

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
Independent Auditor's Report and Financial Statements
December 31, 2020 and 2019

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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 units (The Lawrence Memorial Hospital Endowment Association and Lawrence Surgery Center, LLC), collectively a component unit of the City of Lawrence, Kansas, as of and for the years ended December 31, 2020 and 2019, 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, 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 Hospital'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 Hospital'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 opinions.

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 the aggregate discretely presented component units as of December 31, 2020 and 2019, 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.

Emphasis of Matters

As discussed in Note 1 of the financial statements, in 2020, the reporting entity changed to include Lawrence Surgery Center, LLC as a discretely presented component unit of The Lawrence Memorial Hospital. Our opinions are not modified with respect to this matter.

As discussed in Note 2 to the financial statements, in 2020 the Hospital adopted Governmental Accounting Standards Board Statements No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, and No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. Our opinions are not modified with respect to these matters.

Required Supplementary Information

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

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our 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
May 19, 2021

The Lawrence Memorial Hospital

A Component Unit of the City of Lawrence, Kansas

Management's Discussion and Analysis

Years Ended December 31, 2020 and 2019

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, 2020 and 2019. 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 \$125,018 on December 31, 2020, a decrease of \$1,567 or 1.2 percent from the balance reported at December 31, 2019. Cash and investments totaled \$126,584 on December 31, 2019, a decrease of \$55,536 or 30.5 percent from the 2018 balance due to expenditures from the Series 2018 Bond Project Fund for construction and capital asset acquisitions.
- The Hospital's net position increased \$7,277 or 2.8 percent in 2020 compared to a decrease of \$5,937 or 2.2 percent in 2019.
- With the impact of closing elective procedures in early 2020 due to the COVID-19 pandemic, the Hospital reported an operating loss of \$6,922 in 2020 compared to an operating loss of \$14,809 in 2019 and an operating income of \$11,753 in 2018.
- Investment income of \$800 in 2020 decreased by \$5,870 or 88.0 percent compared to the prior year investment income of \$6,670 in 2019 which represented an increase of \$5,287 or 382.3 percent when compared to investment earnings of \$1,383 in 2018. The year-to-year-changes were impacted by unrealized losses in 2020 due to market declines experienced and unrealized market gains experienced in 2019.
- Nonoperating Revenues include CARES Act and governmental contributions from HHS and the State of Kansas totaling \$15,053 in 2020 to support the Hospital's COVID-19 response during the pandemic.

Using This Annual Report

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

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

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

These two statements report the Hospital's net position and changes during the period. The Hospital's total net position—the difference between assets 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.

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.

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

	2020	2019	2018
Assets			
Cash and cash equivalents	\$ 91,198	\$ 52,940	\$ 47,507
Patient accounts receivable, net	41,569	38,946	38,197
Other current assets	20,147	18,492	17,712
Total current assets	152,914	110,378	103,416
Noncurrent cash and investments	31,309	52,574	62,651
Held by trustee for debt service and capital acquisitions	-	19,208	69,696
Total noncurrent cash and investments	31,309	71,782	132,347
Capital assets, net	243,211	210,307	156,409
Other noncurrent assets	938	845	840
Total assets	\$ 428,372	\$ 393,312	\$ 393,012
Liabilities			
Long-term debt	\$ 95,244	\$ 94,803	\$ 95,668
Other current and noncurrent liabilities	67,582	40,240	33,138
Total liabilities	162,826	135,043	128,806
Net Position			
Net investment in capital assets	152,320	141,443	134,950
Restricted - expendable for			
Debt service	648	93	184
Capital acquisition	-	21	122
Specific operating activities	4	4	15
Unrestricted	112,574	116,708	128,935
Total net position	265,546	258,269	264,206
Total liabilities and net position	\$ 428,372	\$ 393,312	\$ 393,012

The December 31, 2020 balance of \$91,198 for cash and cash equivalents reflects an increase of \$38,258 or 72.3 percent compared to the balance of \$52,940 in 2019. The Hospital's cash position was supported with \$28,102 in Medicare Accelerated and Advanced payments to be repaid from Medicare receipts beginning in April 2021. Management has planned for this repayment in its cash flow budgets for 2021 and 2022.

Net patient accounts receivable increased by \$2,623 or 6.7 percent at December 31, 2020 compared to December 31, 2019. Net patient accounts receivable increased by \$749 or 2.0 percent at December 31, 2019 compared to December 31, 2018.

Total noncurrent cash and investments decreased \$40,473 or 56.4 percent compared to the prior year end balance of \$71,782 on December 31, 2019. The decrease in total noncurrent cash and investments resulted from maturities of long-term investments and expenditures from the Series 2018 Bond Project Fund for construction and capital asset acquisitions. Total noncurrent cash and investments decreased \$60,565 or 45.8 percent compared to the prior year end balance of \$132,347 on December 31, 2018.

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 is due to expenditures related to the LMH Health West construction and other capital building and equipment additions. Net capital assets of \$210,307 increased by \$53,898 or 34.5 percent in 2019 compared to net capital assets of \$156,409 at December 31, 2018.

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 new surgical robots. Long-term debt decreased by \$865 or 0.9 percent in 2019 due to principal payments on note and lease obligations.

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

The Hospital's Revenues over Expenses for 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 Hospital's Revenues under Expenses in 2019 was \$8,714, a decline of \$20,471 when compared to results from the prior year and a negative net margin of 3.1 percent. The Hospital's Revenues over Expenses in 2018 were \$11,757 for a net margin of 4.2 percent. The Revenues under Expenses were the principle factor in the increase in net position of \$7,277 in 2020 and decrease in net position of \$5,937 in 2019, as shown in Table 2.

Table 2: Operating Results and Changes in Net Position

	2020	2019	2018
Operating Revenues			
Net patient service revenue	\$ 281,917	\$ 278,616	\$ 277,964
Other operating revenues	4,734	3,768	3,644
Total operating revenues	286,651	282,384	281,608
Operating Expenses			
Salaries and wages and employee benefits	153,846	153,045	139,117
Purchased services and professional fees	36,092	44,899	37,636
Depreciation and amortization	11,257	9,234	8,881
Other operating expenses	92,378	90,015	84,221
Total operating expenses	293,573	297,193	269,855
Operating Income (Loss)	(6,922)	(14,809)	11,753
Nonoperating Revenues (Expenses)			
Investment income	800	6,670	1,383
Contributions and other	15,259	148	122
Interest expense	(3,735)	(1,185)	(1,880)
Gain (loss) on investment in equity investees	(1,345)	462	379
Total nonoperating revenues, net	10,979	6,095	4
Revenues Over (Under) Expenses	4,057	(8,714)	11,757
Contributions Restricted for Acquisition of Capital Assets	3,220	2,777	3,185
Increase (Decrease) in Net Position	\$ 7,277	\$ (5,937)	\$ 14,942

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.

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 services 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.

Hospital outpatient and physician practice revenues for 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 may indicate a continued trend by patients to delay care except when critically needed due to ongoing COVID-19 concerns. 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 for the Hospital.

Physician practice revenues 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 for 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.

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.

In 2019, Hospital inpatient gross revenue increased 1.5 percent when compared to 2018. Adult, pediatric and rehabilitation inpatient days of 24,097 denoted a decrease of 1,655 or 6.4 percent when compared to inpatient days in 2018 of 25,752. A mild flu season was a key contributing factor to the decrease in patient census from what was experienced in the prior year. Despite the volume decline, overall revenue increased due to increased cardiac catheterization procedures provided to inpatients and associated implantable devices such as pacemakers and stents following the successful recruitment of an interventional cardiologist with specialized training to perform procedures not previously provided in the community.

Gross income from Hospital outpatient ancillary services provided in 2019 increased by 13.5 percent when compared to prior year activities. Outpatient imaging services revenues increased 11.5 percent due to greater numbers of specialized imaging procedures such as CT scan and MRI. Physical and occupational therapy services continued to grow as gross revenues increased 25.8 percent over the prior year and pharmacy revenues increased 14.2 percent in 2019 due to the utilization of higher cost chemotherapy and infusion drugs as needed to treat patients with severe illnesses.

Physician division gross revenue grew 9.6 percent in 2019 when compared to the prior year. Due to successful recruitment efforts for the orthopedic group in 2018 to add a major joint surgeon and a sports medicine physician and the addition of a foot and ankle surgeon in mid-2019, patient encounters increased 23 percent over the prior year contributing to the revenue increase. The obstetrics and gynecology group experienced gross revenue growth of 9.7 percent also due to recruiting a new physician to the group in late 2019. Many of the physicians recruited to the community in 2018 were still in the process of building their practices throughout the year and more significant growth is anticipated going forward.

While the Hospital and physician division achieved gross revenue increases, greater payment reductions than expected from a major payer resulted in more than \$10 million in reduced payments for 2019. Negotiations are underway with payers to help improve reimbursement from our contracted arrangements with a leading major payer already agreeing to a material improvement from 2019 rates.

Total operating expenses in 2019 increased by 10.1 percent when compared to the prior year expenses. The largest increase was for salaries and wages and employee benefits which increased 10.0 percent over the prior year due to recruitment of more than 30 providers over the past two years to meet the growing need for specialty, surgical and primary care services for the Lawrence community. After more than four years of low expense growth, the Hospital's self-funded employee health plan ended the year with very high claims experience resulting in a \$6 million increase over the prior year. There were double the number of high-cost claims from the plan's historical experience. Other benefit expenses for employment taxes and retirement plan benefits increased due to additional providers and staff in the physician division.

In anticipation of the move from volume to value and with a goal of sustained, strong financial performance, the Hospital engaged an outside consultant to perform a thorough review of operations with a goal of improving revenue and reducing expenses. One-time professional fees of \$7.6 million were incurred in 2019 for this engagement which identified operational efficiencies, and areas to improve revenues and intervention has begun in over a dozen areas. Significant efforts are now underway to help ensure the identified long-term revenue opportunities and cost savings are achieved. Many initiatives were implemented late in the year so full benefits have not yet been realized. Although not guaranteed, management believes it can achieve over \$12 million in benefits for fiscal year 2020 with greater savings opportunities in future years.

Increased pharmacy costs for oncology and other patient billable drugs make up 49 percent of the supply increase included in other operating expenses for the year. The necessary utilization of very expensive oncology and infusion therapy drugs not only impacted expense growth, it also negatively impacted net patient revenue due to significant reductions in reimbursement from payers.

The Hospital ended 2019 with a net operating loss of \$14,809 compared to net operating income of \$11,753 achieved in 2018. Although subject to change, management expects positive trends over the next year. Management continues work to implement identified opportunities from the consulting engagement, having already modified benefit plans, reduced staffing costs and reduced costs of care. Technological changes are being implemented to enhance revenue cycle management and improve patient satisfaction to help maintain favorable market share in the community and surrounding areas. While subject to standard industry variables and headwinds, management remains optimistic about further financial improvements in 2020.

Nonoperating Revenues and Expenses

Non-operating revenues and expenses typically 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; however, for 2020, the items of most significance were contributions from federal and state sources for COVID-19 funding.

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, KS, 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 2020 decreased \$5,870 when compared to investment income of \$6,670 recorded in 2019 due to lower earnings associated with lower invested funds and changes in the market value of investments. Interest expense increased by \$2,550 or 215.2 percent in 2020 due to capitalized leases for robotic surgery equipment. Other decreases are attributed to losses incurred with respect to the change in equity of the Lawrence Surgery Center investment. Effective July 1, 2020, the Hospital acquired a 70 percent equity interest in the Lawrence Surgery Center and the loss shown was the net amount required to reflect the correct investment value at December 31, 2020. Total Nonoperating Revenues (Expenses) for 2020 increased \$4,884 compared to the 2019 increase of \$6,091.

Investment income of \$6,670 in 2019 increased by \$5,287 or 382.3 percent compared to investment income of \$1,383 in 2018 primarily due to recording unrealized gains and losses on investments in marketable securities in each of the years.

Capital Gifts

The Hospital received contributions restricted for acquisition of capital assets of \$3,220 from The LMH Health Foundation during 2020 compared to \$2,777 in 2019 and \$3,185 in 2018. 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. These contributions were expended and are reflected in unrestricted net position as of December 31, 2020 and 2019.

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 2020 and 2019, discussed earlier.

Capital Assets

The Hospital ended 2020 with \$243,211 invested in capital assets, net of accumulated depreciation as detailed in *Note 7* to the financial statements, an increase of \$32,904 or 15.6 percent compared to the balance at the end of 2019.

Construction was completed for the LMH Health West facility in late summer and total building and equipment expenditures contributed more than \$35,965 to the increase in capital assets for 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.

The Hospital ended 2019 with \$210,307 invested in capital assets, net of accumulated depreciation as detailed in *Note 7* to the financial statements, an increase of \$53,898 or 34.5 percent compared to the balance at the end of 2018.

Construction and related equipment expenditures for the LMH Health West facility contributed more than \$46,897 to the increase in capital assets for 2019. The Hospital also completed renovations to the cardiac catheterization lab to upgrade and modernize both the equipment and the facility. Construction was completed for the new \$4.6 million central sterilization space added near the Hospital's surgical suites to update equipment and provide space to meet current infection control standards for patient safety. Relocating sterilization services near the surgical space from the former location in the basement of the facility improved operational processes to move supplies between the sterilization area and the surgery and clinical units that require sterile supplies.

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 total amount remained outstanding on December 31, 2020 as principal payments on this outstanding debt will not be due until 2021. A long-term note payable of \$10 million was signed to finance the purchases of the Sixth and Maine Street medical office building in 2018. The Hospital also utilized capital lease financing to acquire imaging technology for the operating rooms and the Tonganoxie physician clinic as well as to lease surgical robotic equipment in 2020. At the end of 2020, the Hospital had \$95,244 in long-term debt obligations outstanding compared to \$94,803 in 2019, an increase of \$441 or 0.5 percent.

Contacting the Hospital's Financial Management

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

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
Balance Sheets
December 31, 2020 and 2019

Assets

	2020	2019
Current Assets		
Cash and cash equivalents	\$ 91,198,298	\$ 52,940,327
Current portion of assets held by trustee	2,510,074	1,862,407
Patient accounts receivable, net of allowance for doubtful accounts; 2020 – \$21,233,302, 2019 – \$17,875,169	41,569,298	38,946,228
Due from third-party payers	1,069,123	1,395,773
Accounts receivable – other	842,421	1,685,003
Supplies	5,439,812	5,235,597
Prepaid expenses and other	10,285,282	8,312,929
	<u>152,914,308</u>	<u>110,378,264</u>
Noncurrent Cash and Investments		
Held by trustee for debt service and capital acquisitions	2,510,074	21,070,474
Restricted by donors for capital acquisitions and specific operating activities	4,063	24,724
Other long-term investments	31,305,357	52,549,267
	<u>33,819,494</u>	<u>73,644,465</u>
Less amount required to meet current obligations	2,510,074	1,862,407
	<u>31,309,420</u>	<u>71,782,058</u>
Capital Assets, net of accumulated depreciation	<u>243,210,815</u>	<u>210,307,456</u>
Other Assets	<u>937,555</u>	<u>844,628</u>
Total assets	<u><u>\$ 428,372,098</u></u>	<u><u>\$ 393,312,406</u></u>

Liabilities and Net Position

	2020	2019
Current Liabilities		
Current maturities of long-term debt	\$ 2,248,230	\$ 448,093
Accounts payable	11,251,865	15,484,090
Accrued expenses	18,686,361	20,031,328
Accrued interest payable	1,862,406	1,862,406
Retirement plan obligation	1,334,749	1,166,376
Due to third-party payers	7,423,703	1,247,666
Total current liabilities	42,807,314	40,239,959
Other Long-term Liabilities	24,775,499	-
Long-term Debt	95,243,568	94,803,199
Total liabilities	162,826,381	135,043,158
Net Position		
Net investment in capital assets	152,319,798	141,443,214
Restricted – expendable for		
Debt service	647,668	92,947
Capital acquisition	-	20,610
Specific operating activities	4,063	4,114
Unrestricted	112,574,188	116,708,363
Total net position	265,545,717	258,269,248
Total liabilities and net position	\$ 428,372,098	\$ 393,312,406

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2020 and 2019

	2020	2019
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2020 – \$18,866,704, 2019 – \$21,795,125	\$ 281,917,363	\$ 278,616,068
Other	4,733,924	3,768,247
Total operating revenues	286,651,287	282,384,315
Operating Expenses		
Salaries and wages	125,213,043	121,144,838
Employee benefits	28,633,162	31,900,527
Professional fees	21,695,535	28,223,582
Purchased services	14,396,411	16,675,518
Supplies	66,986,194	64,432,035
Utilities	3,184,819	3,121,039
Miscellaneous expenses	1,831,616	2,134,456
Licenses, taxes and Kansas provider assessment	1,000,592	509,637
Repairs and maintenance	15,196,831	15,809,371
Depreciation	11,257,170	9,233,632
Loss on sale or disposal of property and equipment	30,920	35,872
Insurance	1,326,877	1,137,820
Other capital costs	2,820,590	2,834,322
Total operating expenses	293,573,760	297,192,649
Operating Loss	(6,922,473)	(14,808,334)
Nonoperating Revenues (Expenses)		
Investment income	800,349	6,669,737
Contributions and other	15,259,112	148,070
Interest expense	(3,735,208)	(1,185,199)
Gain (loss) on investment in equity investees	(1,344,979)	461,621
Total nonoperating revenues, net	10,979,274	6,094,229
Revenues Over (Under) Expenses	4,056,801	(8,714,105)
Contributions Restricted for Acquisition of Capital Assets	3,219,668	2,777,062
Increase (Decrease) in Net Position	7,276,469	(5,937,043)
Net Position, Beginning of Year	258,269,248	264,206,291
Net Position, End of Year	\$ 265,545,717	\$ 258,269,248

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
Statements of Cash Flows
Years Ended December 31, 2020 and 2019

	2020	2019
Operating Activities		
Receipts from and on behalf of patients	\$ 308,469,146	\$ 279,055,038
Payments to suppliers and contractors	(129,802,885)	(135,242,936)
Payments to employees	(152,919,466)	(149,387,841)
Other receipts, net	5,576,506	2,851,434
Net cash provided by (used in) operating activities	31,323,301	(2,724,305)
Noncapital Financing Activities		
Noncapital gifts	15,259,112	148,070
Net cash provided by noncapital financing activities	15,259,112	148,070
Capital and Related Financing Activities		
Principal paid on long-term debt	(1,069,887)	(387,342)
Interest paid on long-term debt	(4,150,983)	(4,550,099)
Purchase of capital assets	(45,728,416)	(57,930,243)
Capital gifts	3,219,668	2,777,062
Proceeds from sale of capital assets	217,762	4,499
Net cash used in capital and related financing activities	(47,511,856)	(60,086,123)
Investing Activities		
Interest and dividends on investments	963,789	4,562,046
Purchase of investments	(13,119,870)	(45,729,968)
Sale of investments	52,147,943	93,463,281
Advances to and investments in equity investee	(1,470,000)	-
Distributions from affiliates	32,094	457,394
Net cash provided by investing activities	38,553,956	52,752,753
Increase (Decrease) in Cash and Cash Equivalents	37,624,513	(9,909,605)
Cash and Cash Equivalents, Beginning of Year	56,087,922	65,997,527
Cash and Cash Equivalents, End of Year	<u>\$ 93,712,435</u>	<u>\$ 56,087,922</u>
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents in current assets	\$ 91,198,298	\$ 52,940,327
Cash and cash equivalents in noncurrent cash and investments	2,514,137	3,147,595
	<u>\$ 93,712,435</u>	<u>\$ 56,087,922</u>

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
Statements of Cash Flows (Continued)
Years Ended December 31, 2020 and 2019

	2020	2019
Reconciliation of Net Operating Revenues to		
Net Cash Provided by (Used in) Operating Activities		
Operating loss	\$ (6,922,473)	\$ (14,808,334)
Depreciation	11,257,170	9,233,632
Loss on sale or disposal of property and equipment	30,920	35,872
Changes in operating assets and liabilities		
Patient accounts receivable, net	(2,623,070)	(749,211)
Other accounts receivable	842,582	(916,813)
Estimated amounts due from and to third-party payers	29,174,853	1,188,181
Accounts payable and accrued expenses	1,739,887	4,498,543
Supplies	(204,215)	(925,903)
Prepaid expenses	(1,972,353)	(280,272)
	<u>\$ 31,323,301</u>	<u>\$ (2,724,305)</u>
Supplemental Cash Flows Information		
Capital asset acquisitions included in accounts payable	\$ 410,513	\$ 5,455,886
Capital assets acquired through capital lease obligation	3,726,168	-
Amortization of original bond premium	(415,775)	(415,775)
Increase (decrease) in fair value of investments	(10,881)	2,410,848

The Lawrence Memorial Hospital Endowment Association
A Component Unit of The Lawrence Memorial Hospital
Statements of Financial Position
December 31, 2020 and 2019

Assets

	<u>2020</u>	<u>2019</u>
Current Assets		
Cash and cash equivalents	\$ 713,923	\$ 716,628
Pledges receivable – current portion	<u>363,477</u>	<u>1,361,477</u>
Total current assets	<u>1,077,400</u>	<u>2,078,105</u>
Noncurrent Assets		
Pledges receivable, net of current portion	506,259	531,830
Investments	<u>13,210,000</u>	<u>12,302,376</u>
Total assets	<u><u>\$ 14,793,659</u></u>	<u><u>\$ 14,912,311</u></u>

Liabilities and Net Assets

Current Liabilities		
Accounts payable	\$ 5,930	\$ 4,563
Refundable advance	80,000	-
Liability to beneficiaries of split-interest agreements	<u>1,116</u>	<u>274</u>
Total current liabilities	<u>87,046</u>	<u>4,837</u>
Net Assets		
Without donor restrictions		
Undesignated	1,168,909	1,123,235
Designated by the board for endowment	<u>6,568,519</u>	<u>6,016,771</u>
	<u>7,737,428</u>	<u>7,140,006</u>
With donor restrictions		
Purpose restrictions	5,078,807	5,945,350
Perpetual in nature	<u>1,890,378</u>	<u>1,822,118</u>
	<u>6,969,185</u>	<u>7,767,468</u>
Total net assets	<u>14,706,613</u>	<u>14,907,474</u>
Total liabilities and net assets	<u><u>\$ 14,793,659</u></u>	<u><u>\$ 14,912,311</u></u>

The Lawrence Memorial Hospital Endowment Association
A Component Unit of The Lawrence Memorial Hospital
Statements of Activities
Years Ended December 31, 2020 and 2019

	2020			2019
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Support and Gains				
Special event revenue	\$ 11,875	\$ 157,422	\$ 169,297	\$ 264,077
Contributions	577,044	1,941,383	2,518,427	3,880,304
In-kind contributions	460,976	119,624	580,600	725,746
Interest and dividend income	127,375	113,868	241,243	318,433
Realized and unrealized gains, net	487,731	357,156	844,887	1,818,781
Total support and revenue	1,665,001	2,689,453	4,354,454	7,007,341
Amount released from restrictions	3,487,736	(3,487,736)	-	-
Total support, revenue and reclassifications	5,152,737	(798,283)	4,354,454	7,007,341
Expenses				
Program	4,152,390	-	4,152,390	3,484,446
General and administrative	179,391	-	179,391	268,205
Fundraising	223,534	-	223,534	300,026
Total expenses	4,555,315	-	4,555,315	4,052,677
Change in Net Assets	597,422	(798,283)	(200,861)	2,954,664
Net Assets, Beginning of Year	7,140,006	7,767,468	14,907,474	11,952,810
Net Assets, End of Year	\$ 7,737,428	\$ 6,969,185	\$ 14,706,613	\$ 14,907,474

Lawrence Surgery Center, LLC
A Component Unit of The Lawrence Memorial Hospital
Balance Sheets
December 31, 2020 and 2019

Assets

	2020	2019
Current Assets		
Cash and cash equivalents	\$ 391,305	\$ 577,628
Accounts receivable	887,549	822,035
Supplies	301,261	249,734
Prepaid expenses	56,523	32,622
Other current assets	-	11,661
	<hr/>	<hr/>
Total current assets	1,636,638	1,693,680
	<hr/>	<hr/>
Property and Equipment, at Cost		
Leasehold improvements	7,171	21,768
Major movable equipment	3,130,346	3,407,840
Furniture, fixtures and office equipment	57,969	72,040
Computer equipment and software	108,674	155,803
	<hr/>	<hr/>
	3,304,160	3,657,451
Less accumulated depreciation	2,260,993	3,166,159
	<hr/>	<hr/>
	1,043,167	491,292
	<hr/>	<hr/>
Total Assets	<u><u>\$ 2,679,805</u></u>	<u><u>\$ 2,184,972</u></u>

Liabilities and Members' Equity

Current Liabilities		
Current portion of long-term debt	\$ 647,274	\$ 40,860
Line of credit	75,000	-
Accounts payable	286,214	94,251
Accrued expenses	537,343	838,926
	<hr/>	<hr/>
Total current liabilities	1,545,831	974,037
	<hr/>	<hr/>
Long-term Debt	451,714	4,939
	<hr/>	<hr/>
Total liabilities	1,997,545	978,976
	<hr/>	<hr/>
Members' Equity		
Capital contributions	1,237,825	1,237,825
Retained earnings	(555,565)	(31,829)
	<hr/>	<hr/>
Total members' equity	682,260	1,205,996
	<hr/>	<hr/>
Total Liabilities and Members' Equity	<u><u>\$ 2,679,805</u></u>	<u><u>\$ 2,184,972</u></u>

Lawrence Surgery Center, LLC
A Component Unit of The Lawrence Memorial Hospital
Income Statements
Years Ended December 31, 2020 and 2019

	2020	2019
Operating Revenues		
Patient revenue	\$ 6,377,253	\$ 6,880,942
Other revenue	<u>54,014</u>	<u>917</u>
Total operating revenues	<u>6,431,267</u>	<u>6,881,859</u>
Operating Expenses		
Salaries and wages	2,260,318	2,040,710
Employee benefits	543,295	521,564
Supplies	1,890,135	1,886,984
Purchased services	235,474	281,884
Professional fees	106,597	65,257
Depreciation	277,047	232,906
Other expenses	<u>1,270,733</u>	<u>964,200</u>
Total operating expenses	<u>6,583,599</u>	<u>5,993,505</u>
Operating Income (Loss)	<u>(152,332)</u>	<u>888,354</u>
Other Income (Expense)		
Interest income	187	404
Interest expense	<u>(15,591)</u>	<u>(3,665)</u>
Total other expenses, net	<u>(15,404)</u>	<u>(3,261)</u>
Net Income (Loss)	<u><u>\$ (167,736)</u></u>	<u><u>\$ 885,093</u></u>

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
Notes to Financial Statements
December 31, 2020 and 2019

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 *Note 6* for additional information about the Hospital's equity interest in LSC, LLC.

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
Notes to Financial Statements
December 31, 2020 and 2019

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. Government-mandated or voluntary nonexchange transactions that are not program specific, 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.

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 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 Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
Notes to Financial Statements
December 31, 2020 and 2019

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

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

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

Noncurrent Cash and Investments

Noncurrent cash and investments include (1) assets held by trustees under bond indenture agreements, (2) assets restricted by donors for capital acquisitions and specific purposes, (3) 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 (4) 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, equity securities and money market mutual funds.

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

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

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
Notes to Financial Statements
December 31, 2020 and 2019

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

In 2019, the Hospital capitalized 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. In 2020, the Hospital adopted Governmental Accounting Standards Board Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period* and did not capitalize interest in relation to construction projects. See further discussion of the standard adoption in *Note 2*. Total interest capitalized and incurred was:

	2020	2019
Total interest expense incurred on borrowings for project	\$ -	\$ 2,545,604
Interest income from investment of proceeds of borrowings for project	-	(979,645)
Net interest cost capitalized	<u>\$ -</u>	<u>\$ 1,565,959</u>
Interest capitalized	\$ -	\$ 1,565,959
Interest charged to expense	<u>3,735,208</u>	<u>1,185,199</u>
Total interest incurred	<u>\$ 3,735,208</u>	<u>\$ 2,751,158</u>

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
Notes to Financial Statements
December 31, 2020 and 2019

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 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 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 \$8,050,000 and \$11,200,000 in 2020 and 2019, respectively.

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
Notes to Financial Statements
December 31, 2020 and 2019

Income Taxes

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

Note 2: Change in Accounting Principles

Adoption of Governmental Accounting Standards Board Statement No. 89

In 2020, the Hospital adopted GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This statement removes the concept of capitalized interest from all types of governmental entities.

Adoption of Governmental Accounting Standards Board Statement No. 97

In 2020, the Hospital adopted GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, an amendment of GASB Statements No. 14 and 84, and a supersession of GASB Statement No. 32. Under GASB 97, Section 457, plans should be accounted for as either a pension plan or other employee benefit plan if the plan meets the definition of a pension or another employee benefit plan within GASB 67 or 73. Accounting and financial reporting requirements for 457 plans that meet the definition of a pension plan are defined.

GASB 97 limits the applicability of the financial burden criterion in GASB 14 regarding contributions to postemployment benefit plans to only defined benefit pension plans and defined benefit OPEB plans that are administered through trusts meeting paragraph 3 criteria in GASB 67 or 74. The statement also changes how the absence of a governing board should be considered in determining whether a primary government is financially accountable for purposes of evaluating potential component units that are pension or OPEB plans. This supersedes certain previous guidance in Statement 84 and Implementation Guide 2019-2.

Upon evaluation by the Hospital, it was determined that there are no circumstances in which the Hospital should be considered the fiduciary of assets of a beneficiary for accounting and reporting purposes. No changes were made to the Hospital's financial statements as a result of adoption this standard.

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
Notes to Financial Statements
December 31, 2020 and 2019

Note 3: 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 of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2020 and 2019. 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 4: 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, 2020 and 2019, none of the Hospital's bank deposit balances of \$390,665 and \$5,307,563, 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, 2020 and 2019

At December 31, 2020 and 2019, the Hospital had the following investments and maturities:

Type	December 31, 2020		
	Fair Value	Maturities in Years	
		Less Than 1	1 – 5
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	<u>\$ 104,771,088</u>	<u>\$ -</u>
Equity securities	<u>19,781,188</u>		
	<u>\$ 124,552,276</u>		
Type	December 31, 2019		
	Fair Value	Maturities in Years	
		Less Than 1	1 – 5
U.S. agencies obligations	\$ 12,996,771	\$ 12,996,771	\$ -
Corporate bonds	14,576,937	3,016,509	11,560,428
Repurchase agreements	54,332,083	54,332,083	-
U.S. Treasury obligations	17,864,927	17,864,927	-
Money market mutual funds	3,122,871	3,122,871	-
Accrued interest	325,053	325,053	-
	103,218,642	<u>\$ 91,658,214</u>	<u>\$ 11,560,428</u>
Equity securities	<u>19,733,182</u>		
	<u>\$ 122,951,824</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.

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, 2020 and 2019, 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.

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
Notes to Financial Statements
December 31, 2020 and 2019

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, 2020 and 2019 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, 2020 and 2019, 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:

	2020	2019
Federal National Mortgage Association	0%	7%
Morgan Stanley	4%	5%
Citigroup	5%	5%
Repurchase agreements with Commerce Bank, n.a.	73%	44%

Summary of Carrying Values

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

	2020	2019
Carrying value		
Deposits ⁽¹⁾	\$ 465,537	\$ 3,632,968
Investments	124,552,276	122,951,824
	<u>\$ 125,017,813</u>	<u>\$ 126,584,792</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 91,198,298	\$ 52,940,327
Current portion of assets held by trustee	2,510,074	1,862,407
Noncurrent cash and investments	31,309,420	71,782,058
	<u>\$ 125,017,792</u>	<u>\$ 126,584,792</u>

⁽¹⁾The Hospital utilizes an overnight repurchase agreement for its bank deposits to maximize investment return. At December 31, 2020 and 2019, the overnight repurchase agreement amounted to \$90,736,845 and \$54,332,083, 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.

The Lawrence Memorial Hospital
A Component Unit of the City of Lawrence, Kansas
Notes to Financial Statements
December 31, 2020 and 2019

Investment Income

Investment income for the years ended December 31, 2020 and 2019 consisted of:

	2020	2019
Interest and dividend income	\$ 811,230	\$ 4,258,889
Net increase (decrease) in fair value of investments	<u>(10,881)</u>	<u>2,410,848</u>
	<u><u>\$ 800,349</u></u>	<u><u>\$ 6,669,737</u></u>

Note 5: 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, 2020 and 2019 consisted of:

	2020	2019
Medicare	\$ 7,585,783	\$ 6,783,640
Medicaid	1,550,801	1,329,758
Other third-party payers	33,588,491	30,414,582
Patients	<u>20,077,525</u>	<u>18,293,417</u>
	62,802,600	56,821,397
Less allowance for uncollectible accounts	<u>21,233,302</u>	<u>17,875,169</u>
	<u><u>\$ 41,569,298</u></u>	<u><u>\$ 38,946,228</u></u>

Note 6: Other Assets

Investment in Lawrence Surgery Center, LLC

Previously, the Hospital had a 50 percent membership interest in Lawrence Surgery Center, LLC (LSC, LLC). In 2020, membership interest was increased to 70 percent. The net investment totaled \$585,851 and \$602,998 at December 31, 2020 and 2019, respectively. The remaining 30 percent membership interest is held by several physicians who are on the Hospital's active medical staff.

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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. In 2020, the Hospital's interest is 10 percent. The net investment totaled \$203,731 and \$184,563 at December 31, 2020 and 2019, respectively. The remaining membership interest is held by 10 other health care organizations in the Midwestern United States.

Note 7: Capital Assets

Capital assets activity for the years ended December 31, 2020 and 2019 was:

	2020				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 12,628,353	\$ -	\$ -	\$ -	\$ 12,628,353
Land improvements	3,414,067	58,093	-	5,426,131	8,898,291
Buildings and leasehold improvements	157,092,642	1,378,926	(27,001)	79,434,028	237,878,595
Fixed equipment	8,973,165	-	(106,879)	989,206	9,855,492
Major movable equipment	85,871,548	4,607,128	(4,508,188)	17,066,377	103,036,865
Construction in progress	73,011,186	38,365,064	-	(102,915,742)	8,460,508
	<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	56,090,978	4,304,275	(675)	-	60,394,578
Fixed equipment	7,345,268	905,023	(106,879)	-	8,143,412
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>

	2019				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 12,512,364	\$ 115,989	\$ -	\$ -	\$ 12,628,353
Land improvements	3,467,033	36,632	(190,554)	100,956	3,414,067
Buildings and leasehold improvements	148,616,061	2,913,622	(421,236)	5,984,195	157,092,642
Fixed equipment	10,152,240	36,762	(1,236,566)	20,729	8,973,165
Major movable equipment	82,516,722	3,394,810	(2,240,995)	2,201,011	85,871,548
Construction in progress	24,643,014	56,675,063	-	(8,306,891)	73,011,186
	<u>281,907,434</u>	<u>63,172,878</u>	<u>(4,089,351)</u>	<u>-</u>	<u>340,990,961</u>
Less accumulated depreciation					
Land improvements	2,501,331	163,087	(190,554)	-	2,473,864
Buildings and leasehold improvements	52,952,269	3,548,078	(409,369)	-	56,090,978
Fixed equipment	8,123,031	451,583	(1,229,346)	-	7,345,268
Major movable equipment	61,922,222	5,070,884	(2,219,711)	-	64,773,395
	<u>125,498,853</u>	<u>9,233,632</u>	<u>(4,048,980)</u>	<u>-</u>	<u>130,683,505</u>
Capital assets, net	<u>\$ 156,408,581</u>	<u>\$ 53,939,246</u>	<u>\$ (40,371)</u>	<u>\$ -</u>	<u>\$ 210,307,456</u>

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The increase in construction in progress in 2019 is primarily attributable to the LMH Health West construction project. In September 2020, the LMH Health West campus was opened for patient services, resulting in all construction in progress related to the LMH Health West campus being transferred into other capital asset categories and the commencement of depreciation of those related capital assets.

Note 8: Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses included in current liabilities at December 31, 2020 and 2019 consisted of:

	<u>2020</u>	<u>2019</u>
Payable to suppliers and contractors	\$ 11,251,865	\$ 15,484,090
Payable to employees (including payroll taxes and benefits)	17,308,811	17,055,896
Other	<u>1,377,550</u>	<u>2,975,432</u>
	<u>\$ 29,938,226</u>	<u>\$ 35,515,418</u>

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, 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 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 specific claim amounts of \$200,000 per individual in both 2020 and 2019. There was no aggregate stop loss coverage in 2020 or 2019. 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 2020 and 2019 is summarized as follows:

	2020	2019
Balance, beginning of year	\$ 2,188,365	\$ 1,247,979
Claims incurred	13,025,543	16,075,077
Claims and expenses paid	<u>(12,947,150)</u>	<u>(15,134,691)</u>
Balance, end of year	<u><u>\$ 2,266,758</u></u>	<u><u>\$ 2,188,365</u></u>

Note 11: Long-term Debt

The following is a summary of long-term obligation transactions for the Hospital for the years ended December 31, 2020 and 2019:

	2020				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
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	<u>768,373</u>	<u>3,726,168</u>	<u>813,995</u>	<u>3,680,546</u>	<u>686,132</u>
Total long-term debt	<u><u>\$ 95,251,292</u></u>	<u><u>\$ 3,726,168</u></u>	<u><u>\$ 1,485,662</u></u>	<u><u>\$ 97,491,798</u></u>	<u><u>\$ 2,248,230</u></u>

	2019				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Revenue bonds payable					
Series 2018	\$ 77,520,000	\$ -	\$ -	\$ 77,520,000	\$ -
Unamortized premiums	7,842,844	-	415,775	7,427,069	-
Note from direct borrowing	9,782,445	-	246,595	9,535,850	256,642
Capital lease obligations	<u>909,120</u>	<u>-</u>	<u>140,747</u>	<u>768,373</u>	<u>191,451</u>
Total long-term debt	<u><u>\$ 96,054,409</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 803,117</u></u>	<u><u>\$ 95,251,292</u></u>	<u><u>\$ 448,093</u></u>

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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 and capital acquisitions 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.

In 2019, the Hospital's debt coverage service ratio was less than 1.10 to 1.00. The bond indenture agreements state that, should the Hospital's debt service coverage ratio fall below the requirement, the Hospital must retain a consultant and take into consideration recommendations made by such consultant. During 2020, prior to the debt-service coverage ratio requirement not being met, the Hospital retained outside professional services, wherein operational efficiencies and areas to improve revenues were identified. As a result of these professional services, management intervention has begun. Management provided the consultant report to the Bond Trustee.

In the event that the debt service coverage ratio is less than 1.00 to 1.00, the Hospital must have a minimum of 100 days cash on hand. At the end of fiscal year 2019, the Hospital's days cash on hand was approximately 114 days.

In 2020, the Hospital met the debt coverage ratio requirements established by the bond indenture.

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

Additional information about the bond Series 2018 is as follows:

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

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Note from Direct Borrowing

The Hospital's outstanding note from direct borrowing of \$9,279,958 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 on long-term debt other than capital lease obligations as of December 31, 2020, are as follows:

Year Ending December 31,	Total to be Paid	Bonds		Direct Borrowings	
		Principal	Interest	Principal	Interest
2021	\$ 5,019,813	\$ 1,295,000	\$ 3,724,813	\$ 267,098	\$ 366,307
2022	5,020,063	1,360,000	3,660,063	277,980	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
2026-2030	25,104,565	9,140,000	15,964,565	1,769,018	1,398,003
2031-2035	25,106,240	11,630,000	13,476,240	2,159,964	1,007,057
2036-2040	25,106,314	14,265,000	10,841,314	2,637,309	529,712
2041-2045	26,953,750	19,925,000	7,028,750	1,264,835	55,506
2046-2048	16,965,000	15,400,000	1,565,000	-	-
	<u>\$ 144,338,934</u>	<u>\$ 77,520,000</u>	<u>\$ 66,818,934</u>	<u>\$ 9,279,958</u>	<u>\$ 4,708,469</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 \$3,933,223 and \$716,854, net of accumulated depreciation of \$835,026 and \$241,484, at December 31, 2020 and 2019, respectively. The following is a schedule by year of future minimum lease payments under capital leases including interest at rates of 3.5 percent to 4.0 percent together with the present value of the future minimum lease payments as of December 31, 2020:

	<u>Capital Lease Obligations</u>
2021	\$ 772,530
2022	1,034,783
2023	933,334
2024	744,656
2025	463,510
	<hr/>
	3,948,813
	<hr/>
Less amount representing interest	(268,267)
Less current maturities	(686,132)
	<hr/>
Noncurrent portion	<u><u>\$ 2,994,414</u></u>

Note 12: 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 \$2,568,076 and \$2,384,183 at December 31, 2020 and 2019, respectively. Assets of this trust are not included in the accompanying financial statements. Trust income received is reported as other nonoperating income.

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Note 13: Operating Leases

Future minimum lease payments for equipment under leases with an initial term greater than one year at December 31, 2020 are as follows:

	<u>Rental Expense</u>
2021	\$ 451,212

Rental expense for equipment amounted to \$805,461 and \$683,154 in 2020 and 2019, 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, 2020 is as follows:

	<u>Rental Expense</u>
2021	\$ 428,307
2022	85,673
2023	85,673
2024	87,264
2025	87,264
Thereafter	<u>29,909</u>
	<u><u>\$ 804,090</u></u>

Rental income for office space amounted to \$1,261,306 and \$1,245,957 in 2020 and 2019, respectively. Rental expense for office space amounted to \$859,776 and \$571,404 in 2020 and 2019, respectively.

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Note 14: 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 \$6,391,839 and \$6,245,247 in 2020 and 2019, respectively, and the Hospital contributions aggregated \$2,769,759 and \$2,985,364 during 2020 and 2019, 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%
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 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.

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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, 2020 and 2019, the Endowment Association provided \$3,219,668 and \$2,777,062 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.

As noted in *Note 6*, during the year the Hospital increased its membership interest from 50 percent to 70 percent.

During the year, LSC, LLC entered into agreements with the Hospital to lease certain equipment, real estate and for certain information technology support services. In connection with these agreements LSC, LLC paid the Hospital approximately \$641,700 for these services. During 2019, LSC, LLC leased certain other office space from the Hospital for approximately \$447,100. In addition, at December 31, 2020, LSC owed the Hospital approximately \$111,000 for items related to the agreements.

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: 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.

Note 18: Disclosures About Fair Value of Assets and Liabilities

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

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

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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, 2020 and 2019:

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>			
December 31, 2019				
U.S. agencies obligations	\$ 12,996,771	\$ -	\$ 12,996,771	\$ -
Corporate bonds	14,576,937	-	14,576,937	-
Repurchase agreements	54,332,083	54,332,083	-	-
U.S. Treasury obligations	17,864,927	17,864,927	-	-
Money market mutual funds	3,122,871	3,122,871	-	-
Equity securities	19,733,182	19,733,182	-	-
	122,626,771	\$ 95,053,063	\$ 27,573,708	\$ -
Accrued interest	325,053			
	<u>\$ 122,951,824</u>			

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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.

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.

While some of these policies have been eased and states have lifted moratoriums on non-emergent procedures, some restrictions remain in place, and some state and local governments re-imposed certain restrictions due to increasing rates of COVID-19 cases prior to the widespread availability of a vaccine.

The Hospital's pandemic response plan has multiple facets and continues to evolve as the pandemic unfolds. The Hospital has taken precautionary steps to enhance its operational and financial flexibility, and react to the risks the COVID-19 pandemic presents to its business, including the following:

- Implementation of targeted cost reduction initiatives;
- Reduction of certain planned projects and capital expenditures;

In addition, the Hospital received \$28,101,716 of accelerated Medicare payments and \$14,772,814 in general and targeted Provider Relief Fund distributions, both as provided for under the *Coronavirus Aid, Relief, and Economic Security* ("CARES") Act.

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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. Such factors include, but are not limited to, the scope and duration of stay-at-home practices and business closures and restrictions, government-imposed or recommended suspensions of elective procedures, continued declines in patient volumes for an indeterminable length of time, increases in the number of uninsured and underinsured patients as a result of higher sustained rates of unemployment, incremental expenses required for supplies and personal protective equipment, and changes in professional and general liability exposure.

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

Provider Relief Fund

During the year ended December 31, 2020, the Hospital received \$14,772,814 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 conditional contributions. Payments are recognized as contribution revenue once the applicable terms and conditions required to retain the funds 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 December 31, 2020, the Hospital recognized \$14,772,814, related to the Provider Relief Fund, and these payments are recorded as nonoperating revenue – "contributions and other" in our statement of revenues, expenses and changes in net position.

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.

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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 CMS according to the payback provisions.

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

During the year ended December 31, 2020, the Hospital received \$28,101,716 from these accelerated Medicare payment requests. The unapplied amount of accelerated Medicare payment requests due within one year are recorded in estimated amounts due to third-party payers in the accompanying balance sheets, totaling \$5,428,550. Unapplied accelerated Medicare payments due after one year are recorded as part of 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 \$4,206,665 of payroll taxes, of which \$2,103,332 is recorded as a part of accrued expenses and \$2,103,333 is recorded as part of other long-term liabilities in the accompanying balance sheets.

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Note 20: Subsequent Events

In 2021, the Hospital received additional payments from the CARES Act Provider Relief Fund of which \$31,812 was received directly from the Department of Health and Human Services (HHS) and \$2,443,472 was allocated to the Hospital from the Douglas County Treasurer.

Note 21: Condensed Combining Information

The following table (*in thousands*) includes condensed information for the Hospital and its blended component unit as of December 31, 2020 and 2019.

Condensed Balance Sheet – 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
Total assets	<u>\$ 428,257</u>	<u>\$ 6,374</u>	<u>\$ 115</u>	<u>\$ (6,374)</u>	<u>\$ 428,372</u>
Liabilities					
Current liabilities	\$ 42,681	\$ -	\$ 126	\$ -	\$ 42,807
Noncurrent liabilities	120,019	-	-	-	120,019
Total liabilities	<u>162,700</u>	<u>-</u>	<u>126</u>	<u>-</u>	<u>162,826</u>
Net Position					
Net investment in capital assets	152,320	-	-	-	152,320
Restricted - expendable for					
Debt service	648	-	-	-	648
Specific operating activities	4	-	-	-	4
Unrestricted	<u>112,585</u>	<u>6,374</u>	<u>(11)</u>	<u>(6,374)</u>	<u>112,574</u>
Total net position	<u>265,557</u>	<u>6,374</u>	<u>(11)</u>	<u>(6,374)</u>	<u>265,546</u>
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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Condensed Statement of Revenues, Expenses and Changes in Net Position – 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	-	-	-
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

Condensed Statement of Cash Flows – 2020

	The Lawrence Memorial Hospital	Lawrence Physicians, LLC	Reed Medical Group MDVIP	Eliminations	Combined
Net Cash Provided by (Used in) Operating Activities	\$ 82,911	\$ (33,952)	\$ (17,636)	\$ (17,636)	\$ 31,323
Net Cash Provided by (Used in) Noncapital Financing Activities	(18,693)	33,952	-	17,636	15,259
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	55,260	-	(17,636)	-	37,624
Cash and Cash Equivalents, Beginning of Year	56,005	-	82	-	56,087
Cash and Cash Equivalents, End of Year	\$ 111,265	\$ -	\$ 64	\$ -	\$ 93,711

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Condensed Balance Sheet – 2019

	The Lawrence Memorial Hospital	Lawrence Physicians, LLC	Reed Medical Group MDVIP	Eliminations	Combined
Assets					
Current assets	\$ 103,616	\$ 6,654	\$ 108	\$ -	\$ 110,378
Capital assets	210,307	-	-	-	210,307
Other assets	79,281	-	-	(6,654)	72,627
Total assets	<u>\$ 393,204</u>	<u>\$ 6,654</u>	<u>\$ 108</u>	<u>\$ (6,654)</u>	<u>\$ 393,312</u>
Liabilities					
Current liabilities	\$ 40,121	\$ -	\$ 119	\$ -	\$ 40,240
Noncurrent liabilities	94,803	-	-	-	94,803
Total liabilities	<u>134,924</u>	<u>-</u>	<u>119</u>	<u>-</u>	<u>135,043</u>
Net Position					
Net investment in capital assets	141,443	-	-	-	141,443
Restricted - expendable for					
Debt service	93	-	-	-	93
Capital acquisition	21	-	-	-	21
Specific operating activities	4	-	-	-	4
Unrestricted	<u>116,719</u>	<u>6,654</u>	<u>(11)</u>	<u>(6,654)</u>	<u>116,708</u>
Total net position	<u>258,280</u>	<u>6,654</u>	<u>(11)</u>	<u>(6,654)</u>	<u>258,269</u>
Total liabilities and net position	<u>\$ 393,204</u>	<u>\$ 6,654</u>	<u>\$ 108</u>	<u>\$ (6,654)</u>	<u>\$ 393,312</u>

Condensed Statement of Revenues, Expenses and Changes in Net Position – 2019

	The Lawrence Memorial Hospital	Lawrence Physicians, LLC	Reed Medical Group MDVIP	Eliminations	Combined
Operating Revenues					
Net patient service revenue	\$ 232,734	\$ 44,893	\$ 989	\$ -	\$ 278,616
Other operating revenues	80,165	510	-	(76,907)	3,768
Total operating revenues	<u>312,899</u>	<u>45,403</u>	<u>989</u>	<u>(76,907)</u>	<u>282,384</u>
Operating Expenses					
Salaries and wages and employee benefits	152,434	-	847	(236)	153,045
Purchased services and professional fees	44,899	76,625	21	(76,646)	44,899
Other operating expenses	99,153	-	121	(25)	99,249
Total operating expenses	<u>296,486</u>	<u>76,625</u>	<u>989</u>	<u>(76,907)</u>	<u>297,193</u>
Operating Income (Loss)	<u>16,413</u>	<u>(31,222)</u>	<u>-</u>	<u>-</u>	<u>(14,809)</u>
Nonoperating Revenues	<u>5,144</u>	<u>-</u>	<u>-</u>	<u>951</u>	<u>6,095</u>
Revenues Over (Under) Expenses	<u>21,557</u>	<u>(31,222)</u>	<u>-</u>	<u>951</u>	<u>(8,714)</u>
Contributions Restricted for Acquisition of Capital Assets	<u>2,777</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,777</u>
Transfers from Hospital	<u>(30,271)</u>	<u>30,271</u>	<u>-</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in Net Position	<u>(5,937)</u>	<u>(951)</u>	<u>-</u>	<u>951</u>	<u>(5,937)</u>
Beginning Net Position	<u>264,217</u>	<u>7,605</u>	<u>(11)</u>	<u>(7,605)</u>	<u>264,206</u>
Ending Net Position	<u>\$ 258,280</u>	<u>\$ 6,654</u>	<u>\$ (11)</u>	<u>\$ (6,654)</u>	<u>\$ 258,269</u>

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Condensed Statement of Cash Flows – 2019

	The Lawrence Memorial Hospital	Lawrence Physicians, LLC	Reed Medical Group MDVIP	Eliminations	Combined
Net Cash Provided by (Used in) Operating Activities	\$ 95,968	\$ (30,271)	\$ (68,421)	\$ (68,421)	\$ (2,724)
Net Cash Provided by (Used in) Noncapital Financing Activities	(30,123)	30,271	-	68,421	148
Net Cash Provided by Capital and Related Financing Activities	(60,086)	-	-	-	(60,086)
Net Cash Used in Investing Activities	<u>52,753</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>52,753</u>
Change in Cash and Cash Equivalents	58,512	-	(68,421)	-	(9,909)
Cash and Cash Equivalents, Beginning of Year	<u>65,847</u>	<u>-</u>	<u>150</u>	<u>-</u>	<u>65,997</u>
Cash and Cash Equivalents, End of Year	<u>\$ 124,359</u>	<u>\$ -</u>	<u>\$ 82</u>	<u>\$ -</u>	<u>\$ 56,088</u>