

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
Independent Auditor's Report and Financial Statements
December 31, 2018 and 2017

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A Component Unit of the City of Lawrence, Kansas
December 31, 2018 and 2017

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Independent Auditor's Report

Board of Trustees
The Lawrence Memorial Hospital
Lawrence, Kansas

We have audited the accompanying financial statements of The Lawrence Memorial Hospital (Hospital) and its discretely presented component unit (The Lawrence Memorial Hospital Endowment Association), collectively a component unit of the City of Lawrence, Kansas, as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of The Lawrence Memorial Hospital Endowment Association, which represent 100 percent of the assets, net assets and revenues of the discretely presented component unit. 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 Lawrence Memorial Hospital Endowment Association, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the *Kansas Municipal Audit and Accounting Guide*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, based on our audit and the report of other auditors, the 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 unit as of December 31, 2018 and 2017, 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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

BKD, LLP

Kansas City, Missouri
April 17, 2019

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
Management's Discussion and Analysis
Years Ended December 31, 2018 and 2017

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, 2018 and 2017. 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 unit, The Lawrence Memorial Hospital Endowment Association. Dollar amounts are in thousands.

Effective January 1, 2015, the Hospital transferred its physician practices to Lawrence Physicians, LLC (LP LLC), of which the Hospital is the sole member. LP LLC is a disregarded entity for tax purposes and is accounted for as a blended component unit. See *Note 18* for further information.

Financial Highlights

- Cash and investments totaled \$182,120 on December 31, 2018, an increase of \$66,424 or 57.4 percent from the 2017 balance due to funds available in the Series 2018 Bond Project fund. Cash and investments on December 31, 2017 totaled \$115,696, an increase of \$10,524 or 10.0 percent over the prior year ending balance.
- The Hospital's net position increased in each of the past two years with a \$14,942 or 6.0 percent increase in 2018 and \$18,968 or 8.2 percent increase in 2017.
- The Hospital reported operating income in 2018 of \$11,753 and in 2017 of \$14,325. Operating income decreased in 2018 by \$2,572 or 18.0 percent when compared to the prior year. Annual operating income increased in 2017 by \$631 or 4.6 percent over the 2016 operating income results.
- Investment income in 2018 of \$1,383 decreased by \$2,133 or 60.7 percent when compared to investment earnings of \$3,516 in 2017 which increased \$30 or 0.9 percent over 2016. The decrease in 2018 was due to unrealized losses due to market declines experienced in December 2018.

Using This Annual Report

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

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

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

These two statements report the Hospital's net position and changes during the period. The Hospital's total net position—the difference between assets, liabilities and deferred outflows of resources—is one measure of the Hospital's financial health or financial position. Over time, increases in the Hospital's net position are one indicator that its financial health is improving. Other nonfinancial factors, such as changes in the Hospital's patient base, changes in medical staff, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Hospital.

The Statement of Cash Flows

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. This statement provides the user an understanding of the various sources and uses of cash for the Hospital.

Net Position

The Hospital's net position is the difference between its assets, liabilities and deferred outflows of resources reported in the Balance Sheet. The Hospital's net position has shown consistent increases over time as illustrated in Table 1 below. The increases were attributable to positive financial operating results for the respective years.

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

	2018	2017	2016
Assets			
Cash and cash equivalents	\$ 47,643	\$ 42,702	\$ 38,206
Patient accounts receivable, net	38,197	37,366	31,739
Other current assets	17,712	17,453	15,217
Other long-term investments and internally designated	62,515	71,955	65,925
Capital assets, net	156,409	112,118	110,194
Held by trustee for debt service and capital acquisitions	69,696	-	-
Other noncurrent assets	840	823	713
	<u>393,012</u>	<u>282,417</u>	<u>261,994</u>
Total assets	<u>393,012</u>	<u>282,417</u>	<u>261,994</u>
Deferred Outflows of Resources			
Deferred amount on refunding	-	92	112
	<u>-</u>	<u>92</u>	<u>112</u>
Total assets and deferred outflows of resources	<u>\$ 393,012</u>	<u>\$ 282,509</u>	<u>\$ 262,106</u>
Liabilities			
Long-term debt	\$ 95,668	\$ 7,795	\$ 9,640
Other current and noncurrent liabilities	33,138	25,450	22,170
	<u>128,806</u>	<u>33,245</u>	<u>31,810</u>
Total liabilities	<u>128,806</u>	<u>33,245</u>	<u>31,810</u>
Net Position			
Net investment in capital assets	131,080	101,907	98,169
Restricted - expendable for			
Debt service	184	924	912
Capital acquisition	3,992	-	-
Specific operating activities	15	22	-
Unrestricted	128,935	146,411	131,215
	<u>264,206</u>	<u>249,264</u>	<u>230,296</u>
Total net position	<u>264,206</u>	<u>249,264</u>	<u>230,296</u>
Total liabilities and net position	<u>\$ 393,012</u>	<u>\$ 282,509</u>	<u>\$ 262,106</u>

Cash and cash equivalents of \$47,643 increased \$4,941 (11.6 percent) in 2018 when compared to the balance of \$42,702 on December 31, 2017. The December 31, 2017 balance denoted an increase of \$4,496 (11.8 percent) when compared to the balance of \$38,206 on December 31, 2016.

Net patient accounts receivable increased by \$831 (2.2 percent) at December 31, 2018 compared to December 31, 2017. Net patient accounts receivable increased by \$5,627 (17.7 percent) at December 31, 2017 compared to December 31, 2016.

Noncurrent cash and investments increased \$60,256 (83.7 percent) compared to the prior year end balance of \$71,955 on December 31, 2017. The increase in noncurrent cash and investments resulted from the issuance of the 2018 Series revenue bonds, which will be used for the construction and development of the LMH Health West facility. Noncurrent cash and investments of \$71,955 on December 31, 2017 increased by \$6,030 (9.1 percent) when compared to the balance on December 31, 2016.

Net capital assets of \$156,409 at December 31, 2018 increased by \$44,291 or 39.5 percent when compared to the balance at the end of 2017. Net capital assets of \$112,118 at December 31, 2017 increased by \$1,924 or 1.7 percent of the balance at December 31, 2016.

In May 2018, the Hospital issued Series 2018 bonds resulting in a deposit of \$76,920 to the project fund. On December 31, 2018, a total of \$71,962 was held by the bond trustee for debt service and capital acquisitions authorized in the bond documents. The balance of \$71,962 compares to the balances on hand on December 31, 2017 and 2016 of \$1,039 and \$1,040, respectively. The majority of the project funds will be expended to construct the LMH Health West campus as described in the bond issuance documents.

Long-term debt of \$95,668 increased by \$87,873 due to issuing the Series 2018 bonds and other debt obligations incurred for a medical building acquisition and new capital equipment leases. Long-term debt decreased \$1,845 or 19.1 percent in 2017 due to the lower scheduled debt principal payments as a result of retiring the Series 2006 bonds in 2016.

Revenues Over Expenses and Changes in the Hospital's Net Position

The Hospital's Revenues over Expenses for 2018 was \$11,757 for a net margin of 4.1 percent. The Revenues over Expenses is the principle factor in the increase in net position of \$14,942, as shown in Table 2. The Hospital's increase in net position from 2017 to 2016 was \$18,968.

Table 2: Operating Results and Changes in Net Position

	2018	2017	2016
Operating Revenues			
Net patient service revenue	\$ 277,964	\$ 250,730	\$ 221,803
Other operating revenues	3,644	2,275	2,306
Total operating revenues	<u>281,608</u>	<u>253,005</u>	<u>224,109</u>
Operating Expenses			
Salaries and wages and employee benefits	139,117	118,136	105,641
Purchased services and professional fees	37,636	33,808	29,125
Depreciation and amortization	8,881	11,342	10,609
Other operating expenses	84,221	75,394	65,040
Total operating expenses	<u>269,855</u>	<u>238,680</u>	<u>210,415</u>
Operating Income	<u>11,753</u>	<u>14,325</u>	<u>13,694</u>
Nonoperating Revenues (Expenses)			
Investment income	1,383	3,516	3,486
Contributions and other	122	105	89
Interest expense	(1,880)	(258)	(1,177)
Gain on investment in equity investees	379	372	483
Total nonoperating revenues	<u>4</u>	<u>3,735</u>	<u>2,881</u>
Revenues Over Expenses	11,757	18,060	16,575
Contributions Restricted for Acquisition of Capital Assets	<u>3,185</u>	<u>908</u>	<u>1,857</u>
Increase in Net Position	<u>\$ 14,942</u>	<u>\$ 18,968</u>	<u>\$ 18,432</u>

Operating Income

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.

For 2018, operating income was \$11,753 compared to \$14,325 in 2017, a decrease of \$2,572 or 18.0 percent change from prior year results. Net patient service revenue of \$277,964 increased by \$27,234 (10.9 percent) when compared to net patient service revenue generated in the prior year.

Hospital inpatient gross revenue increased 8.8 percent over the prior year. Adult, pediatric and rehabilitation inpatient days of 25,752 increased by 1,379 or 5.7 percent when compared to inpatient days in 2017 of 24,373. Inpatient surgery cases grew by 7.2 percent in 2018 due to successful recruiting efforts to bring new surgeons to the community to perform orthopedic, spine, and plastic surgeries. Many orthopedic and spine surgeries require the use of surgical implants contributing to the 11.2 percent increase in inpatient revenue from medical supplies and implants in 2018. Laboratory inpatient revenue grew by 14.9 percent in 2018 and Pharmacy revenues increased 8.4 percent due to the higher inpatient census as these services are typically utilized by all inpatients.

Hospital outpatient ancillary services gross revenue grew by 13.5 percent in 2018 due to increased surgical volumes, pharmaceutical drug utilization and growth in physical therapy services. Outpatient surgery cases of 4,477 were 13.1 percent greater than the number of cases experienced in 2017 resulting in higher revenue for the surgery, recovery room and anesthesia departments. Pharmacy outpatient drug utilization, particularly for intravenous infusion and oncology purposes, contributed to an increase of 21.9 percent over the prior year generating a favorable revenue variance of more than \$28,572. Physical therapy services increased significantly due to affiliating with and hiring the physical therapy staff of OrthoKansas. The new therapy clinic at the Sixth and Maine Street location in Lawrence provided 50,016 outpatient physical therapy treatments in 2018 contributing to the 57.2 percent increase in overall physical therapy service revenues from all outpatient locations. Emergency department revenues increased 9.3 percent when compared to the prior year due to increased patient visits.

Physician division revenue experienced overall gross revenue growth of \$34,213 or 33.6 percent compared to 2017. In January 2018, the OrthoKansas orthopedic clinic physicians, therapists, and other providers along with support staff became Hospital employees to become an integral piece of the musculoskeletal service line offered by the Hospital. In addition to the OrthoKansas physicians hired in January, the physician division recruited a record number of new providers in 2018 including twelve physicians with commencement dates in 2018 and another three physicians slated to start in 2019. New physicians were hired to provide additional orthopedic surgery, oncology, spine surgery, gastroenterology, plastic surgery, endocrinology and primary care services.

In February 2018, the Hospital purchased the Lawrence Medical Plaza, which currently houses the Lawrence Surgery Center, and several independent physician clinics as well as other medical related businesses. Located near the Hospital at Sixth and Maine Streets in Lawrence, this building will allow for expansion of outpatient services. The acquisition increased rental income by more than \$900,000 per year from outside sources.

Total operating expenses increased \$31,175 or 13.1 percent in 2018 compared to the prior year. The largest increase was in Salaries and wages and employee benefits which increased by 17.8 percent over 2017 expenses. The OrthoKansas affiliation added approximately sixty-five new associates to the Hospital payroll on January 1, 2018. Those new positions along with a full year of employment of the large internal medicine group associates hired in July 2017 contributed significantly to the higher employment cost. Physician recruitment activities and employee health insurance costs also impacted the variance from the prior year. Purchased services and professional fees increased \$3,828 or 11.3 percent over the prior year due in part to increased physician fees paid for anesthesia, hospitalist and emergency

department services. Contract labor was utilized to fill staffing needs in critical areas including sterile processing, surgery compliance management and invasive cardiology. In 2018, the Hospital engaged industry experts to evaluate the methodology and asset values used to calculate depreciation expense for the Hospital. As a result of implementing recommended changes, overall depreciation expense for 2018 decreased 21.7 percent compared to expense recorded in 2017. Other operating expenses increased 11.7 percent when compared to the prior year and includes increased costs of pharmaceuticals, surgical implants, and software maintenance expenses.

The Hospital ended 2017 with operating income of \$14,325 an increase of \$631 (4.6 percent) when compared to 2016 operating income.

Net patient service revenue of \$250,730 increased \$28,927 or 13.0 percent in 2017 compared to net patient service revenue achieved in the prior year.

Hospital inpatient revenue increased by 9.9 percent in 2017 despite relatively small increases in inpatient discharges and patient days. Adult, pediatric and rehabilitation discharges increased 0.8 percent while inpatient days increased 0.4 percent. Revenue growth in 2017 was driven by higher intensity services provided to inpatients due to successful recruitment of specialty physicians over the past two years. Inpatient surgical volumes increased by 13.2 percent due to a full year of spine surgery cases and the employment of urology and plastic surgeons in addition to the volumes generated by the orthopedic surgeons. Inpatient cardiac catheterization volumes increased by 16.2 percent. These higher intensity surgical services often utilize costly implantable devices contributing to higher revenues for medical supplies and implants. Inpatient laboratory services experienced an increase of 8.0 percent over the prior year also due to increase in surgical cases and other inpatient activity.

In 2017, the Hospital experienced growth in outpatient revenues in key Hospital departments and in the physician clinics. Oncology and hematology infusion treatments using state of the art drug therapies were significant contributors to the total outpatient revenue increase. Pharmacy and IV drug revenue increased by 17.1 percent over the prior year and outpatient laboratory services increased by 14.3 percent in 2017. Imaging services for CT Scan, MRI and Nuclear Medicine increased 14.8 percent, 12.5 percent and 21.1 percent, respectively, over revenues generated in 2016. Physician practice revenues increased by 21.1 percent in 2017 over revenues generated in the prior year. In January 2017, the Hospital employed two urologists and a plastic surgeon, all with long-time established practices in Lawrence. In July 2017, the Hospital hired the physicians and other employees of a large internal medicine practice adding five established internal medicine physicians to the physician division. Family practice volumes and revenue continued to increase due to new physician and mid-level provider recruitment and expanded hours of service at many of the clinics.

Total operating expenses in 2017 increased by 13.4 percent when compared to the prior year expenses. The largest increase was for salaries and wages and employee benefits which increased 11.8 percent over the prior year primarily due to the affiliation with the new physician practices. Professional fees and purchased services increased due to higher payments for contracted physician and administrative services as well as contract labor utilized in 2017. Other operating expenses increased at a level consistent with the prior year increases and were the result of increased cost of pharmacy and medical implant supplies, and increases for software and equipment maintenance. Supply expenses increased 17.7 percent over the prior year and repairs and maintenance expenses increased by 18.0 percent.

Nonoperating Revenues and Expenses

Non-operating revenues and expenses consist primarily of investment earnings on its 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.

Total Non-operating Revenues (Expenses) for 2018 decreased \$3,731 or 99.9 percent compared to the 2017 increase of \$854 or 29.6 percent. Investment income in 2018 decreased by \$2,133 or 60.7 percent due to recording unrealized losses on investments in marketable securities. Investment income in 2017 increased by \$30 or 0.9 percent over the prior year. Interest expense increased \$1,622 or 628.7 percent in 2018 due to interest related to the Series 2018 bonds and other capital asset financing activities. Interest expense decreased \$919 or 78.1 percent in 2017 due to paying off the Series 2006 bonds in 2016.

Capital Gifts

The Hospital received contributions restricted for capital assets of \$3,185 from The Lawrence Memorial Hospital Endowment Association during 2018 compared to \$908 in 2017 and \$1,857 in 2016. The funds 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. These contributions were expended and are reflected in unrestricted net position as of December 31, 2018 and 2017.

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in operating income and nonoperating revenues and expenses for 2018 and 2017, discussed earlier.

Capital Assets

Net Capital Assets of \$156,409 on December 31, 2018 showed an increase of \$44,291 or 39.5 percent over capital assets on the books at the end of 2017 due to significant acquisitions during the year. Capital assets, net of accumulated depreciation are detailed in *Note 6* to the financial statements.

In January 2018, as part of the affiliation agreement with OrthoKansas, the Hospital acquired the existing assets of that practice. In February 2018, the Hospital closed on the purchase of the Lawrence Medical Plaza at Sixth and Maine Streets housing the Lawrence Surgery Center, the OrthoKansas clinic, and numerous other physician clinics and medical related businesses. In March 2018, as part of the internal medicine affiliation agreement from 2017, the Hospital purchased the medical office building at 347 Maine Street, across from the main hospital campus which houses the Hospital owned Reed Internal Medicine clinic.

In mid-2018, the Hospital acquired land in west Lawrence and began construction on the new LMH Health West campus expending approximately \$17 million for land and other construction costs related to this project by the end of the year. Other notable additions for the year included a main campus parking lot expansion, new three dimensional mammography machines, computerized intravenous medication pumps, upgrades to the Hospital's nurse call system, and significant investments in information technology and equipment throughout the organization.

The Hospital ended 2017 with \$112,118 invested in capital assets, net of accumulated depreciation as detailed in *Note 6* to the financial statements, and increase of \$1,924 or 1.7 percent compared to the balance at the end of 2016. During 2017, construction ended to build out and furnish two additional surgical suites in the surgery department to accommodate the increased need for surgical space due to the addition of newly employed surgeons. Renovations were completed in the emergency department and to the Fourth Street Medical Office Building where space was created for a multi-specialty physician clinic. The Hospital acquired land and buildings in close proximity to the main Hospital campus to allow space for new parking development and room for future expansion. The Hospital acquired new computer technology, hospital beds and other clinical equipment for patient rooms and ancillary service departments to help assure quality patient care.

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. A long-term note payable of \$10 million was signed to finance the purchases of the Sixth and Maine Street medical office building. The Hospital also utilized capital lease financing to acquire imaging technology for the operating rooms and the Tonganoxie physician clinic. At the end of 2017, the Hospital had \$9,640 in revenue bonds outstanding compared to \$11,465 in 2016.

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, 2018 and 2017

Assets and Deferred Outflows of Resources

	<u>2018</u>	<u>2017</u>
Current Assets		
Cash and cash equivalents	\$ 47,643,493	\$ 42,701,673
Current portion of assets held by trustee	2,265,928	1,038,838
Patient accounts receivable, net of allowance for doubtful accounts; 2018 – \$16,074,174, 2017 – \$14,875,041	38,197,017	37,365,564
Due from third-party payers	2,336,386	2,120,285
Accounts receivable – other	768,190	440,871
Supplies	4,309,694	3,830,799
Prepaid expenses and other	8,032,657	10,023,502
	<u>103,553,365</u>	<u>97,521,532</u>
Noncurrent Cash and Investments		
Held by trustee for debt service and capital acquisitions	71,962,007	1,038,838
Internally designated for capital improvements	-	1,494,611
Other long-term investments	62,514,519	70,460,392
	<u>134,476,526</u>	<u>72,993,841</u>
Less amount required to meet current obligations	2,265,928	1,038,838
	<u>132,210,598</u>	<u>71,955,003</u>
Capital Assets, net of accumulated depreciation	<u>156,408,581</u>	<u>112,118,079</u>
Other Assets	<u>840,401</u>	<u>822,647</u>
Total assets	<u>393,012,945</u>	<u>282,417,261</u>
Deferred Outflows of Resources		
Deferred amount on refunding	-	91,530
Total assets and deferred outflows of resources	<u>\$ 393,012,945</u>	<u>\$ 282,508,791</u>

Liabilities and Net Position

	<u>2018</u>	<u>2017</u>
Current Liabilities		
Current maturities of long-term debt	\$ 386,592	\$ 1,845,000
Accounts payable	11,946,039	8,994,154
Accrued expenses	16,699,249	13,332,545
Accrued interest payable	2,265,928	114,400
Retirement plan obligation	840,931	427,126
Due to third-party payers	1,000,098	736,059
	<hr/>	<hr/>
Total current liabilities	33,138,837	25,449,284
	<hr/>	<hr/>
Long-term Debt	95,667,817	7,795,000
	<hr/>	<hr/>
Total liabilities	128,806,654	33,244,284
	<hr/>	<hr/>
Net Position		
Net investment in capital assets	131,079,894	101,907,039
Restricted – expendable for		
Debt service	183,769	924,438
Capital acquisition	3,992,216	-
Specific operating activities	15,066	22,066
Unrestricted	128,935,346	146,410,964
	<hr/>	<hr/>
Total net position	264,206,291	249,264,507
	<hr/>	<hr/>
	<hr/>	<hr/>
Total liabilities and net position	\$ 393,012,945	\$ 282,508,791
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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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2018 – \$16,736,400, 2017 – \$17,353,100	\$ 277,963,624	\$ 250,729,709
Other	3,644,606	2,275,349
Total operating revenues	<u>281,608,230</u>	<u>253,005,058</u>
Operating Expenses		
Salaries and wages	115,100,023	98,983,836
Employee benefits	24,017,178	19,152,128
Professional fees	21,286,795	19,357,205
Purchased services	16,349,559	14,451,148
Supplies	59,602,196	53,469,540
Utilities	3,198,659	2,969,193
Miscellaneous expenses	1,976,189	2,032,565
Licenses, taxes and Kansas provider assessment	1,349,878	1,141,311
Repairs and maintenance	14,625,367	12,739,607
Depreciation	8,881,314	11,342,299
Loss on sale or disposal of property and equipment	213,858	277,017
Insurance	1,093,571	1,000,412
Other capital costs	2,160,809	1,764,352
Total operating expenses	<u>269,855,396</u>	<u>238,680,613</u>
Operating Income	<u>11,752,834</u>	<u>14,324,445</u>
Nonoperating Revenues (Expenses)		
Investment income	1,383,548	3,516,877
Contributions and other	122,131	104,908
Interest expense	(1,879,701)	(257,524)
Gain on investment in equity investees	378,620	371,769
Total nonoperating revenues, net	<u>4,598</u>	<u>3,736,030</u>
Revenues Over Expenses	11,757,432	18,060,475
Contributions Restricted for Acquisition of Capital Assets	<u>3,184,352</u>	<u>908,127</u>
Increase in Net Position	14,941,784	18,968,602
Net Position, Beginning of Year	<u>249,264,507</u>	<u>230,295,905</u>
Net Position, End of Year	<u>\$ 264,206,291</u>	<u>\$ 249,264,507</u>

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 277,180,109	\$ 244,754,799
Payments to suppliers and contractors	(119,367,002)	(109,241,102)
Payments to employees	(135,336,692)	(116,788,744)
Other receipts, net	<u>3,317,287</u>	<u>2,614,615</u>
Net cash provided by operating activities	<u>25,793,702</u>	<u>21,339,568</u>
Noncapital Financing Activities		
Noncapital gifts	<u>122,131</u>	<u>104,908</u>
Net cash provided by noncapital financing activities	<u>122,131</u>	<u>104,908</u>
Capital and Related Financing Activities		
Proceeds from issuance of long-term debt	95,616,929	-
Principal paid on long-term debt	(10,160,858)	(1,825,000)
Interest paid on long-term debt	(748,116)	(250,642)
Purchase of capital assets	(49,137,147)	(13,582,081)
Capital gifts	3,184,352	908,127
Proceeds from sale of capital assets	<u>9,098</u>	<u>49,547</u>
Net cash provided by (used in) capital and related financing activities	<u>38,764,258</u>	<u>(14,700,049)</u>
Investing Activities		
Interest and dividends on investments	2,345,661	2,629,800
Purchase of investments, net	(45,129,100)	(5,143,450)
Investments in affiliate	-	(250,000)
Distributions from affiliates	<u>360,866</u>	<u>512,500</u>
Net cash used in investing activities	<u>(42,422,573)</u>	<u>(2,251,150)</u>
Increase in Cash and Cash Equivalents	22,257,518	4,493,277
Cash and Cash Equivalents, Beginning of Year	<u>43,740,009</u>	<u>39,246,732</u>
Cash and Cash Equivalents, End of Year	<u>\$ 65,997,527</u>	<u>\$ 43,740,009</u>
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents in current assets	\$ 47,643,493	\$ 42,701,673
Cash and cash equivalents in noncurrent cash and investments	<u>18,354,034</u>	<u>1,038,336</u>
	<u>\$ 65,997,527</u>	<u>\$ 43,740,009</u>

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
Statements of Cash Flows (Continued)
Years Ended December 31, 2018 and 2017

	2018	2017
Reconciliation of Net Operating Revenues to Net Cash Provided by Operating Activities		
Operating income	\$ 11,752,834	\$ 14,324,445
Depreciation	8,881,314	11,342,299
Loss on sale or disposal of property and equipment	213,858	277,017
Changes in operating assets and liabilities		
Patient accounts receivable, net	(831,453)	(5,626,365)
Other accounts receivable	(327,319)	339,266
Estimated amounts due from and to third-party payers	47,938	(348,545)
Accounts payable and accrued expenses	4,544,580	3,357,039
Supplies	(478,895)	219,713
Prepaid expenses	1,990,845	(2,545,301)
	\$ 25,793,702	\$ 21,339,568
Net cash provided by operating activities		
Supplemental Cash Flows Information		
Capital asset acquisitions included in accounts payable	\$ 2,758,854	\$ 571,040
Capital assets acquired through capital lease obligation	958,338	-
Increase (decrease) in fair value of investments	(1,146,482)	945,506

The Lawrence Memorial Hospital Endowment Association
A Component Unit of The Lawrence Memorial Hospital
Statement of Financial Position
December 31, 2018

Assets

	2018
Current Assets	
Cash and cash equivalents	\$ 665,170
Pledges receivable – current portion	532,826
Total current assets	1,197,996
Noncurrent Assets	
Pledges receivable, net of current portion	408,573
Investments	10,353,082
Total assets	\$ 11,959,651

Liabilities and Net Assets

Current Liabilities	
Accounts payable	\$ 4,565
Liability to beneficiaries of split-interest agreements	2,276
Total current liabilities	6,841
Net Assets	
Without donor restrictions	
Undesignated	575,283
Designated by the board for endowment	5,500,000
	6,075,283
With donor restrictions	
Purpose restrictions	4,289,011
Perpetual in nature	1,588,516
	5,877,527
Total net assets	11,952,810
Total liabilities and net assets	\$ 11,959,651

The Lawrence Memorial Hospital Endowment Association
A Component Unit of The Lawrence Memorial Hospital
Statement of Activities
Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Gains			
Special event revenue	\$ 37,115	\$ 439,117	\$ 476,232
Contributions	85,376	2,684,049	2,769,425
In-kind contributions	730,360	124,195	854,555
Interest and dividend income	160,220	179,048	339,268
Realized and unrealized gains (losses), net	<u>(562,744)</u>	<u>(628,874)</u>	<u>(1,191,618)</u>
Total support and revenue	450,327	2,797,535	3,247,862
Amount released from restrictions	<u>4,023,548</u>	<u>(4,023,548)</u>	<u>-</u>
Total support, revenue and reclassifications	<u>4,473,875</u>	<u>(1,226,013)</u>	<u>3,247,862</u>
Expenses			
Program	3,942,716	-	3,942,716
General and administrative	256,308	-	256,308
Fundraising	381,194	-	381,194
Total expenses	<u>4,580,218</u>	<u>-</u>	<u>4,580,218</u>
Change in Net Assets	(106,343)	(1,226,013)	(1,332,356)
Net Assets, Beginning of Year	<u>6,181,626</u>	<u>7,103,540</u>	<u>13,285,166</u>
Net Assets, End of Year	<u>\$ 6,075,283</u>	<u>\$ 5,877,527</u>	<u>\$ 11,952,810</u>

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
Notes to Financial Statements
December 31, 2018 and 2017

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

Nature of Operations and Reporting Entity

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.

Effective January 1, 2015, the Hospital transferred its physician practices to Lawrence Physicians, LLC (LP 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.

Effective June 2, 2017, a nonprofit nonstock corporation, Reed Medical Group MDVIP Affiliate, Corporation (MDVIP), was formed, the sole member of the corporation being The Lawrence Memorial Hospital. 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 14* for additional information about the Endowment Association.

Basis of Accounting and Presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, liabilities and deferred inflows and outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place. Operating revenues and expenses include exchange transactions. Investment income and interest on capital assets-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.

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
Notes to Financial Statements
December 31, 2018 and 2017

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 maturities at the date of purchase of three months or less, to be cash equivalents. Cash equivalents consist primarily of repurchase agreements and money market mutual funds.

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; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters, other than employee health care claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

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.

Investments and Investment Income

Investment in all debt obligations and equity securities with readily determinable fair values are carried at fair value. Fair value is determined using quoted market prices. Investments in nonnegotiable certificates of deposit are carried at amortized cost.

Investment income includes dividends and interest and the net change in the fair value of investments carried at fair value.

Noncurrent Cash and Investments

Noncurrent cash and investments include (1) assets held by trustees under bond indenture agreements, (2) internally designated unrestricted assets set aside by the Board of Trustees for future capital improvements over which the Board retains control and may, at its discretion, subsequently use for other 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 U.S. agencies obligations, U.S. Treasury obligations, corporate bonds, and money market mutual funds.

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
Notes to Financial Statements
December 31, 2018 and 2017

Patient Accounts Receivable

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, 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

All supply inventories are stated at the lower of cost, determined using the first-in, first-out method, or market.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset 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	15 – 20 years
Buildings and leasehold improvements	20 – 40 years
Equipment	3 – 7 years

During 2018, the Hospital elected to change its depreciation methodology to reflect the most current expected economic useful lives of the Hospital's infrastructure and equipment. The election was made to better match the Hospital's usage of these fixed assets with the revenues generated over their economic useful lives. The effect of the change during 2018 was a decrease in depreciation expense and an increase in change in net assets of \$3.2 million.

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
Notes to Financial Statements
December 31, 2018 and 2017

The Hospital capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. Total interest capitalized and incurred was:

	2018	2017
Total interest expense incurred on borrowings for project	\$ 1,547,687	\$ -
Interest income from investment of proceeds of borrowings for project	(436,214)	-
Net interest cost capitalized	\$ 1,111,473	\$ -
Interest capitalized	\$ 1,111,473	\$ -
Interest charged to expense	1,879,701	257,524
Total interest incurred	\$ 2,991,174	\$ 257,524

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.

Net Position

Net position of the Hospital is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net position is noncapital assets that must be used for a particular purpose as specified by creditors 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 and for specific operating activities. Unrestricted net position is remaining assets less remaining liabilities that do not meet the definition of net investment in capital assets or restricted expendable.

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
Notes to Financial Statements
December 31, 2018 and 2017

Net Patient Service Revenue

The Hospital has agreements with third-party payers 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 payers and others for services rendered and include 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 \$15,460,000 and \$13,750,000 in 2018 and 2017, respectively.

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.

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records (EHR) technology. Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. Payments under both programs are contingent on the Hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Hospital recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

In 2018 and 2017, the Hospital completed the requirements under the Medicare program. The Hospital has recorded revenue of approximately \$10,000 and \$171,000 in 2018 and 2017, respectively, which is included in other revenue within operating revenues in the statements of revenues, expenses and changes in net position.

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
Notes to Financial Statements
December 31, 2018 and 2017

Note 2: Net Patient Service Revenue

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

- ◆ **Medicare.** Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Administrative Contractor.
- ◆ **Medicaid.** Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a prospective reimbursement system.

Approximately 29 percent and 28 percent of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2018 and 2017, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Note 3: 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, 2018 and 2017, none of the Hospital's bank deposit balances of \$15,228,885 and \$17,101,767, 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, bank repurchase agreements, corporate bonds and equity securities.

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
Notes to Financial Statements
December 31, 2018 and 2017

At December 31, 2018 and 2017, the Hospital had the following investments and maturities:

Type	December 31, 2018		
	Fair Value	Maturities in Years	
		Less Than 1	1 – 5
U.S. agencies obligations	\$ 7,841,472	\$ -	\$ 7,841,472
Corporate bonds	23,346,759	11,924,479	11,422,280
Repurchase agreements	50,601,021	50,601,021	-
U.S. Treasury obligations	53,455,821	35,823,950	17,631,871
Money market mutual funds	18,354,034	18,354,034	-
Accrued interest	628,210	628,210	-
	<u>154,227,317</u>	<u>\$ 117,331,694</u>	<u>\$ 36,895,623</u>
Equity securities	<u>15,702,509</u>		
	<u>\$ 169,929,826</u>		

Type	December 31, 2017		
	Fair Value	Maturities in Years	
		Less Than 1	1 – 5
U.S. agencies obligations	\$ 7,882,448	\$ -	\$ 7,882,448
Corporate bonds	30,734,399	6,982,866	23,751,533
Repurchase agreements	44,954,532	44,954,532	-
Money market mutual funds	1,038,336	1,038,336	-
Accrued interest	443,841	443,841	-
	<u>85,053,556</u>	<u>\$ 53,419,575</u>	<u>\$ 31,633,981</u>
Equity securities	<u>16,147,828</u>		
	<u>\$ 101,201,384</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, 2018 and 2017

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, 2018 and 2017, ratings of the Hospital's investments in U.S. agencies obligations not directly guaranteed by the U.S. government, 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, 2018 and 2017 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, 2018 and 2017, 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:

	<u>2018</u>	<u>2017</u>
Federal National Mortgage Association	5%	8%
Bank of Montreal	3%	5%
Morgan Stanley	3%	6%
Citigroup	6%	6%
Repurchase agreements with Commerce Bank, n.a.	30%	45%
Fidelity Treasury Fund	11%	1%

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
Notes to Financial Statements
December 31, 2018 and 2017

Summary of Carrying Values

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

	<u>2018</u>	<u>2017</u>
Carrying value		
Deposits ⁽¹⁾	\$ 12,190,193	\$ 14,494,130
Investments	<u>169,929,826</u>	<u>101,201,384</u>
	<u>\$ 182,120,019</u>	<u>\$ 115,695,514</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 47,643,493	\$ 42,701,673
Current portion of assets held by trustee	2,265,928	1,038,838
Noncurrent cash and investments	<u>132,210,598</u>	<u>71,955,003</u>
	<u>\$ 182,120,019</u>	<u>\$ 115,695,514</u>

⁽¹⁾The Hospital utilizes an overnight repurchase agreement for its bank deposits to maximize investment return. At December 31, 2018 and 2017, the overnight repurchase agreement amounted to \$50,601,021 and \$44,954,532, 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, 2018 and 2017 consisted of:

	<u>2018</u>	<u>2017</u>
Interest and dividend income	\$ 2,530,030	\$ 2,571,371
Net increase (decrease) in fair value of investments	<u>(1,146,482)</u>	<u>945,506</u>
	<u>\$ 1,383,548</u>	<u>\$ 3,516,877</u>

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
Notes to Financial Statements
December 31, 2018 and 2017

Note 4: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at December 31, 2018 and 2017 consisted of:

	<u>2018</u>	<u>2017</u>
Medicare	\$ 6,298,597	\$ 6,158,672
Medicaid	1,025,424	1,037,380
Other third-party payers	25,868,523	27,157,729
Patients	<u>21,078,647</u>	<u>17,886,824</u>
	54,271,191	52,240,605
Less allowance for uncollectible accounts	<u>16,074,174</u>	<u>14,875,041</u>
	<u><u>\$ 38,197,017</u></u>	<u><u>\$ 37,365,564</u></u>

Note 5: Other Assets

Investment in Lawrence Surgery Center, LLC

The Hospital has a 50 percent membership interest in Lawrence Surgery Center, LLC (LSC). The net investment totaled \$551,589 and \$606,938 at December 31, 2018 and 2017, respectively. The remaining 50 percent membership interest is held by several physicians who are on the Hospital's active medical staff.

Investment in Mid-America Service Solutions, LLC

On September 1, 2017, the Hospital purchased a 9.09 percent interest in Mid-America Service Solutions, LLC. The net investment totaled \$174,679 and \$215,709 at December 31, 2018 and 2017, respectfully. The remaining membership interest is held by 10 other health care organizations in the Mid-West United States.

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
Notes to Financial Statements
December 31, 2018 and 2017

Note 6: Capital Assets

Capital assets activity for the years ended December 31, 2018 and 2017 was:

	2018				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 3,940,591	\$ 8,571,773	\$ -	\$ -	\$ 12,512,364
Land improvements	3,097,713	369,320	-	-	3,467,033
Buildings and leasehold improvements	133,785,987	17,022,143	(3,471,464)	1,279,395	148,616,061
Fixed equipment	15,304,870	8,833	(5,169,907)	8,444	10,152,240
Major movable equipment	87,830,212	6,017,104	(11,481,008)	150,414	82,516,722
Construction in progress	4,675,668	21,405,599	-	(1,438,253)	24,643,014
	<u>248,635,041</u>	<u>53,394,772</u>	<u>(20,122,379)</u>	<u>-</u>	<u>281,907,434</u>
Less accumulated depreciation					
Land improvements	2,345,434	155,897	-	-	2,501,331
Buildings and leasehold improvements	52,987,118	3,386,373	(3,421,222)	-	52,952,269
Fixed equipment	12,943,991	321,582	(5,142,542)	-	8,123,031
Major movable equipment	68,240,419	5,017,462	(11,335,659)	-	61,922,222
	<u>136,516,962</u>	<u>8,881,314</u>	<u>(19,899,423)</u>	<u>-</u>	<u>125,498,853</u>
Capital assets, net	<u>\$ 112,118,079</u>	<u>\$ 44,513,458</u>	<u>\$ (222,956)</u>	<u>\$ -</u>	<u>\$ 156,408,581</u>
	2017				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 3,498,347	\$ 442,244	\$ -	\$ -	\$ 3,940,591
Land improvements	3,019,294	176,030	(97,611)	-	3,097,713
Buildings and leasehold improvements	131,221,573	748,243	(688,490)	2,504,661	133,785,987
Fixed equipment	15,090,105	396,930	(191,972)	9,807	15,304,870
Major movable equipment	84,608,698	3,639,122	(2,747,171)	2,329,563	87,830,212
Construction in progress	1,329,741	8,189,958	-	(4,844,031)	4,675,668
	<u>238,767,758</u>	<u>13,592,527</u>	<u>(3,725,244)</u>	<u>-</u>	<u>248,635,041</u>
Less accumulated depreciation					
Land improvements	2,328,176	114,869	(97,611)	-	2,345,434
Buildings and leasehold improvements	48,751,396	4,674,328	(438,606)	-	52,987,118
Fixed equipment	12,815,751	319,651	(191,411)	-	12,943,991
Major movable equipment	64,678,023	6,233,451	(2,671,055)	-	68,240,419
	<u>128,573,346</u>	<u>11,342,299</u>	<u>(3,398,683)</u>	<u>-</u>	<u>136,516,962</u>
Capital assets, net	<u>\$ 110,194,412</u>	<u>\$ 2,250,228</u>	<u>\$ (326,561)</u>	<u>\$ -</u>	<u>\$ 112,118,079</u>

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
Notes to Financial Statements
December 31, 2018 and 2017

The increase in construction in progress is primarily attributable to the LMH Health West construction project. Total estimated cost of the project is \$90,000,000. The project is expected to be completed in the summer 2020. The project will be paid for with the proceeds from the Series 2018 Bonds and internal resources.

Note 7: Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses included in current liabilities at December 31, 2018 and 2017 consisted of:

	2018	2017
Payable to suppliers and contractors	\$ 11,946,039	\$ 8,994,154
Payable to employees (including payroll taxes and benefits)	15,993,989	13,172,521
Other	705,260	160,024
	\$ 28,645,288	\$ 22,326,699

Note 8: 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, as well as other considerations, including the nature of each claim. It is reasonably possible that this estimate could change materially in the near term.

Note 9: 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 specific claim amounts of \$200,000 and \$175,000 per individual in 2018 and 2017, respectfully; and, approximately \$7,015,000 in the aggregate for 2017. There was no aggregate stop loss coverage in 2018. Commercial stop-loss insurance coverage is purchased for claims in excess of the amounts. 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.

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Activity in the Hospital's accrued employee health claims liability during 2018 and 2017 is summarized as follows:

	2018	2017
Balance, beginning of year	\$ 1,351,005	\$ 1,592,091
Claims incurred	10,066,962	7,767,427
Claims and expenses paid	(10,169,988)	(8,008,513)
Balance, end of year	\$ 1,247,979	\$ 1,351,005

Note 10: Long-term Debt

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

	2018				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Revenue bonds payable					
Series 2012	\$ 8,275,000	\$ -	\$ 8,275,000	\$ -	\$ -
Series 2013	1,365,000	-	1,365,000	-	-
Series 2018	-	77,520,000	-	77,520,000	-
	9,640,000	77,520,000	9,640,000	77,520,000	-
Unamortized premiums	-	8,096,929	254,085	7,842,844	-
Note from direct borrowing	-	10,000,000	217,555	9,782,445	246,595
Capital lease obligations	-	958,338	49,218	909,120	139,997
Total long-term debt	\$ 9,640,000	\$ 96,575,267	\$ 10,160,858	\$ 96,054,409	\$ 386,592

	2017				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Revenue bonds payable					
Series 2012	\$ 8,745,000	\$ -	\$ 470,000	\$ 8,275,000	\$ 480,000
Series 2013	2,720,000	-	1,355,000	1,365,000	1,365,000
Total long-term debt	\$ 11,465,000	\$ -	\$ 1,825,000	\$ 9,640,000	\$ 1,845,000

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Revenue Bonds Payable

The City issued Series 2012, Series 2013, and 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 Bond Indenture requires the Hospital to meet certain measures of financial performance on an annual basis and places limitations on future borrowings.

Bond premiums and discounts are amortized over the life of the bonds using the effective interest method. Gains/losses on refunding bonds are reported in the accompanying financial statements as deferred outflows of resources and are being charged to operations over the shorter of the new bond's life or the remaining life of the refunded bonds using the effective-interest method.

In 2018, the Hospital retired bond Series 2012 and bond Series 2013, effectively paying off all principal and interest.

Additional information about the bond Series 2018 is as follows:

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

Note from Direct Borrowing

The Hospital's outstanding note from direct borrowing of \$9,782,445 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.

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Debt service requirements on long-term debt other than capital lease obligations as of December 31, 2018, are as follows:

Year Ending December 31,	Total to be Paid	Bonds		Direct Borrowings	
		Principal	Interest	Principal	Interest
2019	\$ 4,128,334	\$ -	\$ 4,128,334	\$ 246,595	\$ 386,809
2020	3,724,813	-	3,724,813	256,641	376,763
2021	5,019,813	1,295,000	3,724,813	267,097	366,307
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
2024-2028	25,104,315	8,290,000	16,814,315	1,633,226	1,533,795
2029-2033	25,104,065	10,580,000	14,524,065	1,994,164	1,172,857
2034-2038	25,104,615	13,185,000	11,919,615	2,434,867	732,154
2039-2043	25,692,500	16,900,000	8,792,500	2,382,571	203,831
2044-2048	28,271,500	24,480,000	3,791,500	-	-
	<u>\$ 152,192,081</u>	<u>\$ 77,520,000</u>	<u>\$ 74,672,081</u>	<u>\$ 9,782,445</u>	<u>\$ 5,472,041</u>

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 at December 31, 2018 totaled \$908,521, net of accumulated depreciation of \$49,817. The Hospital had no capital lease obligations in 2017. The following is a schedule by year of future minimum lease payments under the capital lease including interest at rates of 4 percent to 6.81 percent together with the present value of the future minimum lease payments as of December 31, 2018:

	Capital Lease Obligations
2019	\$ 174,953
2020	220,403
2021	242,376
2022	233,772
2023	132,393
	<u>1,003,897</u>
Less amount representing interest	(94,777)
Less current maturities	<u>(139,997)</u>
Noncurrent portion	<u>\$ 769,123</u>

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Note 11: 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 approximated \$2,025,604 and \$2,366,500 at December 31, 2018 and 2017, respectively. Assets of this trust are not included in the accompanying financial statements. Trust income received is reported as other nonoperating income.

Note 12: Operating Leases

Future minimum lease payments for equipment under leases with an initial term greater than one year at December 31, 2018 are as follows:

	Rental Expense
2019	\$ 451,212

Rental expense for equipment amounted to \$669,812 and \$742,511 in 2018 and 2017, 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, 2018 is as follows:

	Rental Expense
2019	\$ 565,530
2020	563,244
2021	393,865
2022	85,673
2023	87,264
Thereafter	149,800
	\$ 1,845,376

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Rental income for office space amounted to \$1,834,443 and \$324,946 in 2018 and 2017, respectively. Rental expense for office space amounted to \$259,731 and \$737,181 in 2018 and 2017, respectively.

Note 13: Defined Contribution Plan

The Hospital sponsors a defined contribution retirement plan covering substantially all employees over age 21 with one year of service. Retirement expense is recorded for the amount of the Hospital's required contributions, determined in accordance with the terms of the plan. The plan is administered by a committee appointed by the Board of Trustees. The plan provides retirement benefits to plan members. Benefit provisions are contained in the plan document and were established and can be amended by action of the Board of Trustees. Contributions actually made by plan members totaled \$5,502,134 and \$4,868,804 in 2018 and 2017, respectively, and the Hospital contributions aggregated \$2,268,914 and \$3,147,176 during 2018 and 2017, respectively. Employer contributions to the plan are based on the following contribution types:

Employer Basic Contributions

<u>Years of Service</u>	<u>Percent of Compensation</u>
Fewer than 5	1.5 percent
5 – 10 years	2.0
10 – 15 years	2.5
15 – 20 years	3.0
20 – 25 years	3.5
> 25 years	4.0

Employer Matching Contributions

The Hospital contributes a matching percentage for all participating plan participants equal to 50 percent of the participant's pre-tax elective deferral contribution not to exceed 2 percent of the participant's compensation for the plan year.

Note 14: 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.

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

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

During the years ended December 31, 2018 and 2017, the Endowment Association provided \$3,184,352 and \$908,127 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 15: 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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Note 16: 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, 2018 and 2017:

Type	December 31, 2018			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. agencies obligations	\$ 7,841,472	\$ -	\$ 7,841,472	\$ -
Corporate bonds	23,346,759	-	23,346,759	-
Repurchase agreements	50,601,021	50,601,021	-	-
U.S. Treasury obligations	53,455,821	53,455,821	-	-
Money market mutual funds	18,354,034	18,354,034	-	-
Equity securities	15,702,509	15,702,509	-	-
	169,301,616	\$ 138,113,385	\$ 31,188,231	\$ -
Accrued interest	628,210			
	<u>\$ 169,929,826</u>			

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Type	December 31, 2017			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. agencies obligations	\$ 7,882,448	\$ -	\$ 7,882,448	\$ -
Corporate bonds	30,734,399	-	30,734,399	-
Repurchase agreements	44,954,532	44,954,532	-	-
Money market mutual funds	1,038,336	1,038,336	-	-
Equity securities	16,147,828	16,147,828	-	-
	100,757,543	\$ 62,140,696	\$ 38,616,847	\$ -
Accrued interest	443,841			
	<u>\$ 101,201,384</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.

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Note 17: Condensed Combining Information

The following table includes condensed information for the Hospital and its blended component unit as of December 31, 2018 and 2017.

Condensed Balance Sheet - 2018

	The Lawrence Memorial Hospital	Lawrence Physicians, LLC	Reed Medical Group MDVIP	Eliminations	Combined
Assets					
Current assets	\$ 95,770	\$ 7,605	\$ 178	\$ -	\$ 103,553
Capital assets	156,409	-	-	-	156,409
Other assets	133,051	-	-	-	133,051
Total assets	<u>385,230</u>	<u>7,605</u>	<u>178</u>	<u>-</u>	<u>393,013</u>
Deferred Outflows of Resources					
Deferred amount on refunding	-	-	-	-	-
Total assets and deferred outflows of resources	<u>\$ 385,230</u>	<u>\$ 7,605</u>	<u>\$ 178</u>	<u>\$ -</u>	<u>\$ 393,013</u>
Liabilities					
Current liabilities	\$ 32,950	\$ -	\$ 189	\$ -	\$ 33,139
Noncurrent liabilities	95,668	-	-	-	95,668
Total liabilities	<u>128,618</u>	<u>-</u>	<u>189</u>	<u>-</u>	<u>128,807</u>
Net Position					
Net investment in capital assets	131,080	-	-	-	131,080
Restricted - expendable for					
Debt service	184	-	-	-	184
Capital acquisition	3,992	-	-	-	3,992
Specific operating activities	15	-	-	-	15
Unrestricted	<u>121,341</u>	<u>7,605</u>	<u>(11)</u>	<u>-</u>	<u>128,935</u>
Total net position	<u>256,612</u>	<u>7,605</u>	<u>(11)</u>	<u>-</u>	<u>264,206</u>
Total liabilities and net position	<u>\$ 385,230</u>	<u>\$ 7,605</u>	<u>\$ 178</u>	<u>\$ -</u>	<u>\$ 393,013</u>

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Condensed Statement of Revenues, Expenses and Changes in Net Position - 2018

	The Lawrence Memorial Hospital	Lawrence Physicians, LLC	Reed Medical Group MDVIP	Eliminations	Combined
Operating Revenues					
Net patient service revenue	\$ 232,154	\$ 44,815	\$ 994	\$ -	\$ 277,963
Other operating revenues	73,482	365	-	(70,202)	3,645
Total operating revenues	<u>305,636</u>	<u>45,180</u>	<u>994</u>	<u>(70,202)</u>	<u>281,608</u>
Operating Expenses					
Salaries and wages and employee benefits	138,479	-	871	(233)	139,117
Purchased services and professional fees	37,636	69,896	21	(69,917)	37,636
Other operating expenses	93,041	-	113	(52)	93,102
Total operating expenses	<u>269,156</u>	<u>69,896</u>	<u>1,005</u>	<u>(70,202)</u>	<u>269,855</u>
Operating Income (Loss)	36,480	(24,716)	(11)	-	11,753
Nonoperating Revenues	4	-	-	-	4
Excess (Deficiency) of Revenues over Expenses	36,484	(24,716)	(11)	-	11,757
Contributions Restricted for Acquisition of Capital Assets	3,185	-	-	-	3,185
Transfers from Hospital	(32,321)	32,321	-	-	-
Increase (Decrease) in Net Position	7,348	7,605	(11)	-	14,942
Beginning Net Position	249,264	-	-	-	249,264
Ending Net Position	<u>\$ 256,612</u>	<u>\$ 7,605</u>	<u>\$ (11)</u>	<u>\$ -</u>	<u>\$ 264,206</u>

Condensed Statement of Cash Flows - 2018

	The Lawrence Memorial Hospital	Lawrence Physicians, LLC	Reed Medical Group MDVIP	Eliminations	Combined
Net Cash Provided by (Used in) Operating Activities	\$ 57,965	\$ (32,321)	\$ 150	\$ -	\$ 25,794
Net Cash Provided by (Used in) Noncapital Financing Activities	(32,199)	32,321	-	-	122
Net Cash Provided by Capital and Related Financing Activities	38,764	-	-	-	38,764
Net Cash Used in Investing Activities	<u>(42,423)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(42,423)</u>
Change in Cash and Cash Equivalents	22,107	-	150	-	22,257
Cash and Cash Equivalents, Beginning of Year	43,740	-	-	-	43,740
Cash and Cash Equivalents, End of Year	<u>\$ 65,847</u>	<u>\$ -</u>	<u>\$ 150</u>	<u>\$ -</u>	<u>\$ 65,997</u>

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Condensed Balance Sheet - 2017

	The Lawrence Memorial Hospital	Lawrence Physicians, LLC	Reed Medical Group MDVIP	Eliminations	Combined
Assets					
Current assets	\$ 91,001	\$ 6,333	\$ 187	\$ -	\$ 97,521
Capital assets	112,118	-	-	-	112,118
Other assets	72,778	-	-	-	72,778
Total assets	<u>275,897</u>	<u>6,333</u>	<u>187</u>	<u>-</u>	<u>282,417</u>
Deferred Outflows of Resources					
Deferred amount on refunding	92	-	-	-	92
Total assets and deferred outflows of resources	<u>\$ 275,989</u>	<u>\$ 6,333</u>	<u>\$ 187</u>	<u>\$ -</u>	<u>\$ 282,509</u>
Liabilities					
Current liabilities	\$ 25,263	\$ -	\$ 187	\$ -	\$ 25,450
Noncurrent liabilities	7,795	-	-	-	7,795
Total liabilities	<u>33,058</u>	<u>-</u>	<u>187</u>	<u>-</u>	<u>33,245</u>
Net Position					
Net investment in capital assets	101,907	-	-	-	101,907
Restricted - expendable for					
Debt service	924	-	-	-	924
Specific operating activities	22	-	-	-	22
Unrestricted	140,078	6,333	-	-	146,411
Total net position	<u>242,931</u>	<u>6,333</u>	<u>-</u>	<u>-</u>	<u>249,264</u>
Total liabilities and net position	<u>\$ 275,989</u>	<u>\$ 6,333</u>	<u>\$ 187</u>	<u>\$ -</u>	<u>\$ 282,509</u>

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Condensed Statement of Revenues, Expenses and Changes in Net Position - 2017

	The Lawrence Memorial Hospital	Lawrence Physicians, LLC	Reed Medical Group MDVIP	Eliminations	Combined
Operating Revenues					
Net patient service revenue	\$ 216,135	\$ 34,144	\$ 451	\$ -	\$ 250,730
Other operating revenues	55,200	240	-	(53,165)	2,275
Total operating revenues	<u>271,335</u>	<u>34,384</u>	<u>451</u>	<u>(53,165)</u>	<u>253,005</u>
Operating Expenses					
Salaries and wages and employee benefits	117,832	-	397	(93)	118,136
Purchased services and professional fees	33,808	53,046	26	(53,072)	33,808
Other operating expenses	86,708	-	28	-	86,736
Total operating expenses	<u>238,348</u>	<u>53,046</u>	<u>451</u>	<u>(53,165)</u>	<u>238,680</u>
Operating Income (Loss)	32,987	(18,662)	-	-	14,325
Nonoperating Revenues	3,735	-	-	-	3,735
Excess (Deficiency) of Revenues over Expenses	36,722	(18,662)	-	-	18,060
Contributions Restricted for Acquisition of Capital Assets	908	-	-	-	908
Transfers from Hospital	(24,995)	24,995	-	-	-
Increase in Net Position	12,635	6,333	-	-	18,968
Beginning Net Position	230,296	-	-	-	230,296
Ending Net Position	<u>\$ 242,931</u>	<u>\$ 6,333</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 249,264</u>

Condensed Statement of Cash Flows - 2017

	The Lawrence Memorial Hospital	Lawrence Physicians, LLC	Reed Medical Group MDVIP	Eliminations	Combined
Net Cash Provided by (Used in) Operating Activities	\$ 46,279	\$ (24,995)	\$ 56	\$ -	\$ 21,340
Net Cash Provided by (Used in) Noncapital Financing Activities	(24,890)	24,995	-	-	105
Net Cash Used in Capital and Related Financing Activities	(14,700)	-	-	-	(14,700)
Net Cash Used in Investing Activities	(2,251)	-	-	-	(2,251)
Change in Cash and Cash Equivalents	4,438	-	56	-	4,494
Cash and Cash Equivalents, Beginning of Year	39,246	-	-	-	39,246
Cash and Cash Equivalents, End of Year	<u>\$ 43,684</u>	<u>\$ -</u>	<u>\$ 56</u>	<u>\$ -</u>	<u>\$ 43,740</u>