,492</u>
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	<u>4,206,665</u>	<u>-</u>	<u>2,101,665</u>	<u>2,105,000</u>	<u>2,105,000</u>
Total other long-term liabilities	<u>32,308,381</u>	<u>-</u>	<u>12,514,191</u>	<u>19,794,190</u>	<u>19,794,190</u>
Total long-term obligations	<u><u>\$ 129,800,179</u></u>	<u><u>\$ 3,006,294</u></u>	<u><u>\$ 16,228,773</u></u>	<u><u>\$ 116,577,700</u></u>	<u><u>\$ 23,035,682</u></u>

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	2020				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Revenue bonds payable					
Series 2018	\$ 77,520,000	\$ -	\$ -	\$ 77,520,000	\$ 1,295,000
Unamortized premiums	7,427,069	-	415,775	7,011,294	-
Note from direct borrowing	9,535,850	-	255,892	9,279,958	267,098
Capital lease obligations	768,373	3,726,168	813,995	3,680,546	686,132
	<u>96,054,409</u>	<u>3,726,168</u>	<u>1,485,662</u>	<u>97,491,798</u>	<u>2,248,230</u>
Total long-term debt					
Other long-term liabilities					
Medicare advanced and accelerated payments	-	28,101,716	-	28,101,716	5,429,550
Deferred social security payments	-	4,206,665	-	4,206,665	2,103,332
	<u>-</u>	<u>32,308,381</u>	<u>-</u>	<u>32,308,381</u>	<u>7,532,882</u>
Total other long-term liabilities					
	<u>-</u>	<u>32,308,381</u>	<u>-</u>	<u>32,308,381</u>	<u>7,532,882</u>
Total long-term obligations	<u>\$ 96,054,409</u>	<u>\$ 36,034,549</u>	<u>\$ 1,485,662</u>	<u>\$ 129,800,179</u>	<u>\$ 9,781,112</u>

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.

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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

Notes from Direct Borrowings

The Hospital's outstanding note from direct borrowing of approximately \$9,012,000 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 capital lease obligations as of December 31, 2021, are as follows:

Year Ending December 31,	Total to be Paid	Bonds		Direct Borrowings	
		Principal	Interest	Principal	Interest
2022	\$ 5,020,063	\$ 1,360,000	\$ 3,660,063	\$ 277,979	\$ 355,425
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
2027-2031	25,102,565	9,595,000	15,507,565	1,841,090	1,325,931
2032-2036	25,106,715	12,150,000	12,956,715	2,247,965	919,056
2037-2041	25,107,276	14,890,000	10,217,276	2,744,757	422,264
2042-2046	27,587,500	21,555,000	6,032,500	670,441	15,748
2047-2048	11,310,000	10,515,000	795,000	-	-
	<u>\$ 139,319,121</u>	<u>\$ 76,225,000</u>	<u>\$ 63,094,121</u>	<u>\$ 9,012,111</u>	<u>\$ 4,342,162</u>

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Capital Lease Obligations

The Hospital is obligated under leases for equipment that are accounted for as capital leases. The capital leases are secured by the related assets as collateral. Assets under capital leases totaled approximately \$5,314,000 and \$3,933,000, net of accumulated depreciation of approximately \$2,261,000 and \$835,000, at December 31, 2021 and 2020, respectively. The following is a schedule by year of future minimum lease payments under capital leases including interest at rates of 3.25 percent to 4.0 percent together with the present value of the future minimum lease payments as of December 31, 2021:

	<u>Capital Lease Obligations</u>
2022	\$ 1,689,231
2023	1,545,334
2024	1,412,534
2025	384,517
2026	215,875
	<u>5,247,491</u>
Less amount representing interest	(303,557)
Less current maturities	<u>(1,603,513)</u>
Noncurrent portion	<u><u>\$ 3,340,421</u></u>

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.

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During the year ended December 31, 2020, the Hospital received \$28,101,716 from these accelerated Medicare payment requests. As of December 31, 2021, approximately \$17,689,000 of accelerated Medicare payment requests are recorded as current liabilities under the caption estimated amounts due to third-party payors in the accompanying balance sheets and none as noncurrent liabilities. As of December 31, 2020, approximately \$5,429,000 and \$22,672,000, respectively, of accelerated Medicare payment requests are recorded as current liabilities under the caption estimated amounts due to third-party payors and noncurrent liabilities under the caption other long-term liabilities in the accompanying balance sheets.

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, 2020, the Hospital has deferred approximately \$4,207,000 of payroll taxes, of which approximately \$2,104,000 is recorded as a part of accrued expenses and approximately \$2,103,000 is recorded as part of other long-term liabilities in the accompanying balance sheets. 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.

Note 8: 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 \$2,784,000 and \$2,568,000 at December 31, 2021 and 2020, respectively. Assets of this trust are not included in the accompanying financial statements. Trust income received is reported as other nonoperating income.

Note 9: 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.

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Note 10: 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 2021 and 2020. 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 2021 and 2020 is summarized as follows:

	<u>2021</u>	<u>2020</u>
Balance, beginning of year	\$ 2,266,758	\$ 2,188,365
Claims incurred	15,487,207	13,025,543
Claims and expenses paid	<u>(15,565,600)</u>	<u>(12,947,150)</u>
Balance, end of year	<u><u>\$ 2,188,365</u></u>	<u><u>\$ 2,266,758</u></u>

Note 11: 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.

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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 30 percent and 29 percent of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2021 and 2020, 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 12: Charity Care

The costs of charity care provided under the Hospital's charity care policy were approximately \$2,176,000 and \$1,975,000 for 2021 and 2020, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

Note 13: 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 \$7,158,000 and \$6,392,000 in 2021 and 2020, 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.

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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 \$5,667,000 and \$5,516,000 during 2021 and 2020, 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 14: Operating Leases

Equipment Rental Expense

Future minimum lease payments for equipment under leases with an initial term greater than one year at December 31, 2021 are as follows:

	<u>Rental Expense</u>
2022	\$ 451,212

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Rental expense for equipment amounted to approximately \$762,000 and \$805,000 in 2021 and 2020, respectively.

Office Rental Income and Expense

The Hospital leases and rents office space to and from various third parties as a normal part of its operations. The leases to third parties are generally on a month-to-month basis. Future minimum operating lease expense at December 31, 2021 is as follows:

	Rental Expense
2022	\$ 473,511
2023	463,673
2024	402,166
2025	284,428
2026	227,073
Thereafter	<u>535,412</u>
	<u><u>\$ 2,386,263</u></u>

Rental income for office space amounted to approximately \$1,686,000 and \$1,261,000 in 2021 and 2020, respectively. Rental expense for office space amounted to approximately \$800,000 and \$860,000 in 2021 and 2020, respectively.

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

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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, 2021 and 2020, the Endowment Association provided approximately \$1,057,000 and \$3,220,000 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 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 \$126,000 and \$59,000 for these services during 2021 and 2020, respectively. LSC, LLC leased certain real estate from the Hospital for approximately \$1,134,000 and \$583,000 during 2021 and 2020, respectively. In addition, at December 31, 2021 and 2020, LSC, LLC owed the Hospital approximately \$204,000 and \$111,000, respectively, for items related to the agreements.

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 Paycheck Protection Program (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.

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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 tables present the fair value measurements of assets and liabilities 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, 2021 and 2020:

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, 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			
	<u>\$ 119,828,908</u>			

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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, 2020				
Corporate bonds	\$ 11,351,675	\$ -	\$ 11,351,675	\$ -
Repurchase agreements	90,736,845	90,736,845	-	-
Money market mutual funds	2,510,074	2,510,074	-	-
Equity securities	19,781,188	19,781,188	-	-
	124,379,782	\$ 113,028,107	\$ 11,351,675	\$ -
Accrued interest	172,494			
	<u>\$ 124,552,276</u>			

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.

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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 years ended December 31, 2021 and 2020, the Hospital received approximately \$1,971,000 and \$9,933,000, respectively, 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 and \$9,933,000, respectively, during the years ended December 31, 2021 and 2020, 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.

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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 Funds 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 years ended December 31, 2021 and 2020, the Hospital received approximately \$2,721,000 and \$4,840,000, respectively, 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 and \$4,840,000, respectively, during the years ended December 31, 2021 and 2020, 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.

Medicare Accelerated and Advanced Payment Program

During the year ended December 31, 2020, the Hospital received approximately \$28,102,000 of accelerated Medicare payments, which were provided for in the CARES Act. For greater details, see *Note 7*.

Payroll Tax Credits

The CARES Act provides for a deferral of payments of the employer portion of payroll tax incurred during the pandemic. The Hospital had total deferred employer payroll taxes of approximately \$2,105,000 and \$4,207,000 as of December 31, 2021 and 2020, respectively. For greater details, see *Note 7*.

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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, 2021 and 2020:

	December 31, 2021				
	The Lawrence Memorial Hospital	Lawrence Physicians, LLC	Reed Medical Group MDVIP	Eliminations	Combined
Assets					
Current assets	\$ 153,393	\$ 9,039	\$ 159	\$ -	\$ 162,591
Capital assets	236,904	-	-	-	236,904
Other assets	37,764	-	-	(9,039)	28,725
	<u>\$ 428,061</u>	<u>\$ 9,039</u>	<u>\$ 159</u>	<u>\$ (9,039)</u>	<u>\$ 428,220</u>
Total assets					
	<u>\$ 428,061</u>	<u>\$ 9,039</u>	<u>\$ 159</u>	<u>\$ (9,039)</u>	<u>\$ 428,220</u>
Liabilities					
Current liabilities	\$ 55,716	\$ -	\$ 170	\$ -	\$ 55,886
Noncurrent liabilities	93,542	-	-	-	93,542
	<u>149,258</u>	<u>-</u>	<u>170</u>	<u>-</u>	<u>149,428</u>
Total liabilities					
	<u>149,258</u>	<u>-</u>	<u>170</u>	<u>-</u>	<u>149,428</u>
Net Position					
Net investment in capital assets	147,380	-	-	-	147,380
Restricted - expendable for					
Capital acquisition	2,076	-	-	-	2,076
Specific operating activities	93	-	-	-	93
Unrestricted	129,254	9,039	(11)	(9,039)	129,243
	<u>278,803</u>	<u>9,039</u>	<u>(11)</u>	<u>(9,039)</u>	<u>278,792</u>
Total net position					
	<u>278,803</u>	<u>9,039</u>	<u>(11)</u>	<u>(9,039)</u>	<u>278,792</u>
Total liabilities and net position					
	<u>\$ 428,061</u>	<u>\$ 9,039</u>	<u>\$ 159</u>	<u>\$ (9,039)</u>	<u>\$ 428,220</u>

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	December 31, 2020				
	The Lawrence Memorial Hospital	Lawrence Physicians, LLC	Reed Medical Group MDVIP	Eliminations	Combined
Assets					
Current assets	\$ 146,425	\$ 6,374	\$ 115	\$ -	\$ 152,914
Capital assets	243,211	-	-	-	243,211
Other assets	38,621	-	-	(6,374)	32,247
	<u>\$ 428,257</u>	<u>\$ 6,374</u>	<u>\$ 115</u>	<u>\$ (6,374)</u>	<u>\$ 428,372</u>
Total assets					
Liabilities					
Current liabilities	\$ 42,681	\$ -	\$ 126	\$ -	\$ 42,807
Noncurrent liabilities	120,019	-	-	-	120,019
	<u>162,700</u>	<u>-</u>	<u>126</u>	<u>-</u>	<u>162,826</u>
Total liabilities					
Net Position					
Net investment in capital assets	152,968	-	-	-	152,968
Restricted - expendable for					
Specific operating activities	4	-	-	-	4
Unrestricted	112,585	6,374	(11)	(6,374)	112,574
	<u>265,557</u>	<u>6,374</u>	<u>(11)</u>	<u>(6,374)</u>	<u>265,546</u>
Total net position					
Total liabilities and net position	<u>\$ 428,257</u>	<u>\$ 6,374</u>	<u>\$ 115</u>	<u>\$ (6,374)</u>	<u>\$ 428,372</u>

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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, 2021 and 2020:

	Year Ended December 31, 2021				
	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	99,679	2,382	-	(96,046)	6,015
Total operating revenues	361,550	56,783	1,187	(96,046)	323,474
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	116,912	-	126	(62)	116,976
Total operating expenses	320,436	95,707	1,187	(96,046)	321,284
Operating Income (Loss)	41,114	(38,924)	-	-	2,190
Nonoperating Revenues	10,511	-	-	(2,665)	7,846
Revenues Over (Under) Expenses	51,625	(38,924)	-	(2,665)	10,036
Contributions Restricted for Acquisition of Capital Assets	3,210	-	-	-	3,210
Transfers from Hospital	(41,589)	41,589	-	-	-
Increase in Net Position	13,246	2,665	-	(2,665)	13,246
Beginning Net Position	265,557	6,374	(11)	(6,374)	265,546
Ending Net Position	\$ 278,803	\$ 9,039	\$ (11)	\$ (9,039)	\$ 278,792

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	Year Ended December 31, 2020				
	The Lawrence Memorial Hospital	Lawrence Physicians, LLC	Reed Medical Group MDVIP	Eliminations	Combined
Operating Revenues					
Net patient service revenue	\$ 238,063	\$ 42,847	\$ 1,007	\$ -	\$ 281,917
Other operating revenues	82,124	1,742	-	(79,132)	4,734
Total operating revenues	320,187	44,589	1,007	(79,132)	286,651
Operating Expenses					
Salaries and wages and employee benefits	153,208	-	875	(237)	153,846
Purchased services and professional fees	36,092	78,821	21	(78,842)	36,092
Other operating expenses	103,577	-	111	(53)	103,635
Total operating expenses	292,877	78,821	1,007	(79,132)	293,573
Operating Income (Loss)	27,310	(34,232)	-	-	(6,922)
Nonoperating Revenues	10,699	-	-	280	10,979
Revenues Over (Under) Expenses	38,009	(34,232)	-	280	4,057
Contributions Restricted for Acquisition of Capital Assets	3,220	-	-	-	3,220
Transfers from Hospital	(33,952)	33,952	-	-	-
Increase (Decrease) in Net Position	7,277	(280)	-	280	7,277
Beginning Net Position	258,280	6,654	(11)	(6,654)	258,269
Ending Net Position	\$ 265,557	\$ 6,374	\$ (11)	\$ (6,374)	\$ 265,546

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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, 2021 and 2020:

	Year Ended December 31, 2021				
	The Lawrence Memorial Hospital	Lawrence Physicians, LLC	Reed Medical Group MDVIP	Eliminations	Combined
Net Cash Provided by (Used in) Operating Activities	\$ 36,205	\$ (41,589)	\$ 18	\$ -	\$ (5,366)
Net Cash Provided by (Used in) Noncapital Financing Activities	(36,021)	41,589	-	-	5,568
Net Cash Used in Capital and Related Financing Activities	(10,055)	-	-	-	(10,055)
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	<u>\$ 95,567</u>	<u>\$ -</u>	<u>\$ 82</u>	<u>\$ -</u>	<u>\$ 95,649</u>

	Year Ended December 31, 2020				
	The Lawrence Memorial Hospital	Lawrence Physicians, LLC	Reed Medical Group MDVIP	Eliminations	Combined
Net Cash Provided by (Used in) Operating Activities	\$ 65,293	\$ (33,952)	\$ (18)	\$ -	\$ 31,323
Net Cash Provided by (Used in) Noncapital Financing Activities	(18,692)	33,952	-	-	15,260
Net Cash Used in Capital and Related Financing Activities	(47,512)	-	-	-	(47,512)
Net Cash Provided by Investing Activities	38,554	-	-	-	38,554
Change in Cash and Cash Equivalents	37,643	-	(18)	-	37,625
Cash and Cash Equivalents, Beginning of Year	56,005	-	82	-	56,087
Cash and Cash Equivalents, End of Year	<u>\$ 93,648</u>	<u>\$ -</u>	<u>\$ 64</u>	<u>\$ -</u>	<u>\$ 93,712</u>