

**The Lawrence Memorial Hospital**  
**A Component Unit of the City of Lawrence, Kansas**  
Independent Auditor's Report and Financial Statements  
December 31, 2017 and 2016



**The Lawrence Memorial Hospital**  
**A Component Unit of the City of Lawrence, Kansas**  
**December 31, 2017 and 2016**

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## Independent Auditor's Report

Board of Trustees  
The Lawrence Memorial Hospital  
Lawrence, Kansas

We have audited the accompanying financial statements of The Lawrence Memorial Hospital (Hospital) and its discretely presented component unit (The Lawrence Memorial Hospital Endowment Association), collectively a component unit of the City of Lawrence, Kansas, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

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

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

***Opinions***

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of The Lawrence Memorial Hospital and of its discretely presented component unit as of December 31, 2017 and 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Required Supplementary Information***

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

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

*BKD, LLP*

Kansas City, Missouri  
April 18, 2018

**The Lawrence Memorial Hospital**  
**A Component Unit of the City of Lawrence, Kansas**  
**Management's Discussion and Analysis**  
**Years Ended December 31, 2017 and 2016**

***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, 2017 and 2016. It should be read in conjunction with the accompanying financial statements of the Hospital. Unless otherwise indicated, the information and financial data relates solely to the Hospital and does not include its discretely presented component unit, The Lawrence Memorial Hospital Endowment Association. Dollar amounts are in thousands.

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

***Financial Highlights***

- Cash and investments on December 31, 2017 totaled \$115,696, an increase of \$10,524 or 10.0 percent over the prior year ending balance. Cash and investments totaled \$105,172 on December 31, 2016, a decrease of 28.8 percent compared to the 2015 balance of \$147,760 due to retiring debt during the year.
- The Hospital's net position increased in each of the past two years with an \$18,968 or 8.2 percent increase in 2017 and \$18,432 or 8.7 percent increase in 2016.
- The Hospital reported operating income in 2017 of \$14,325 and in 2016 of \$13,694. Annual operating income increased in 2017 by \$631 or 4.6 percent over the prior year. The operating income decreased in 2016 by \$4,545 or 24.9 percent when compared to 2015.
- Investment income in 2017 was \$3,516 for an increase of \$30 or 0.9 percent over 2016. Investment income in 2016 was \$3,486, an increase of \$2,526 or 263.1 percent over investment earnings in the prior year.

***Using This Annual Report***

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

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

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

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

### ***The Statement of Cash Flows***

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

### ***Net Position***

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

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

	2017	2016	2015
<b>Assets</b>			
Cash and cash equivalents	\$ 42,702	\$ 38,206	\$ 52,037
Patient accounts receivable, net	37,366	31,739	24,995
Other current assets	17,453	15,217	16,725
Noncurrent cash and investments	71,955	65,925	91,743
Capital assets, net	112,118	110,194	103,766
Other noncurrent assets	823	713	747
Total assets	282,417	261,994	290,013
<b>Deferred Outflows of Resources</b>			
Deferred amount on refunding	92	112	462
Total assets and deferred outflows of resources	\$ 282,509	\$ 262,106	\$ 290,475
<b>Liabilities</b>			
Long-term debt	\$ 7,795	\$ 9,640	\$ 56,771
Other current and noncurrent liabilities	25,450	22,170	21,840
Total liabilities	33,245	31,810	78,611
<b>Net Position</b>			
Net investment in capital assets	101,907	98,169	47,850
Restricted - expendable for debt service	924	912	1,527
Restricted - expendable for specific operating activities	22	-	-
Unrestricted	146,411	131,215	162,487
Total net position	249,264	230,296	211,864
Total liabilities and net position	\$ 282,509	\$ 262,106	\$ 290,475

Net patient accounts receivable increased by \$5,627 (17.7 percent) at December 31, 2017 compared to December 31, 2016. Net patient accounts receivable increased by \$6,744 (27.0 percent) at December 31, 2016 compared to December 31, 2015.

Cash, short-term investments and other current assets of \$60,155 increased \$6,732 (12.6 percent) in 2017 when compared to the balance of \$53,423 on December 31, 2016. The December 31, 2016 balance represented a decrease of \$15,339 (22.3 percent) when compared to the balance of \$68,762 on December 31, 2015.

Noncurrent cash and investments of \$71,955 on December 31, 2017 increased by \$6,030 (9.1 percent) when compared to the balance on December 31, 2016. Noncurrent cash and investments of \$65,925 on December 31, 2016 decreased by \$25,818 (28.1 percent) when compared to the balance of \$91,743 at the end of 2015. The decreases in cash and investments in 2016 resulted from retiring the outstanding balances owed for the 2006 Series bonds in July 2016.

Net capital assets of \$112,118 at December 31, 2017 increased by \$1,924 or 1.7 percent of the balance at December 31, 2016. Net capital assets of \$110,194 at December 31, 2016 increased by \$6,428 or 6.2 percent over the balance of \$103,766 at the end of 2015. These amounts were offset by increases in accumulated depreciation and the retirement of assets no longer in service.

Long-term debt decreased \$1,845 or 19.1 percent in 2017 due to the scheduled debt principal payments. Long-term debt decreased \$47,131 in 2016 due to retiring the \$45,575 outstanding balance for the 2006 Series bonds and principal payments for the 2012 and 2013 series bonds.

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

The Hospital's Revenues over Expenses for 2017 was \$18,060 for a net margin of 7.0 percent. The Revenues over Expenses is the principle factor in the increase in net position of \$18,968, as shown in Table 2. The Hospital's increase in net position from 2015 to 2016 was \$18,432.

**Table 2: Operating Results and Changes in Net Position**

	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Operating Revenues</b>			
Net patient service revenue	\$ 250,730	\$ 221,803	\$ 203,407
Other operating revenues	2,275	2,306	2,828
Total operating revenues	253,005	224,109	206,235
<b>Operating Expenses</b>			
Salaries and wages and employee benefits	118,136	105,641	96,917
Purchased services and professional fees	33,808	29,125	26,839
Depreciation and amortization	11,342	10,609	10,000
Other operating expenses	75,394	65,040	54,240
Total operating expenses	238,680	210,415	187,996
<b>Operating Income</b>	14,325	13,694	18,239
<b>Nonoperating Revenues (Expenses)</b>			
Investment income	3,516	3,486	960
Contributions and other	105	89	97
Interest expense	(258)	(1,177)	(2,677)
Equity in net gains of affiliate	372	483	526
Total nonoperating revenues (expenses)	3,735	2,881	(1,094)
<b>Revenues over Expenses</b>	18,060	16,575	17,145
<b>Contributions Restricted for Acquisition of Capital Assets</b>	908	1,857	895
<b>Increase in Net Position</b>	\$ 18,968	\$ 18,432	\$ 18,040

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

Net patient service revenue of \$250,436 increased \$28,633 or 12.9 percent in 2017 compared to net patient service revenue achieved in the prior year.



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

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

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

Hospital inpatient revenue increased by 16.0 percent in 2016. Adult and pediatric discharges increased 2.1 percent in 2016 when compared to 2015 discharges, and inpatient days for adult and pediatric patients increased 0.5 percent over the prior year. Inpatient surgery cases increased by 17.1 percent in 2016 resulting in \$4,376 of additional revenue from surgery, recovery room and anesthesia services when compared to 2015. The increased surgical volumes were due to recruiting a spine surgeon to the community and an additional orthopedic surgeon performing total joint replacements. Laboratory and pharmacy services utilized by nearly all hospitalized patients generated higher revenue during the year due to the higher number of inpatient days. CT Scan and other inpatient diagnostic imaging procedures were utilized more in 2016 and contributed to increased revenues for these services. Supply revenue increased due to the use of higher priced surgical implants required for many of the spine surgery cases.

Revenues for hospital outpatient services increased by 14.7 percent in 2016 when compared to 2015. Pharmacy services contributed significantly to the revenue growth due to increased use of chemotherapy and hematology drugs utilized for patients during the year. Chemotherapy treatments often involve newer, higher cost agents resulting in higher revenues. Outpatient surgery cases increased by 7.0 percent in 2016 when compared to the prior year contributing to the higher revenue generated by the surgery related departments. Outpatient CT Scan and MRI services continue to experience growth when compared to prior years. Physician practice revenues increased due to the addition of the spine care specialty practice and the recruitment of new family practice and internal medicine physicians.

Cardiovascular Specialists of Lawrence experienced a 7.2 percent increase in patient visits during the year generating a 21.8 percent increase in revenue over 2015.

Total operating expenses increased by \$22,419 or 11.9 percent when compared to expenses in 2015. Salaries, wages and employee benefits increased by 9.0 percent due to wage increases implemented for all Hospital employees following a compensation study and the addition of new physicians. This increase was offset by a reduction in Employee Benefits expenses due to lower health insurance claims experience in the Hospital's self-funded employee health plan for 2016. Purchased services and professional fees increased 8.5 percent over the prior year due to increased physician fees paid to Emergency Department, hospitalist and gastroenterology physicians due to higher patient volumes and contract changes. Contract labor expense increased in 2016. Contract staff members were utilized in the Emergency Department and Human Resources to temporarily replace key staff during absences throughout the year. Supplies expense increased 22.7 percent in 2016 due to the use of high dollar surgical implants related to spine surgeries and high cost pharmaceuticals used for patient treatments.

### ***Nonoperating Revenues and Expenses***

Nonoperating revenues and expenses consist primarily of investment earnings on its fixed income and equity portfolios, income from the Hospital's investment in the Lawrence Surgery Center, LLC, Mid-America Service Solutions, LLC and interest expense on bond financing.

Total Non-operating Revenues (Expenses) for 2017 increased \$854 or 29.6 percent compared to the 2016 increase of \$3,975 or 363.3 percent. Investment income in 2017 increased by \$30 (0.9 percent) over the prior year compared to the increase of \$2,526 (263.1 percent) in 2016. The increase in 2016 was related to the unrealized gain recorded for the investment in marketable securities. Interest expense decreased \$919 or 78.1 percent in 2017 due to paying off the 2006 Series bonds in 2016 when interest expense initially decreased \$1,500 or 56.0 percent.

### ***Capital Gifts***

The Hospital received contributions restricted for capital assets of \$908 from The Lawrence Memorial Hospital Endowment Association during 2017 compared to \$1,857 in 2016 and \$895 in 2015. The funds were used to fund capital equipment purchases for clinical and support departments throughout the Hospital. These contributions were expended and are reflected in unrestricted net position as of December 31, 2017 and 2016.

### ***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 2017 and 2016, discussed earlier.

### ***Capital Assets***

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

At the end of 2016, the Hospital had \$110,194 invested in capital assets, net of accumulated depreciation as detailed in *Note 6* to the financial statements, an increase of \$6,428 (6.2 percent) compared to the balance at the end of 2015. Major acquisitions during the year included the purchase of the LMH West medical office building which houses the LMH West Endoscopy and Imaging departments as well as the Internal Medicine Group of employed physicians. The purchase was planned as part of the 2011 transition agreement with the shareholder physicians in the Internal Medicine Group. In February 2016, construction was completed for the Fourth Floor Hospital renovation of the space occupied by the Transitional Care and Acute Rehab nursing units. The new space enhanced the ability to provide services in an efficient and safe manner in a more home-like setting. In 2016, the Hospital also purchased new MRI, heart catheterization and surgical equipment to enhance patient care services with state-of-the-art technology. The Hospital continued to invest in computer technology to support both clinical and hospital support departments.

### ***Debt***

At the end of 2017, the Hospital had \$9,640 in revenue bonds outstanding compared to \$11,465 in 2016 and \$58,835 in 2015. In July 2016, the Hospital retired \$45,575 of the debt related to the 2006 Series bonds originally issued to finance a major facility expansion and to refinance prior debt offerings.

### ***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, 2017 and 2016**

**Assets and Deferred Outflows of Resources**

	<b>2017</b>	<b>2016</b>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 42,701,673	\$ 38,206,315
Current portion of assets held by trustee	1,038,838	1,040,426
Patient accounts receivable, net of allowance for doubtful accounts; 2017 – \$14,875,041, 2016 – \$12,169,738	37,365,564	31,739,199
Due from third-party payers	2,120,285	1,866,842
Accounts receivable – other	440,871	780,137
Supplies	3,830,799	4,050,512
Prepaid expenses and other	10,023,502	7,478,201
	<u>97,521,532</u>	<u>85,161,632</u>
<b>Noncurrent Cash and Investments</b>		
Held by trustee for debt service	1,038,838	1,040,426
Internally designated for capital improvements	1,494,611	4,292,038
Other long-term investments	70,460,392	61,632,934
	<u>72,993,841</u>	<u>66,965,398</u>
Less amount required to meet current obligations	1,038,838	1,040,426
	<u>71,955,003</u>	<u>65,924,972</u>
<b>Capital Assets, net of accumulated depreciation</b>	<u>112,118,079</u>	<u>110,194,412</u>
<b>Other Assets</b>	<u>822,647</u>	<u>713,378</u>
<b>Total assets</b>	<u>282,417,261</u>	<u>261,994,394</u>
<b>Deferred Outflows of Resources</b>		
Deferred amount on refunding	<u>91,530</u>	<u>111,870</u>
<b>Total assets and deferred outflows of resources</b>	<u><u>\$ 282,508,791</u></u>	<u><u>\$ 262,106,264</u></u>

## Liabilities and Net Position

	2017	2016
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 1,845,000	\$ 1,825,000
Accounts payable	8,994,154	6,973,889
Accrued expenses	13,332,545	11,959,931
Accrued interest payable	114,400	127,858
Retirement plan obligation	427,126	452,520
Due to third-party payers	736,059	831,161
Total current liabilities	25,449,284	22,170,359
<b>Long-term Debt</b>	7,795,000	9,640,000
Total liabilities	33,244,284	31,810,359
<b>Net Position</b>		
Net investment in capital assets	101,907,039	98,168,818
Restricted – expendable for debt service	924,438	912,568
Restricted – expendable for specific operating activities	22,066	-
Unrestricted	146,410,964	131,214,519
Total net position	249,264,507	230,295,905
Total liabilities and net position	\$ 282,508,791	\$ 262,106,264

**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, 2017 and 2016**

	<b>2017</b>	<b>2016</b>
<b>Operating Revenues</b>		
Net patient service revenue, net of provision for uncollectible accounts; 2017 – \$17,353,100, 2016 – \$12,689,900	\$ 250,729,709	\$ 221,802,007
Other	2,275,349	2,306,272
Total operating revenues	253,005,058	224,108,279
<b>Operating Expenses</b>		
Salaries and wages	98,983,836	89,141,004
Employee benefits	19,152,128	16,500,280
Professional fees	19,357,205	17,754,620
Purchased services	14,451,148	11,370,131
Supplies	53,469,540	45,433,068
Utilities	2,969,193	2,805,404
Miscellaneous expenses	2,032,565	1,663,213
Licenses, taxes and Kansas provider assessment	1,141,311	961,864
Repairs and maintenance	12,739,607	10,793,290
Depreciation	11,342,299	10,608,507
Loss on sale or disposal of property and equipment	277,017	119,133
Insurance	1,000,412	864,108
Other capital costs	1,764,352	2,400,017
Total operating expenses	238,680,613	210,414,639
<b>Operating Income</b>	14,324,445	13,693,640
<b>Nonoperating Revenues (Expenses)</b>		
Investment income	3,516,877	3,486,279
Contributions and other	104,908	89,139
Interest expense	(257,524)	(1,176,834)
Gain on investment in equity investee	371,769	483,113
Total nonoperating revenues, net	3,736,030	2,881,697
<b>Revenues Over Expenses</b>	18,060,475	16,575,337
<b>Contributions Restricted for Acquisition of Capital Assets</b>	908,127	1,856,597
<b>Increase in Net Position</b>	18,968,602	18,431,934
<b>Net Position, Beginning of Year</b>	230,295,905	211,863,971
<b>Net Position, End of Year</b>	\$ 249,264,507	\$ 230,295,905

**The Lawrence Memorial Hospital**  
**A Component Unit of the City of Lawrence, Kansas**  
**Statements of Cash Flows**  
**Years Ended December 31, 2017 and 2016**

	<b>2017</b>	<b>2016</b>
<b>Operating Activities</b>		
Receipts from and on behalf of patients	\$ 244,754,799	\$ 215,280,189
Payments to suppliers and contractors	(109,241,102)	(93,702,445)
Payments to employees	(116,788,744)	(105,069,459)
Other receipts, net	2,614,615	1,777,293
	<hr/>	<hr/>
Net cash provided by operating activities	21,339,568	18,285,578
	<hr/>	<hr/>
<b>Noncapital Financing Activities</b>		
Noncapital gifts	104,908	89,139
	<hr/>	<hr/>
Net cash provided by noncapital financing activities	104,908	89,139
	<hr/>	<hr/>
<b>Capital and Related Financing Activities</b>		
Principal paid on long-term debt	(1,825,000)	(47,370,000)
Interest paid on long-term debt	(250,642)	(2,614,505)
Purchase of capital assets	(13,582,081)	(16,848,240)
Capital gifts	908,127	1,856,597
Proceeds from sale of capital assets	49,547	10,696
	<hr/>	<hr/>
Net cash used in capital and related financing activities	(14,700,049)	(64,965,452)
	<hr/>	<hr/>
<b>Investing Activities</b>		
Interest and dividends on investments	2,629,800	1,864,092
Proceeds (purchase) of investments, net	(5,143,450)	28,681,190
Investments in affiliate	(250,000)	-
Distributions from affiliates	512,500	516,601
	<hr/>	<hr/>
Net cash provided by (used in) investing activities	(2,251,150)	31,061,883
	<hr/>	<hr/>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	4,493,277	(15,528,852)
	<hr/>	<hr/>
<b>Cash and Cash Equivalents, Beginning of Year</b>	39,246,732	54,775,584
	<hr/>	<hr/>
<b>Cash and Cash Equivalents, End of Year</b>	\$ 43,740,009	\$ 39,246,732
	<hr/> <hr/>	<hr/> <hr/>
<b>Reconciliation of Cash and Cash Equivalents to the Balance Sheets</b>		
Cash and cash equivalents in current assets	\$ 42,701,673	\$ 38,206,315
Cash and cash equivalents in noncurrent cash and investments	1,038,336	1,040,417
	<hr/>	<hr/>
	\$ 43,740,009	\$ 39,246,732
	<hr/> <hr/>	<hr/> <hr/>

**The Lawrence Memorial Hospital**  
**A Component Unit of the City of Lawrence, Kansas**  
**Statements of Cash Flows (Continued)**  
**Years Ended December 31, 2017 and 2016**

	<b>2017</b>	<b>2016</b>
<b>Reconciliation of Net Operating Revenues to Net Cash Provided by Operating Activities</b>		
Operating income	\$ 14,324,445	\$ 13,693,640
Depreciation	11,342,299	10,608,507
Loss on sale or disposal of property and equipment	277,017	119,133
Changes in operating assets and liabilities		
Patient accounts receivable, net	(5,626,365)	(6,744,033)
Other accounts receivable	339,266	(528,979)
Estimated amounts due from and to third-party payers	(348,545)	222,215
Accounts payable and accrued expenses	3,357,039	2,057,267
Supplies	219,713	(633,137)
Prepaid expenses	(2,545,301)	(509,035)
	<u>\$ 21,339,568</u>	<u>\$ 18,285,578</u>
Net cash provided by operating activities		
<b>Supplemental Cash Flows Information</b>		
Capital asset acquisitions included in accounts payable	\$ 571,040	\$ 560,594
Increase in fair value of investments	945,506	1,663,103
Unamortized 2006 bond premium decrease due to early bond payoff	-	(606,246)
Unamortized 2006 bond loss on defeasance due to early bond payoff	-	329,835



**The Lawrence Memorial Hospital Endowment Association**  
**A Component Unit of The Lawrence Memorial Hospital**  
**Statements of Financial Position**  
**December 31, 2017 and 2016**

**Assets**

	<b>2017</b>	<b>2016</b>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 293,184	\$ 697,234
Pledges receivable – current portion	<u>287,819</u>	<u>317,458</u>
Total current assets	581,003	1,014,692
<b>Noncurrent Assets</b>		
Pledges receivable, net of current portion	329,083	419,884
Investments	<u>12,385,473</u>	<u>10,157,113</u>
Total assets	<u><u>\$ 13,295,559</u></u>	<u><u>\$ 11,591,689</u></u>

**Liabilities and Net Assets**

<b>Current Liabilities</b>		
Accounts payable	\$ 6,115	\$ 1,115
Liability to beneficiaries of split-interest agreements	<u>4,278</u>	<u>5,416</u>
Total current liabilities	<u>10,393</u>	<u>6,531</u>
<b>Net Assets</b>		
Unrestricted	6,181,626	5,692,989
Temporarily restricted	5,733,749	4,575,968
Permanently restricted	<u>1,369,791</u>	<u>1,316,201</u>
Total net assets	<u>13,285,166</u>	<u>11,585,158</u>
Total liabilities and net assets	<u><u>\$ 13,295,559</u></u>	<u><u>\$ 11,591,689</u></u>

**The Lawrence Memorial Hospital Endowment Association**  
**A Component Unit of The Lawrence Memorial Hospital**  
**Statement of Activities**  
**Year Ended December 31, 2017**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Support and Gains</b>				
Contributions	\$ 112,501	\$ 743,565	\$ 53,590	\$ 909,656
In-kind contributions	577,216	70,350		647,566
Special events	201,703	112,460		314,163
Interest and dividend income	135,296	137,758		273,054
Net realized and unrealized gains	677,379	689,706		1,367,085
Amounts released from restrictions	596,058	(596,058)		-
	<u>2,300,153</u>	<u>1,157,781</u>	<u>53,590</u>	<u>3,511,524</u>
<b>Expenses</b>				
Support to Hospital departments	870,768			870,768
Employee support	58,810			58,810
Watkins trust	94,842			94,842
Office expense	5,448			5,448
Special events	237,357			237,357
Salaries and employee benefits	339,189			339,189
Operating expenses	185,609			185,609
Rent	19,493			19,493
	<u>1,811,516</u>			<u>1,811,516</u>
<b>Increase in Net Assets</b>	488,637	1,157,781	53,590	1,700,008
<b>Net Assets, Beginning of Year</b>	<u>5,692,989</u>	<u>4,575,968</u>	<u>1,316,201</u>	<u>11,585,158</u>
<b>Net Assets, End of Year</b>	<u>\$ 6,181,626</u>	<u>\$ 5,733,749</u>	<u>\$ 1,369,791</u>	<u>\$ 13,285,166</u>

**The Lawrence Memorial Hospital Endowment Association**  
**A Component Unit of The Lawrence Memorial Hospital**  
**Statement of Activities**  
**Year Ended December 31, 2016**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Support and Gains</b>				
Contributions	\$ 425,037	\$ 1,147,627	\$ 50,000	\$ 1,622,664
In-kind contributions	525,771	124,519		650,290
Special events	209,402	348,714		558,116
Interest and dividend income	172,190	90,975		263,165
Net realized and unrealized gains	375,288	198,280		573,568
Amounts released from restrictions	2,064,829	(2,064,829)		-
	<u>3,772,517</u>	<u>(154,714)</u>	<u>50,000</u>	<u>3,667,803</u>
<b>Expenses</b>				
Support to Hospital departments	2,289,368			2,289,368
Employee support	45,340			45,340
Watkins trust	89,139			89,139
Office expense	106			106
Special events	60,959			60,959
Salaries and employee benefits	348,696			348,696
Operating expenses	111,649			111,649
Rent	19,493			19,493
	<u>2,964,750</u>			<u>2,964,750</u>
<b>Increase (Decrease) in Net Assets</b>	807,767	(154,714)	50,000	703,053
<b>Net Assets, Beginning of Year</b>	<u>4,885,222</u>	<u>4,730,682</u>	<u>1,266,201</u>	<u>10,882,105</u>
<b>Net Assets, End of Year</b>	<u>\$ 5,692,989</u>	<u>\$ 4,575,968</u>	<u>\$ 1,316,201</u>	<u>\$ 11,585,158</u>

**The Lawrence Memorial Hospital**  
**A Component Unit of the City of Lawrence, Kansas**  
**Notes to Financial Statements**  
**December 31, 2017 and 2016**

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

***Nature of Operations and Reporting Entity***

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

Effective January 1, 2015, the Hospital transferred its physician practices to Lawrence Physicians, LLC (LP LLC). LP LLC is considered a blended component unit and operates exclusively for the benefit of, to perform the functions of, and to carry out the purposes of the Board of Trustees of The Lawrence Memorial Hospital.

Effective June 2, 2017, a nonprofit nonstock corporation, Reed Medical Group MDVIP Affiliate, Corporation (MDVIP), was formed, the sole member of the corporation being The Lawrence Memorial Hospital. MDVIP is considered a blended component unit of the Hospital and was created to employ the two physicians associated with the Hospital's Reed Medical Group Physician Practice.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units*, The Lawrence Memorial Hospital Endowment Association (the Endowment Association) is presented as a discretely presented component unit of the Hospital. See *Note 14* for additional information about the Endowment Association.

***Basis of Accounting and Presentation***

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, liabilities and deferred inflows and outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place. Operating revenues and expenses include exchange transactions. Investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available. The financial statements include the accounts of The Lawrence Memorial Hospital, Lawrence Physicians, LLC, and Reed Medical Group MDVIP Affiliate, Corporation (collectively known as the Hospital). All significant inter-company balances and transactions have been eliminated.

**The Lawrence Memorial Hospital**  
**A Component Unit of the City of Lawrence, Kansas**  
**Notes to Financial Statements**  
**December 31, 2017 and 2016**

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Cash Equivalents***

The Hospital considers all liquid investments, with maturities at the date of purchase of three months or less, to be cash equivalents. Cash equivalents consist primarily of repurchase agreements and money market mutual funds.

***Risk Management***

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

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

***Investments and Investment Income***

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

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

***Noncurrent Cash and Investments***

Noncurrent cash and investments include (1) assets held by trustees under bond indenture agreements, (2) internally designated unrestricted assets set aside by the Board of Trustees for future capital improvements over which the Board retains control and may, at its discretion, subsequently use for other purposes, and (3) undesignated and unrestricted investments. Amounts required to meet current liabilities of the Hospital are included in current assets. Such funds are primarily invested in U.S. Government obligations, corporate bonds, guaranteed investment contracts and money market mutual funds.

**The Lawrence Memorial Hospital**  
**A Component Unit of the City of Lawrence, Kansas**  
**Notes to Financial Statements**  
**December 31, 2017 and 2016**

***Patient Accounts Receivable***

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

***Supplies***

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

***Capital Assets***

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset following guidelines of the American Hospital Association. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. Amortization of assets subject to capital leases is reported as part of depreciation expense. The following estimated useful lives are being used by the Hospital:

Land improvements	15 – 20 years
Buildings and leasehold improvements	20 – 40 years
Equipment	3 – 7 years

***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.

**The Lawrence Memorial Hospital**  
**A Component Unit of the City of Lawrence, Kansas**  
**Notes to Financial Statements**  
**December 31, 2017 and 2016**

***Net Position***

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

***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 \$13,750,000 and \$14,850,000 in 2017 and 2016, respectively.

***Income Taxes***

As an essential government function of the City, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law.

***Electronic Health Records Incentive Program***

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records (EHR) technology. Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. Payments under both programs are contingent on the Hospital continuing to meet escalating meaningful use criteria and any other

**The Lawrence Memorial Hospital**  
**A Component Unit of the City of Lawrence, Kansas**  
**Notes to Financial Statements**  
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specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

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

In 2017 and 2016, the Hospital completed the requirements under the Medicare program. The Hospital has recorded revenue of approximately \$171,000 and \$58,000 in 2017 and 2016, respectively, which is included in other revenue within operating revenues in the statements of revenues, expenses and changes in net position.

***Reclassifications***

Certain reclassifications have been made to the 2016 financial statements to conform to the 2017 presentation. The reclassifications had no effect on the changes in financial position.

**Note 2: Net Patient Service Revenue**

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

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

Approximately 29 percent and 31 percent of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2017 and 2016, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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



**The Lawrence Memorial Hospital**  
**A Component Unit of the City of Lawrence, Kansas**  
**Notes to Financial Statements**  
**December 31, 2017 and 2016**

**Note 3: Deposits, Investments and Investment Income**

***Deposits***

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

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

At December 31, 2017 and 2016, none of the Hospital's bank deposit balances of \$17,101,767 and \$4,534,078, 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**  
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At December 31, 2017 and 2016, the Hospital had the following investments and maturities:

Type	December 31, 2017		
	Fair Value	Maturities in Years	
		Less Than 1	1 – 5
Government and agency bonds	\$ 7,882,448	\$ -	\$ 7,882,448
Corporate bonds	30,734,399	6,982,866	23,751,533
Repurchase agreements	44,954,532	44,954,532	-
Money market mutual funds	1,038,336	1,038,336	-
Accrued interest	443,841	443,841	-
	85,053,556	\$ 53,419,575	\$ 31,633,981
Equity securities	16,147,828		
	<u>\$ 101,201,384</u>		
Type	December 31, 2016		
	Fair Value	Maturities in Years	
		Less Than 1	1 – 5
Government and agency bonds	\$ 7,899,640	\$ -	\$ 7,899,640
Corporate bonds	35,005,080	4,145,912	30,859,168
Repurchase agreements	39,546,633	39,546,633	-
Money market mutual funds	1,040,417	1,040,417	-
Accrued interest	502,273	502,273	-
	83,994,043	\$ 45,235,235	\$ 38,758,808
Equity securities	17,974,315		
	<u>\$ 101,968,358</u>		

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

**The Lawrence Memorial Hospital**  
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**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, 2017 and 2016, ratings of the Hospital's investments in U.S. agencies obligations not directly guaranteed by the U.S. government, corporate bonds and money market mutual funds ranged from Baa to AAA as rated by Moody's Investor Services, Inc.

**Custodial Credit Risk.** For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Hospital will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. All of the underlying securities for the Hospital's investments in repurchase agreements at December 31, 2017 and 2016 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, 2017 and 2016, 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:

	<b>2017</b>	<b>2016</b>
Federal National Mortgage Association	8%	8%
Bank of Montreal	5%	5%
Morgan Stanley	6%	6%
Citigroup	6%	6%
Repurchase agreements with Commerce Bank, n.a.	45%	39%

**The Lawrence Memorial Hospital**  
**A Component Unit of the City of Lawrence, Kansas**  
**Notes to Financial Statements**  
**December 31, 2017 and 2016**

***Summary of Carrying Values***

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

	<b>2017</b>	<b>2016</b>
Carrying value		
Deposits <sup>(1)</sup>	\$ 14,494,130	\$ 3,203,355
Investments	<u>101,201,384</u>	<u>101,968,358</u>
	<u>\$ 115,695,514</u>	<u>\$ 105,171,713</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 42,701,673	\$ 38,206,315
Current portion of assets held by trustee	1,038,838	1,040,426
Noncurrent cash and investments	<u>71,955,003</u>	<u>65,924,972</u>
	<u>\$ 115,695,514</u>	<u>\$ 105,171,713</u>

<sup>(1)</sup>The Hospital utilizes an overnight repurchase agreement for its bank deposits to maximize investment return. At December 31, 2017 and 2016, the overnight repurchase agreement amounted to \$44,954,532 and \$39,546,633, respectively, and its carrying value is included in the investments above. The repurchase agreement balance is included as a cash equivalent on the balance sheets at year end.

***Investment Income***

Investment income for the years ended December 31, 2017 and 2016 consisted of:

	<b>2017</b>	<b>2016</b>
Interest and dividend income	\$ 2,571,371	\$ 1,823,176
Net increase in fair value of investments	<u>945,506</u>	<u>1,663,103</u>
	<u>\$ 3,516,877</u>	<u>\$ 3,486,279</u>

**The Lawrence Memorial Hospital**  
**A Component Unit of the City of Lawrence, Kansas**  
**Notes to Financial Statements**  
**December 31, 2017 and 2016**

**Note 4: Patient Accounts Receivable**

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at December 31, 2017 and 2016 consisted of:

	<b>2017</b>	<b>2016</b>
Medicare	\$ 6,158,672	\$ 5,416,748
Medicaid	1,037,380	1,451,493
Other third-party payers	27,157,729	21,446,832
Patients	17,886,824	15,593,864
	<u>52,240,605</u>	<u>43,908,937</u>
Less allowance for uncollectible accounts	<u>14,875,041</u>	<u>12,169,738</u>
	<u><u>\$ 37,365,564</u></u>	<u><u>\$ 31,739,199</u></u>

**Note 5: Other Assets**

***Investment in Lawrence Surgery Center, LLC***

The Hospital has a 50 percent membership interest in Lawrence Surgery Center, LLC (LSC). The net investment totaled \$606,938 and \$713,378 at December 31, 2017 and 2016, respectively. The remaining 50 percent membership interest is held by several physicians who are on the Hospital's active medical staff.

***Investment in Mid-America Service Solutions, LLC***

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

**The Lawrence Memorial Hospital**  
**A Component Unit of the City of Lawrence, Kansas**  
**Notes to Financial Statements**  
**December 31, 2017 and 2016**

**Note 6: Capital Assets**

Capital assets activity for the years ended December 31, 2017 and 2016 was:

	<b>2017</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Ending Balance</b>
Land	\$ 3,498,347	\$ 442,244	\$ -	\$ -	\$ 3,940,591
Land improvements	3,019,294	176,030	(97,611)	-	3,097,713
Buildings and leasehold improvements	131,221,573	748,243	(688,490)	2,504,661	133,785,987
Fixed equipment	15,090,105	396,930	(191,972)	9,807	15,304,870
Major movable equipment	84,608,698	3,639,122	(2,747,171)	2,329,563	87,830,212
Construction in progress	1,329,741	8,189,958	-	(4,844,031)	4,675,668
	<u>238,767,758</u>	<u>13,592,527</u>	<u>(3,725,244)</u>	<u>-</u>	<u>248,635,041</u>
Less accumulated depreciation					
Land improvements	2,328,176	114,869	(97,611)	-	2,345,434
Buildings and leasehold improvements	48,751,396	4,674,328	(438,606)	-	52,987,118
Fixed equipment	12,815,751	319,651	(191,411)	-	12,943,991
Major movable equipment	64,678,023	6,233,451	(2,671,055)	-	68,240,419
	<u>128,573,346</u>	<u>11,342,299</u>	<u>(3,398,683)</u>	<u>-</u>	<u>136,516,962</u>
Capital assets, net	<u>\$ 110,194,412</u>	<u>\$ 2,250,228</u>	<u>\$ (326,561)</u>	<u>\$ -</u>	<u>\$ 112,118,079</u>

  

	<b>2016</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Ending Balance</b>
Land	\$ 2,448,347	\$ 1,050,000	\$ -	\$ -	\$ 3,498,347
Land improvements	2,936,410	82,884	-	-	3,019,294
Buildings and leasehold improvements	122,268,414	5,202,831	(1,282,702)	5,033,030	131,221,573
Fixed equipment	14,927,415	344,950	(200,501)	18,241	15,090,105
Major movable equipment	80,452,465	7,219,208	(4,101,519)	1,038,544	84,608,698
Construction in progress	4,152,207	3,267,349	-	(6,089,815)	1,329,741
	<u>227,185,258</u>	<u>17,167,222</u>	<u>(5,584,722)</u>	<u>-</u>	<u>238,767,758</u>
Less accumulated depreciation					
Land improvements	2,223,922	104,254	-	-	2,328,176
Buildings and leasehold improvements	45,600,109	4,419,155	(1,267,868)	-	48,751,396
Fixed equipment	12,694,604	321,648	(200,501)	-	12,815,751
Major movable equipment	62,901,097	5,763,450	(3,986,524)	-	64,678,023
	<u>123,419,732</u>	<u>10,608,507</u>	<u>(5,454,893)</u>	<u>-</u>	<u>128,573,346</u>
Capital assets, net	<u>\$ 103,765,526</u>	<u>\$ 6,558,715</u>	<u>\$ (129,829)</u>	<u>\$ -</u>	<u>\$ 110,194,412</u>

**The Lawrence Memorial Hospital**  
**A Component Unit of the City of Lawrence, Kansas**  
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**Note 7: Accounts Payable and Accrued Expenses**

Accounts payable and accrued expenses included in current liabilities at December 31, 2017 and 2016 consisted of:

	<u>2017</u>	<u>2016</u>
Payable to suppliers and contractors	\$ 8,994,154	\$ 6,973,889
Payable to employees (including payroll taxes and benefits)	13,172,521	11,762,800
Other	<u>160,024</u>	<u>197,131</u>
	<u>\$ 22,326,699</u>	<u>\$ 18,933,820</u>

**Note 8: Medical Malpractice Claims**

The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents based upon the Hospital's claims experience, as well as other considerations, including the nature of each claim. It is reasonably possible that this estimate could change materially in the near term.

**Note 9: Employee Health Claims**

Substantially all of the Hospital's employees and their dependents are eligible to participate in the Hospital's employee health insurance plan. The Hospital is self-insured for health claims of participating employees and dependents up to specific claim amounts of \$175,000 per individual in both 2017 and 2016 and approximately \$7,015,000 and \$6,792,000 aggregate for 2017 and 2016, respectively. 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 2017 and 2016 is summarized as follows:

	<u>2017</u>	<u>2016</u>
Balance, beginning of year	\$ 1,592,091	\$ 1,915,188
Claims incurred	7,767,427	6,113,996
Claims and expenses paid	<u>(8,008,513)</u>	<u>(6,437,093)</u>
Balance, end of year	<u>\$ 1,351,005</u>	<u>\$ 1,592,091</u>

**Note 10: Long-term Debt**

The following is a summary of long-term debt transactions for the Hospital for the years ended December 31, 2017 and 2016:

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

  

	<u>2016</u>				
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Revenue bonds payable					
Series 2006	\$ 45,575,000	\$ -	\$ 45,575,000	\$ -	\$ -
Series 2012	9,200,000	-	455,000	8,745,000	470,000
Series 2013	4,060,000	-	1,340,000	2,720,000	1,355,000
	<u>58,835,000</u>	<u>-</u>	<u>47,370,000</u>	<u>11,465,000</u>	<u>1,825,000</u>
Unamortized premiums	606,246	-	606,246	-	-
	<u>606,246</u>	<u>-</u>	<u>606,246</u>	<u>-</u>	<u>-</u>
Total long-term debt					
	<u>\$ 59,441,246</u>	<u>\$ -</u>	<u>\$ 47,976,246</u>	<u>\$ 11,465,000</u>	<u>\$ 1,825,000</u>



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***Revenue Bonds Payable***

The City had issued Series 2006, Series 2012 and Series 2013 Hospital Revenue Bonds (Bonds) under a Bond Indenture dated June 1, 1994, as amended and supplemented, to finance expansion and renovation of Hospital facilities, acquire equipment and property, refinance prior bond issues and reimburse the Hospital for certain capital expenditures. Under related Lease and Guaranty Agreements dated June 1, 1994, as amended and supplemented, the Hospital leases its facilities and substantially all equipment from the City. The Bonds and interest thereon are special, limited obligations of the City payable solely from: (i) lease payments from the Hospital, (ii) a pledge of the Hospital's gross revenues, (iii) a pledge of most Hospital facilities and equipment and (iv) amounts on deposit with the Bond Trustee. Therefore, both the Hospital facilities and equipment and Bonds payable are recorded in the accompanying financial statements.

The Bond Indenture requires the Hospital to meet certain measures of financial performance on an annual basis and places limitations on future borrowings.

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

In July 2016, the Hospital retired bond Series 2006, effectively paying off all principal and interest.

Additional information about the bonds is as follows:

	<b>Balance</b>	<b>Rates</b>	<b>Maturity</b>
Series 2012	\$ 10,500,000	2.53%	7/1/2022
Series 2013	6,865,000	1.06%	7/1/2018

The debt service requirements for revenue bonds as of December 31, 2017, are as follows:

<b>Year Ending December 31,</b>	<b>Total to be Paid</b>	<b>Principal</b>	<b>Interest</b>
2018	\$ 2,066,031	\$ 1,845,000	\$ 221,031
2019	689,114	495,000	194,114
2020	691,464	510,000	181,464
2021	693,345	525,000	168,345
2022	6,420,152	6,265,000	155,152
	<u>\$ 10,560,106</u>	<u>\$ 9,640,000</u>	<u>\$ 920,106</u>

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**Note 11: Assets Held in Trust**

The Hospital is the recipient of investment income from a perpetual endowment fund created under the last will and testament of Elizabeth M. Watkins. The will stipulated that the corpus is to be maintained inviolate under the administration of a trustee and the net investment income is to be distributed each year to the Hospital as long as the Hospital continues to be a charitable institution. The market value of the trust approximated \$2,366,500 and \$2,178,000 at December 31, 2017 and 2016, respectively. Assets of this trust are not included in the accompanying financial statements. Trust income received is reported as other nonoperating income.

**Note 12: Operating Leases**

Future minimum lease payments for equipment under leases with an initial term greater than one year at December 31, 2017 are as follows:

	<b>Rental Expense</b>
	<hr/>
2018	\$ 459,192

Rental expense for equipment amounted to \$742,511 and \$726,302 in 2017 and 2016, 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, 2017 is as follows:

	<b>Rental Expense</b>
	<hr/>
2018	\$ 478,790
2019	327,718
2020	168,131
2021	148,456
2022	85,673
Thereafter	<hr/> 276,847
	<hr/> <hr/> \$ 1,485,615

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Rental income for office space amounted to \$324,946 and \$489,205 in 2017 and 2016, respectively. Rental expense for office space amounted to \$737,181 and \$1,395,152 in 2017 and 2016, respectively.

**Note 13: Defined Contribution Plan**

The Hospital sponsors a defined contribution retirement plan covering substantially all employees over age 21 with one year of service. Retirement expense is recorded for the amount of the Hospital's required contributions, determined in accordance with the terms of the plan. The plan is administered by a committee appointed by the Board of Trustees. The plan provides retirement benefits to plan members. Benefit provisions are contained in the plan document and were established and can be amended by action of the Board of Trustees. Contributions actually made by plan members totaled \$4,868,804 and \$4,608,256 in 2017 and 2016, respectively, and the Hospital contributions aggregated \$3,147,176 and \$2,682,365 during 2017 and 2016, respectively. Employer contributions to the plan are based on the following contribution types:

Employer Basic Contributions

<u>Years of Service</u>	<u>% 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 14: The Lawrence Memorial Hospital Endowment Association**

The Lawrence Memorial Hospital 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, 2017 and 2016, the Endowment Association provided \$908,127 and \$1,856,597 of support to the Hospital, respectively. Complete financial statements of the Endowment Association may be obtained from its Administrative Office at the following address: Lawrence Memorial Hospital Endowment Association, 325 Maine Street, Lawrence, Kansas 66044.

The Endowment Association reports under the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Endowment Association's statements in the Hospital's financial reporting entity for these differences.

**Note 15: Contingencies**

***Litigation***

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

**Note 16: Disclosures About Fair Value of Assets and Liabilities**

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

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

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

***Recurring Measurements***

The following tables present the fair value measurements of assets and liabilities recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2017 and 2016:

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

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December 31, 2016				
Type	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Government and agency bonds	\$ 7,899,640	\$ -	\$ 7,899,640	\$ -
Corporate bonds	35,005,080	-	35,005,080	-
Repurchase agreements	39,546,633	39,546,633	-	-
Money market mutual funds	1,040,417	1,040,417	-	-
Equity securities	17,974,315	17,974,315	-	-
	101,466,085	\$ 58,561,365	\$ 42,904,720	\$ -
Accrued interest	502,273			
	<u>\$ 101,968,358</u>			

***Investments***

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

**Note 17: Subsequent Events**

***OrthoKansas, LLC***

On September 25, 2017, the Hospital entered into an asset purchase agreement with OrthoKansas, LLC, whereas The Lawrence Memorial Hospital was the buyer, and OrthoKansas, LLC was the seller. The closing of the transaction occurred on January 1, 2018, effective subsequent to fiscal year 2017.

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***Medical Office Building***

On February 1, 2018, the Hospital acquired a medical office building and surrounding residential properties, known as the Lawrence Medical Plaza (LMP), for approximately \$16.5 million. The Hospital issued a note to the seller in the amount of \$10,000,000 that bears interest at 4 percent and matures on February 1, 2043. The balance of the purchase price of approximately \$6.5 million was paid from the Hospital's operating cash.

***2018 Series Bond Issuance & Medical Office Building***

To aid in the development of a new Medical Office Building in west Lawrence, the Hospital is issuing bonds of approximately \$77,000,000. The proceeds from issuing the bonds along with other available funds will be used to finance the project. Final bond closing date is expected to be May 2018. Total construction costs of the Medical Office Building are expected to be upwards of approximately \$95,000,000.

**Note 18: Condensed Combining Information**

The following table includes condensed information for the Hospital and its blended component unit as of December 31, 2017 and 2016.

***Condensed Balance Sheet - 2017***

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

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

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

***Condensed Statement of Cash Flows - 2017***

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



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**Condensed Balance Sheet - 2016**

	The Lawrence Memorial Hospital	Lawrence Physicians, LLC	Reed Medical Group MDVIP	Eliminations	Combined
<b>Assets</b>					
Current assets	\$ 80,392	\$ 4,770	\$ -	\$ -	\$ 85,162
Capital assets	110,194	-	-	-	110,194
Other assets	66,638	-	-	-	66,638
Total assets	<u>257,224</u>	<u>4,770</u>	<u>-</u>	<u>-</u>	<u>261,994</u>
<b>Deferred Outflows of Resources</b>					
Deferred amount on refunding	112	-	-	-	112
Total assets and deferred outflows of resources	<u>\$ 257,336</u>	<u>\$ 4,770</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 262,106</u>
<b>Liabilities</b>					
Current liabilities	\$ 22,170	\$ -	\$ -	\$ -	\$ 22,170
Noncurrent liabilities	9,640	-	-	-	9,640
Total liabilities	<u>31,810</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>31,810</u>
<b>Net Position</b>					
Net investment in capital assets	98,169	-	-	-	98,169
Restricted - expendable for debt service	912	-	-	-	912
Unrestricted	126,445	4,770	-	-	131,215
Total net position	<u>225,526</u>	<u>4,770</u>	<u>-</u>	<u>-</u>	<u>230,296</u>
Total liabilities and net position	<u>\$ 257,336</u>	<u>\$ 4,770</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 262,106</u>

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***Condensed Statement of Revenues, Expenses and Changes in Net Position - 2016***

	The Lawrence Memorial Hospital	Lawrence Physicians, LLC	Reed Medical Group MDVIP	Eliminations	Combined
<b>Operating Revenues</b>					
Net patient service revenue	\$ 192,648	\$ 29,155	\$ -	\$ -	\$ 221,803
Other operating revenues	47,546	312	-	(45,552)	2,306
Total operating revenues	240,194	29,467	-	(45,552)	224,109
<b>Operating Expenses</b>					
Salaries and wages and employee benefits	105,641	-	-	-	105,641
Purchased services and professional fees	29,125	45,552	-	(45,552)	29,125
Other operating expenses	75,649	-	-	-	75,649
Total operating expenses	210,415	45,552	-	(45,552)	210,415
<b>Operating Income (Loss)</b>	29,779	(16,085)	-	-	13,694
<b>Nonoperating Revenues</b>	2,881	-	-	-	2,881
<b>Excess (Deficiency) of Revenues over Expenses</b>	32,660	(16,085)	-	-	16,575
<b>Contributions Restricted for Acquisition of Capital Assets</b>	1,857	-	-	-	1,857
<b>Transfers from Hospital</b>	(20,855)	20,855	-	-	-
<b>Increase in Net Position</b>	13,662	4,770	-	-	18,432
<b>Beginning Net Position</b>	211,864	-	-	-	211,864
<b>Ending Net Position</b>	\$ 225,526	\$ 4,770	\$ -	\$ -	\$ 230,296

***Condensed Statement of Cash Flows - 2016***

	The Lawrence Memorial Hospital	Lawrence Physicians, LLC	Reed Medical Group MDVIP	Eliminations	Combined
<b>Net Cash Provided by (Used in)</b>					
Operating Activities	\$ 39,529	\$ (21,243)	\$ -	\$ -	\$ 18,286
<b>Net Cash Provided by (Used in) Noncapital Financing Activities</b>	(21,154)	21,243	-	-	89
<b>Net Cash Used in Capital and Related Financing Activities</b>	(64,965)	-	-	-	(64,965)
<b>Net Cash Provided by Investing Activities</b>	31,062	-	-	-	31,062
<b>Change in Cash and Cash Equivalents</b>	(15,528)	-	-	-	(15,528)
<b>Cash and Cash Equivalents, Beginning of Year</b>	54,775	-	-	-	54,775
<b>Cash and Cash Equivalents, End of Year</b>	\$ 39,247	\$ -	\$ -	\$ -	\$ 39,247