



ARKANSAS CHILDREN'S

Consolidated Financial Statements

June 30, 2023 and 2022

(With Independent Auditors' Report Thereon)

ARKANSAS CHILDREN'S

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Independent Auditors' Report

The Board of Directors
Arkansas Children's:

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Arkansas Children's, which comprise the consolidated balance sheets as of June 30, 2023 and 2022, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Arkansas Children's as of June 30, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Arkansas Children's and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Arkansas Children's ability to continue as a going concern for one year after the date the consolidated financial statements are issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.



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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Arkansas Children's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Arkansas Children's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Reporting Required by *Government Auditing Standards*

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

KPMG LLP

Memphis, Tennessee
October 26, 2023

ARKANSAS CHILDREN'S
Consolidated Balance Sheets
June 30, 2023 and 2022

Assets	2023	2022
Current assets:		
Cash and cash equivalents	\$ 163,258,360	86,554,668
Net patient accounts receivable	111,147,352	106,800,778
Other current receivables	49,259,680	36,783,354
Investments – at fair value	517,666,365	534,366,311
Assets limited as to use – current	9,703,200	5,029,175
Estimated third-party payor settlements – current	157,364,294	131,439,770
Inventories	13,717,890	12,039,917
Prepays and other current assets	17,024,704	13,203,131
Total current assets	1,039,141,845	926,217,104
Assets limited as to use – noncurrent	543,723,649	393,010,225
Pledges receivable – noncurrent	31,375,604	18,330,446
Property, plant, and equipment – net	374,651,078	388,482,314
Operating right of use assets, net	9,518,160	10,320,871
Other noncurrent assets	65,893,001	81,807,300
Total assets	\$ 2,064,303,337	1,818,168,260
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 58,792,206	44,716,550
Accrued interest	2,098,200	2,124,175
Accrued expenses and other liabilities	54,994,486	68,791,970
Operating leases – current	1,570,732	2,000,498
Current portion of long-term debt	7,986,678	4,807,611
Total current liabilities	125,442,302	122,440,804
Noncurrent liabilities:		
Other long-term payables	2,158,321	2,363,414
Operating leases – noncurrent	7,947,428	8,320,373
Grant carryover	9,098,612	8,644,402
Long-term debt – net of current portion	279,376,822	153,726,223
Total liabilities	424,023,485	295,495,216
Commitments and contingencies		
Net assets:		
Without donor restrictions	1,407,377,478	1,319,429,805
With donor restrictions	232,902,374	203,243,239
Total net assets	1,640,279,852	1,522,673,044
Total liabilities and net assets	\$ 2,064,303,337	1,818,168,260

See accompanying notes to consolidated financial statements.

ARKANSAS CHILDREN'S

Consolidated Statements of Operations

Years ended June 30, 2023 and 2022

	2023	2022
Revenues, gains and other support:		
Net patient service revenue	\$ 841,191,482	735,538,009
Specific purpose grants	47,175,941	42,134,961
Supplemental Medicaid reimbursement	44,985,196	45,106,273
Other	36,063,758	33,505,657
Government grants	—	15,521,384
Net assets released from restrictions and used for operations	12,633,548	8,060,924
Total revenues, gains and other support	982,049,925	879,867,208
Expenses:		
Salaries and wages	401,762,690	346,496,240
Employee benefits	69,666,735	64,888,077
Supplies and pharmaceuticals	156,114,099	132,578,409
Professional fees	112,751,170	105,428,876
Purchased services	106,987,287	97,060,640
Depreciation	49,855,193	49,482,423
Interest	6,440,792	6,577,147
Utilities	6,583,160	6,874,114
Insurance	4,819,774	6,302,512
Other	14,586,977	12,519,174
Total expenses	929,567,877	828,207,612
Income from operations	52,482,048	51,659,596
Nonoperating revenues, gains, expenses and losses:		
Contributions	12,011,065	9,665,084
Investment income	21,846,347	14,535,267
Gain on sales of investments	942,886	9,440,502
Other loss on investments	(1,101,394)	(72,159,854)
Other gains	537,844	462,245
Fundraising expenses	(8,281,961)	(7,698,883)
Net nonoperating revenues, gains, expenses and losses	25,954,787	(45,755,639)
Excess of revenues and gains over expenses and losses	78,436,835	5,903,957
Other changes in net assets without donor restrictions:		
Net unrealized gain/(loss) on investments	4,375,398	(8,525,554)
Net assets released from restrictions used for purchase of property and equipment	3,147,821	4,613,105
Grant funds used to purchase capital assets	2,065,968	1,130,984
Gift annuity reserve	(105,798)	(10,805)
Transfer of net assets	27,449	(326,009)
Increase in net assets without donor restrictions	\$ 87,947,673	2,785,678

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Changes in Net Assets

Years ended June 30, 2023 and 2022

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Balance – June 30, 2021	\$ 1,316,644,127	205,349,907	1,521,994,034
Excess of revenues and gains over expenses and losses	5,903,957	—	5,903,957
Net assets released from donor restrictions and used for operations	—	(8,060,924)	(8,060,924)
Unrealized (loss)/gain on investments, net	(8,525,554)	45,081	(8,480,473)
Contributions with donor restrictions	—	19,314,746	19,314,746
Income from investments with donor restrictions	—	1,331,441	1,331,441
Gain on sale of investments with donor restrictions	—	2,617,598	2,617,598
Other losses on investments with donor restrictions	—	(12,513,806)	(12,513,806)
Net assets released from donor restrictions and used for purchase of property and equipment	4,613,105	(4,613,105)	—
Other than temporary impairment on investments with donor restrictions	—	(553,708)	(553,708)
Grant funds used to purchase capital assets	1,130,984	—	1,130,984
Gift annuity reserve	(10,805)	—	(10,805)
Transfer of net assets	(326,009)	326,009	—
Change in net assets	<u>2,785,678</u>	<u>(2,106,668)</u>	<u>679,010</u>
Balance – June 30, 2022	<u>1,319,429,805</u>	<u>203,243,239</u>	<u>1,522,673,044</u>
Excess of revenues and gains over expenses and losses	78,436,835	—	78,436,835
Net assets released from donor restrictions and used for operations	—	(12,633,548)	(12,633,548)
Unrealized gain on investments, net	4,375,398	154,557	4,529,955
Contributions with donor restrictions	—	38,476,368	38,476,368
Income from investments with donor restrictions	—	1,973,027	1,973,027
Gain on sale of investments with donor restrictions	—	39,189	39,189
Other gains on investments with donor restrictions	—	5,071,005	5,071,005
Net assets released from donor restrictions and used for purchase of property and equipment	3,147,821	(3,147,821)	—
Other than temporary impairment on investments with donor restrictions	—	(246,193)	(246,193)
Grant funds used to purchase capital assets	2,065,968	—	2,065,968
Gift annuity reserve	(105,798)	—	(105,798)
Transfer of net assets	27,449	(27,449)	—
Change in net assets	<u>87,947,673</u>	<u>29,659,135</u>	<u>117,606,808</u>
Balance – June 30, 2023	<u>\$ 1,407,377,478</u>	<u>232,902,374</u>	<u>1,640,279,852</u>

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Cash Flows

Years ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Change in net assets	\$ 117,606,808	679,010
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	49,855,193	49,482,423
Net realized and unrealized (gains)/losses on investments	(26,809,211)	57,476,812
Other than temporary impairment of investments	17,345,852	24,170,251
Loss on disposition of fixed assets	21,355	101,704
Contributions for restricted endowments and capital assets	(12,474,677)	(9,372,918)
Amortization/accretion of bond premium/discount and bond issuance costs	(363,648)	(350,953)
Changes in operating assets and liabilities:		
Patient and other receivables	(14,166,314)	(25,349,318)
Estimated third-party payor settlements	(25,924,524)	(10,959,902)
Pledges receivable	(15,701,744)	3,026,914
Inventories	(1,677,973)	(1,230,641)
Other assets	12,092,726	(3,456,286)
Accounts payable	15,832,532	(2,714,702)
Accrued expenses, interest, grant carryover, and other liabilities	(13,369,249)	6,956,865
Net cash provided by operating activities	<u>102,267,126</u>	<u>88,459,259</u>
Cash flows from investing activities:		
Purchases of property, plant, and equipment	(36,844,455)	(24,258,584)
Purchases of investments and assets limited as to use	(334,993,108)	(214,373,480)
Proceeds from sales of investments and assets limited as to use	<u>206,908,561</u>	<u>137,756,036</u>
Net cash used in investing activities	<u>(164,929,002)</u>	<u>(100,876,028)</u>
Cash flows from financing activities:		
Contributions for restricted endowments and capital assets	12,474,677	9,372,918
Principal payments on long-term debt	(4,808,083)	(4,351,242)
Proceeds from the issuance of long-term debt	135,097,050	—
Bond issuance costs	(1,095,653)	—
Payments on finance lease obligations	<u>(1,162,826)</u>	<u>(26,166)</u>
Net cash provided by financing activities	<u>140,505,165</u>	<u>4,995,510</u>
Net increase (decrease) in cash and cash equivalents	77,843,289	(7,421,259)
Cash and cash equivalents:		
Beginning of year	<u>86,728,052</u>	<u>94,149,311</u>
End of year	\$ <u>164,571,341</u>	\$ <u>86,728,052</u>
Reconciliation of cash and cash equivalents:		
Cash and cash equivalents	\$ 163,258,360	86,554,668
Restricted cash for self-insurance funding	<u>1,312,981</u>	<u>173,384</u>
	\$ <u>164,571,341</u>	\$ <u>86,728,052</u>
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 6,391,004	6,548,123
Noncash operating and investing activities – purchases of property, plant, and equipment in accounts payable	1,302,102	3,058,978
Purchase of property, plant, and equipment through vendor financing and finance lease	957,733	2,363,414
Noncash operating and investing activities – lease liability on right of use assets	2,214,680	2,399,668

See accompanying notes to consolidated financial statements.

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Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(1) Organization

Arkansas Children's, which was incorporated during December 2015, is the not-for-profit parent entity consisting of Arkansas Children's Hospital (ACH), Arkansas Children's Northwest (ACNW), Arkansas Children's Foundation (ACF), Arkansas Children's Research Institute (ACRI), Arkansas Children's Care Network (ACCN), Arkansas Children's Medical Group, PLLC (ACMG), and Sacova Insurance Company, Ltd. (SCV). ACH is a not-for-profit pediatric hospital located in Little Rock, Arkansas and serves as the only quaternary healthcare facility for children in the state of Arkansas. ACNW is a not-for-profit pediatric hospital located in Springdale, Arkansas, which serves as the only exclusively pediatric healthcare facility for children in the northwest region of the state. ACF is a not-for-profit organization that exists as the fundraising branch of Arkansas Children's. ACRI operates to support, through charitable, scientific, and educational means, the mission of Arkansas Children's. ACCN is a not-for-profit pediatric statewide clinically integrated network. ACMG was formed in March 2017 to provide physician services to ACNW and ACH. SCV, formed in May 2018, is a single parent captive insurance company, domiciled in the Cayman Islands, and wholly owned by Arkansas Children's. SCV provides professional and general liability and workers' compensation insurance coverage as of July 1, 2018.

Arkansas Children's is the only healthcare system in the state solely dedicated to caring for Arkansas' more than 700,000 children. The private, nonprofit organization includes two pediatric hospitals, a pediatric research institute and USDA nutrition center, a philanthropic foundation, a nursery alliance, statewide clinics, and many education and outreach programs — all focused on fulfilling a promise to define and deliver unprecedented child health. Arkansas Children's Hospital (ACH) is a 336-bed, Magnet-recognized facility in Little Rock operating the state's only Level I pediatric trauma center; the state's only burn center; the state's only Level IV neonatal intensive care unit; the state's only pediatric intensive care unit; the state's only pediatric surgery program with Level 1 verification from the American College of Surgeons (ACS); the state's only pediatric specific magnetoencephalography (MEG) system for neurosurgical planning and cutting-edge research; and the state's only nationally recognized pediatric transport program. Arkansas Children's is nationally ranked by US News & World Report in seven pediatric subspecialties (2023—2024): Cancer, Cardiology & Heart Surgery, Diabetes & Endocrinology, Nephrology, Orthopedics, Pulmonology, and Urology. Arkansas Children's Northwest (ACNW), the first and only pediatric hospital in the Northwest Arkansas region, is a level IV pediatric trauma center. ACNW operates a 24-bed inpatient unit; a surgical unit with five operating rooms; outpatient clinics offering over 20 subspecialties; diagnostic services; imaging capabilities; occupational therapy services; and Northwest Arkansas' only pediatric emergency department, equipped with 30 exam rooms. Generous philanthropic and volunteer engagement has sustained Arkansas Children's since it began as an orphanage in 1912, and today ensures the system can deliver on its promise of unprecedented child health.

Arkansas Children's carries out its mission through its entities' core business and through community benefit work that focuses on creating "unprecedented child health" for children in Arkansas. Work to improve child health outcomes is driven by community health needs assessments (CHNA) and implementation strategies (IS) for both ACH and ACNW. CHNAs provide each hospital the opportunity to understand and prioritize community health needs through the input gathered from community members, public health experts, stakeholders, as well as existing data sets. CHNAs also satisfy the requirements of the Internal Revenue Service for triannual needs assessments for nonprofit hospitals. ACH and ACNW completed their most recent CHNA in fiscal year 2022. For each hospital, these CHNAs help inform the implementation strategy documents, which are the three-year plans that direct the strategic community

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benefit work of each hospital. ACH and ACNW each have ISs with goals and actions to address child health priorities for fiscal year 2023 through fiscal year 2025.

Arkansas Children's is the cornerstone organization for the Natural Wonders Partnership Council (NWPC). NWPC is a coalition of stakeholders that works in strategic partnership to define pressing child health issues in our state and organize/mobilize efforts in order to improve children's health. NWPC's collective work is focused on improving the state of child health in Arkansas.

(2) Summary of Significant Accounting Policies

(a) Principles of Consolidation

The consolidated financial statements include the accounts of Arkansas Children's, ACH, ACNW, ACF, ACRI, ACCN, ACMG, and SCV (collectively referred to as Arkansas Children's). All significant transactions among these entities have been eliminated in consolidation.

(b) Use of Estimates

The preparation of the consolidated financial statements in conformity with US generally accepted accounting principles 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant items subject to such estimates and assumptions include the determination of the useful lives of property and equipment, the allowances for implicit and explicit price concessions, reserves for professional and general liability claims, reserves for workers' compensation claims, reserves for employee healthcare claims, estimated third-party payor settlements, and other contingencies. In addition, laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates related to these programs could change by a material amount in the near term.

(c) Cash, Cash Equivalents, and Restricted Cash

Arkansas Children's considers all highly liquid investments, including money market mutual funds, with a maturity of less than three months when purchased to be cash equivalents.

Restricted cash includes funds restricted as to withdrawal or use. Restricted cash consists of cash held under self-insurance funding arrangements within the consolidated financial statements. Arkansas Children's applies Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 230 – *Statement of Cash Flows*, which requires that Arkansas Children's consolidated statement of cash flows reflect the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents.

(d) Concentration of Credit Risk

Arkansas Children's grants credit without collateral to its patients, most of whom are Arkansas residents and are insured under Medicaid or other third-party payor agreements. Arkansas Children's must comply with various reporting and operating regulations mandated by the state Medicaid program. Failure to comply with these regulations could result in Arkansas Children's losing its eligibility to

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receive these funds. Management is not aware of any operations or activities that would jeopardize Arkansas Children's eligibility under this program.

The mix of net patient receivables as of June 30, 2023 and 2022, was as follows:

	2023	2022
Medicaid and Medicare	26 %	30 %
Other third-party payors (insurance and managed care)	68	65
Patients	6	5
Total mix of net patient receivables	100 %	100 %

(e) Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheet. Investment income (including interest and dividends), realized gains/losses on the sale of investments, and other gains/losses on investments are included in excess of revenues and gains over expenses and losses. Unrealized gains for internally managed available-for-sale debt securities are excluded from excess of revenues and gains over expenses and losses.

(f) Assets Limited as to Use

Assets limited as to use include assets whose use is restricted by donors, assets held by trustees under indenture agreements, assets held by Arkansas Children's wholly owned captive insurance company, and assets set aside by the Board of Directors for board-created endowments over which the Board retains control and may, at its discretion, subsequently use for other purposes.

(g) Inventories

Inventories, consisting principally of medical supplies and pharmaceuticals, are stated at the lower of cost (average cost method) or net realizable value.

(h) Costs of Borrowing

Bond discounts, premiums, and issuance costs are presented net of the associated long-term debt and amortized over the terms of the related bond issues using the effective interest method.

Arkansas Children's capitalizes interest costs on qualified construction projects as a component of the cost of related projects.

(i) Property, Plant, and Equipment

Property, plant, and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset, and is computed using the straight-line method based on estimated useful lives of 3 to 20 years for equipment and 10 to 40 years for buildings and land improvements.

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Gifts of long-lived assets used in operations, such as land, buildings, or equipment, if contributed, are reported as support without donor restrictions, and are included in excess of revenues and gains over expenses and losses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as support with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service. Contributions restricted to the purchase of property and equipment for which restrictions are met within the same year as the contributions are received are reported as increases in net assets without donor restrictions in the accompanying consolidated financial statements.

(j) Impairment of Long-lived Assets

The carrying value of long-lived assets (including property, plant, and equipment) are evaluated for impairment whenever events or changes in circumstances indicate that the net book value of an asset may not be recoverable from the estimated undiscounted future cash flows expected to result from its use and eventual disposition. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment is measured as the amount by which the carrying amount of the asset exceeds the fair value of the asset. As a result of Arkansas Children's review of long-lived assets, no impairments were recorded for the years ended June 30, 2023 and 2022.

(k) Gifts and Bequests

Arkansas Children's applies FASB ASC 958 – *Not-for-Profit Entities* (Topic 958), which requires an entity to evaluate whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958 or as exchange (reciprocal) transactions subject to other guidance. Additionally, an entity must determine whether a contribution is conditional and the related impact on revenue recognition.

Gifts and bequests that are not restricted by donors are classified in nonoperating revenues, gains, expenses, and losses. Gifts and bequests that are restricted for specific purposes by donors are recorded as additions to net assets with donor restrictions in the period the unconditional promise to give or gift is made. Expirations of donor-imposed restrictions are reported as reclassifications between net assets with donor restrictions and net assets without donor restrictions and reported in the consolidated statements of changes in net assets as net assets released from restrictions.

(l) Pledges Receivable

Promises to give, less an allowance for uncollectible amounts, are recorded as receivables in the year made at the present value of estimated future cash flows using a discount rate commensurate with the risks involved as a measure of fair value of unconditional promises to give.

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(m) Net Assets

Net assets, revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. The net assets of Arkansas Children's and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed stipulations.

Net assets with donor restrictions – Net assets subject to donor-imposed stipulations that are available for use either by the passage of time or for specific purposes; certain of these net assets are subject to donor-imposed stipulations that they be maintained permanently by Arkansas Children's. Generally, the donors of these assets permit Arkansas Children's to use all or part of the income earned on related investments for general or specific purposes.

Revenue is reported as increases in net assets without donor restrictions, unless use of the related assets are limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions, unless their use is restricted by explicit donor stipulation or by law. Expirations of donor restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications from net assets with donor restrictions to net assets without donor restrictions. Donor-restricted contributions, whose restrictions are met in the same reporting period as the contributions are recorded, are reported as increases in net assets without donor restrictions.

(n) Endowments

Arkansas Children's endowment fund consists of individual donor-restricted endowment funds and funds designated by the Board to function as endowments. As discussed in note 9(a), the net assets associated with endowment funds, including those funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. Where the Board designates funds to function as endowments, they are classified as net assets without donor restrictions. Net assets with donor restrictions include endowments whose use by Arkansas Children's has been limited by donors to a specific time period or purpose and donor-restricted endowments that have been restricted by donors, according to Arkansas Code Section 28-69-607 of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), to be maintained by Arkansas Children's in perpetuity.

In accordance with FASB Topic 958, Arkansas Children's classifies as net assets with donor restrictions, (a) the original value of gifts donated to an endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the endowment fund that is not classified in the donor-restricted endowment is available for appropriation for expenditure by Arkansas Children's in a manner consistent with the standard of prudence prescribed by UPMIFA.

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Arkansas Children's long-term investment objective is to invest all available assets in a manner that will allow them to grow to a level that can provide a total return sufficient to meet the financial needs of Arkansas Children's and to support Arkansas Children's mission. The Arkansas Children's Investment Committee determines a spend rate percentage for each fiscal year on all donor-restricted endowment funds and Board-designated endowment funds without donor restriction that may be set aside for expenditure. If the market value of the donor-restricted endowment fund or the Board-designated endowment without donor restriction is less than the original gift amount, only the interest and dividends will be expended up to the approved spend rate; however, the Investment Committee, at its discretion, may approve to fund the remaining spend rate with earnings without donor restriction. However, if the market value is greater than the original gift amount, the Investment Committee may appropriate for expenditure the interest and dividends plus appreciation in the market value of the endowment funds over the original gift amount to fund the spend rate for that year.

To achieve its long-term rate of return objectives, Arkansas Children's relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). Arkansas Children's targets a diversified asset allocation to achieve its long-term objectives within conservative risk constraints.

(o) Income Taxes

Arkansas Children's, ACH, ACNW, ACF, ACRI, and ACMG are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (IRC) and are exempt from federal income taxes on related income pursuant to Section 501(a) of the IRC. Once qualified as tax-exempt entities, Arkansas Children's, ACH, ACNW, ACF, ACRI, and ACMG are required to operate in conformity with the IRC and their tax-exempt purposes to maintain their qualification.

Arkansas Children's applies FASB ASC Topic 740 (Topic 740), *Accounting for Uncertainty in Income Taxes*. Topic 740 clarifies the accounting for uncertainty in income tax positions and provides guidance on when tax positions are recognized in an entity's financial statements and how the values of these positions are determined. Management has analyzed the tax positions taken by Arkansas Children's and has concluded that as of June 30, 2023 and 2022, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the consolidated financial statements.

ACCN is a nonstock membership organization organized in 2017 under the Arkansas Nonprofit Corporation Act of 1993. Its primary purpose is to operate a clinically integrated network. Arkansas Children's is the sole member of ACCN, and as such, ACCN is included in these consolidated financial statements. For income tax purposes, ACCN is a taxable entity.

ACCN accounts for income taxes in accordance with Topic 740, in which deferred tax assets and liabilities are recognized for the expected future tax consequences of events that have been included in the financial statements and tax returns. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement amounts and the tax basis of assets and liabilities using currently enacted tax rates. In addition, valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized. Income taxes are not material to Arkansas Children's.

SCV is not subject to income or other taxes due to being domiciled in the Cayman Islands.

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(p) Excess of Revenues and Gains over Expenses and Losses

The consolidated statements of operations include excess of revenues and gains over expenses and losses, which is an indicator of financial performance. Changes in net assets without donor restrictions, which are excluded from excess of revenues and gains over expenses and losses, consistent with industry practice, include unrealized gains on internally managed available-for-sale debt securities, assets acquired using grants restricted for capital purposes by the granting agency, and contributions, which by donor restriction are to be used for the purposes of acquiring such assets.

(q) Consolidated Statements of Operations

For purposes of presentation within the consolidated statement of operations, transactions deemed by management to be ongoing, major or central to the provision of healthcare services are reported as revenues and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses.

(r) Fair Value Measurement

Fair value is defined as 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. The estimated fair value amounts have been determined by Arkansas Children's using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret market data and develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts Arkansas Children's could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

(s) Recently Issued Accounting Standards

In June 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-13, *Measurement of Credit Losses on Financial Instruments*, which significantly changes the way entities recognize impairment of many financial assets by requiring immediate recognition of estimated credit losses expected to occur over their remaining life, instead of when incurred. In November 2018, the FASB issued ASU No. 2018-19, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses*, which amends Subtopic 326-20 (created by ASU No. 2016-13), to explicitly state that operating lease receivables are not in the scope of Subtopic 326-20. Additionally, in April 2019, the FASB issued ASU No. 2019-04, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses*, Topic 815, *Derivatives and Hedging*, and Topic 825, *Financial Instruments*; in May 2019, the FASB issued ASU No. 2019-05, *Financial Instruments – Credit Losses (Topic 326): Targeted Transition Relief*; in November 2019, the FASB issued ASU No. 2019-10, *Financial Instruments – Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*, and ASU No. 2019-11, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses*; and in March 2020, the FASB issued ASU No. 2020-03, *Codification Improvements to Financial Instruments*, to provide further clarifications on certain aspects of ASU No. 2016-13 and to extend the nonpublic entity effective date of ASU No. 2016-13. The changes (as amended) are effective for annual and interim periods beginning after December 15, 2022. Arkansas Children's does not expect the adoption of ASU No. 2016-13, effective July 1, 2023, to have a material effect on the consolidated financial statements.

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(t) COVID-19 Pandemic and CARES Act Funding

In December 2019, a strain of coronavirus (COVID-19) initially identified in Wuhan, China, spread around the world. The World Health Organization described the coronavirus outbreak as a “public health emergency of international concern” and on March 11, 2020 declared the outbreak of COVID-19 to be a pandemic. On March 13, 2020, President Trump declared a national public health emergency. The national public health emergency expired on March 31, 2023. In Arkansas, Governor Asa Hutchinson declared a public health emergency on March 11, 2020, in response to the first presumptive case. Orders closing schools, limiting gatherings, and closing restaurants preceded a directive from the Arkansas Department of Health effective April 3, 2020 suspending elective surgical procedures, which were subsequently reinstated, starting April 27, 2020 with certain restrictions in place. The Arkansas public health emergency, initially declared on March 11, 2020, was renewed several times until its final expiration on May 30, 2021 at which time there were 1,938 active cases of COVID-19 in Arkansas and 194 hospitalizations. Subsequently, the Delta Variant of COVID-19 caused infections and hospitalizations to rise again. On July 27, 2021, there were 15,491 active cases of COVID-19 in Arkansas and 1,025 hospitalizations. Governor Hutchinson declared a public health emergency due to the catastrophic statewide impact of the Delta Variant of COVID-19 on July 29, 2021, which expired 60 days after issuance.

Initially, the COVID-19 pandemic had an adverse effect on the operations and financial position of healthcare provider systems, including Arkansas Children's, primarily due to reduction in overall patient volume. However, beginning in March 2021, volumes rapidly increased and have sustained through the current date resulting in the hospitals often being in critical bed status, experiencing surging emergency department volumes and incurring significant staffing challenges.

Arkansas Children's pandemic response plan evolved as the pandemic continued to unfold. Management took steps to enhance operational and financial flexibility, and to react to the risks the COVID-19 pandemic presented to operations, including the following:

- Implemented certain cost reduction initiatives;
- Assessed certain planned projects and capital expenditures;
- Increased the number of telemedicine visits offered to patients; and
- Focused on retaining and supporting staff.

Management believes the extent of the COVID-19 pandemic's impact on operating results and financial condition has been and will continue to be driven by many factors, most of which are beyond Arkansas Children's control and ability to forecast. Such factors include, but are not limited to, the impact of new strains, such as the Delta and Omicron variants, on the pediatric population, the vaccination rate of Arkansas's population, and challenges of staffing sustained increased volumes. Because of these and other uncertainties, management cannot accurately estimate the length or severity of the impact of the pandemic on our business.

In the spring of 2020, many providers automatically received funds from the Provider Relief Fund (PRF), a program established by the Coronavirus Aid, Relief and Economic Security Act (CARES Act).

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In November 2021, Arkansas Children's received \$6,897,340 of funds from the American Rescue Plan Act (ARPA) that were designated for providers who serve rural Medicaid, Children's Health Insurance Program (CHIP), and Medicare beneficiaries. In addition, Arkansas Children's received PRF Phase 4 general distribution funds of \$2,258,797 in December 2021 and \$389,247 in February 2022. In total, Arkansas Children's received \$9,545,384 from the ARPA and the PRF, which was recognized as revenue in fiscal year 2022 as management can attest that Arkansas Children's has incurred healthcare-related expenses or lost revenues attributable to COVID-19 in excess of these distributions for the period of availability beginning January 2020 through June 30, 2023. No additional APRA or PRF funds were received in fiscal year 2023.

These distributions from the PRF are not subject to repayment, provided management 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 healthcare-related expenses or lost revenue attributable to COVID-19. Such payments are accounted for as government grants and are recognized on a systematic and rational basis as other operating revenues once there is reasonable assurance that the applicable terms and conditions required to retain the funds have been met.

The CARES Act also established the Coronavirus Relief Fund. In fiscal year 2022, Arkansas Children's recognized Arkansas American Rescue Plan Fund proceeds, distributed by the State of Arkansas, of \$4,476,000 qualifying COVID-19-related expenses through June 30, 2022. In addition, a total of \$1,500,000 was received in January and February of 2022 based on an agreement with the Arkansas Department of Health to provide additional hospital bed capacity for COVID-19 patients for 20 days at \$5,000 per bed per day. No additional CARES Act funds were received in fiscal year 2023.

Lastly, the CARES Act provides for deferred payment of the employer portion of social security taxes between March 27, 2020 and December 31, 2020, with 50% of the deferred amount due December 31, 2021 and the remaining 50% due December 31, 2022. The Health System began deferring the employer portion of social security taxes in mid-April 2020. As of June 30, 2022, \$5,483,855 was included in accrued expenses and was paid during fiscal year 2023.

(u) Immaterial Correction – Prior Period

In connection with the preparation of the consolidated financial statements for the year ended June 30, 2023, Arkansas Children's identified a prior period correction related to the disclosure of patient service revenue as well as the estimated cost of caring for charity care patients. The impact of this revision resulted in a decrease to patient service revenue and a decrease in contractual allowances and implicit price concessions of approximately \$5,100,000, with no impact on net patient service revenue for the year ended June 30, 2022. Additionally, the revision resulted in an increase in the disclosed cost of caring for charity care patients of approximately \$3,500,000 for the year ended June 30, 2022.

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(3) Liquidity and Availability

Financial assets available for general expenditure within one year of June 30, 2023 and 2022 include the following:

	2023	2022
Cash and cash equivalents	\$ 163,258,360	86,554,668
Investments	517,666,365	534,366,311
Estimated third-party payor settlements – current portion	157,364,294	131,439,770
Patient accounts receivable	111,147,352	106,800,778
Other current receivables	31,920,565	20,457,858
	\$ 981,356,936	879,619,385

As part of Arkansas Children's liquidity management plan, cash in excess of daily requirements for general expenditures is invested in debt and equity securities. Arkansas Children's investment portfolio contains money market funds and other liquid investments that can be drawn upon, if necessary, to meet the liquidity needs of Arkansas Children's.

(4) Other Current Receivables

The composition of other current receivables is as follows:

	2023	2022
Supplemental Medicaid receivable	\$ 17,817,637	8,941,699
Pledges receivable – current portion	9,095,164	6,438,578
Grant receivables	8,244,950	9,886,918
Other receivables	14,101,929	11,516,159
	\$ 49,259,680	36,783,354

(5) Net Patient Service Revenue and Charity Care

Patient service revenue is reported at the amount that reflects the consideration to which Arkansas Children's expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlements of audits, reviews, and investigations. Generally, Arkansas Children's bills the patients and third-party payors several days after the services are performed and/or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by Arkansas Children's. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) receipts. Arkansas Children's believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to

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patients in the hospital receiving inpatient acute care services. Arkansas Children's measures the performance obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided and Arkansas Children's does not believe it is required to provide additional goods or services to the patient.

Because its performance obligations relate to contracts with a duration of less than one year, Arkansas Children's has elected to apply the optional exemption provided in FASB 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

Arkansas Children's determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with Arkansas Children's policy, and/or implicit price concessions provided to uninsured patients. Arkansas Children's determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policy, and historical experience. Arkansas Children's determines its estimate of implicit price concessions based on its historical collection experience with this class of patients.

Agreements with third-party payors typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors follows:

- **Medicaid:** Certain inpatient and outpatient services are reimbursed based on an allowable cost reimbursement methodology. Interim reimbursements for Medicaid services are generally paid at prospectively determined rates per patient day and outpatient and physician services are paid based on a fee schedule.
- **Medicare:** Certain inpatient and outpatient services are reimbursed based on an allowable cost reimbursement methodology. Interim reimbursements for inpatient services are paid based on cost-reimbursement methodologies subject to certain limits, physician services are paid based upon established fee schedules and outpatient services are paid using prospectively determined rates.
- **Other:** Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts from established charges, prospectively determined daily rates, and contracted outpatient fee schedules.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various healthcare organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that

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regulatory authorities will not challenge Arkansas Children's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon Arkansas Children's. In addition, the contracts Arkansas Children's has with commercial payors also provide for retroactive audit and review of claims.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. Arkansas Children's also provides services to uninsured patients, and offers those uninsured patients a discount, by policy, from standard charges. Arkansas Children's estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Adjustments arising from a change in the transaction price were not significant in 2023 or 2022.

(a) Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors.

Patient service revenue at established rates less third-party payor contractual allowances and implicit price concessions for the years ended June 30, 2023 and 2022, consisted of the following:

	2023	2022
Patient service revenue	\$ 1,615,680,172	1,439,060,001
Less contractual allowances and implicit price concessions	<u>(774,488,690)</u>	<u>(703,521,992)</u>
Net patient service revenue	<u>\$ 841,191,482</u>	<u>735,538,009</u>

Contractual allowances represent the difference between Arkansas Children's standard charges and the amounts paid by the Medicaid and Medicare programs and other contractual payors.

Arkansas Children's net patient service revenues were derived from the following payor sources for the years ended June 30, 2023 and 2022, and are as follows:

	2023	2022
Medicaid and Medicare	58.8 %	59.0 %
Other third-party payors	41.0	40.8
Patients	<u>0.2</u>	<u>0.2</u>
	<u>100 %</u>	<u>100 %</u>

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The composition of net patient service revenue based on Arkansas Children's lines of business for the years ended June 30, 2023 and 2022 is as follows:

	2023	2022
Inpatient	\$ 487,943,730	429,009,423
Outpatient	316,449,161	274,955,390
Professional fees	36,798,591	31,573,196
	\$ 841,191,482	735,538,009

(b) Estimated Third-Party Payor Settlements

Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreements with the payor, correspondence from the payor and Arkansas Children's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved.

Arkansas Children's provides care to patients under Medicaid, Medicare, and other contractual arrangements. Certain inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed by the State of Arkansas based on an allowable cost reimbursement methodology. Regulations require annual retroactive settlements for these costs based on cost reports filed by Arkansas Children's. These net settlements are estimated and recorded in the consolidated financial statements in the year the service is provided. The estimated net settlements at June 30, 2023, for open cost report periods from 2019 to the current year is \$207,161,323, net of a reserve of \$31,256,392, which could differ from actual settlements. Of the total net receivable of \$207,161,323 recorded as of June 30, 2023, \$49,797,029 is considered noncurrent and is, therefore, included in other noncurrent assets in the accompanying 2023 consolidated balance sheet. The estimated net settlements at June 30, 2022, for open cost report periods from 2017 to the current year is \$197,267,805, net of a reserve of \$36,026,301, which could differ from actual settlements. Of the total net receivable of \$197,267,805 recorded as of June 30, 2022, \$65,828,035 is considered noncurrent and is, therefore, included in other noncurrent assets in the accompanying 2022 consolidated balance sheet. ACH's Medicaid cost reports have been audited by the Medicaid fiscal intermediary for the fiscal years ended June 30, 2016, 2017, and 2018. ACH's Medicaid cost reports for fiscal years ended June 30, 2019, 2020, 2021, 2022, and 2023 are pending audit by the Medicaid fiscal intermediary. Any differences between estimated settlements and actual settlements will be recorded in the year the cost report is settled by the intermediary, typically after the fiscal intermediary's audit, or when information is available to management that a change in the estimate is warranted. During the years ended June 30, 2023 and 2022, the net patient service revenue in the accompanying consolidated statements of operations increased by approximately \$6,300,000 and \$4,200,000, respectively, as a result of changes to prior year estimates from final Medicaid settlements and changes in management estimates for related reserves.

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(c) Supplemental Medicaid Reimbursement

State Medicaid programs incur costs for payments to healthcare providers that provide medical services to Medicaid recipients, and the federal government pays a portion of those costs to each state based on a formula. Under these federal rules, states are permitted to pay hospitals up to a reasonable estimate of the amount that would have been paid using Medicare payment principles. This is known as the upper payment limit (UPL). The amount of supplemental Medicaid reimbursement recorded as revenue, gains, and other support for the years ended June 30, 2023 and 2022, was approximately \$45,000,000 and \$45,106,000, respectively.

(d) Charity Care

Arkansas Children's provides care to patients who meet certain criteria under its charity care policy. Arkansas Children's charity care policy provides for free or discounted care for individuals with household incomes up to 250% of poverty levels. There are financial counselors available at all registration areas of Arkansas Children's to assist in completing Medicaid, Tefra Program, Children's Medical Services, Supplemental Security Income intents and financial assistance applications. Arkansas Children's allows interest free payments to be made until the outstanding balance is paid without time constraints and also does not report to external collection agencies or take other extraordinary collection efforts. Because Arkansas Children's does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Records are maintained to identify and monitor the level of charity care Arkansas Children's provides. These records include the amount of gross charges foregone for services under its charity care policy. Arkansas Children's estimated cost of caring for charity care patients for the years ended June 30, 2023 and 2022, was approximately \$19,400,000 and \$15,500,000, respectively. Subsequent to year-end, Arkansas Children's performs a cost accounting analysis to calculate the cost of service per type of procedure. The 2023 cost will be calculated based on the audited financial statement data; therefore, it was not available at the time of the issuance of the consolidated financial statements in order to disclose the 2023 amount. Therefore, Arkansas Children's calculated the 2023 charity cost by using the 2022 actual allocated cost to charge ratio for charity care adjusted for overall changes in the current year cost profile and applying it to current year charity care charges.

Arkansas Children's applies the provisions of FASB ASC 954 - *Healthcare Entities: Measuring Charity Care for Disclosure* (Topic 954), whereby cost is used as the measurement basis for charity care disclosure purposes.

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(6) Investments and Assets Limited as to Use

At June 30, 2023 and 2022, investments and assets limited as to use consisted of the following:

	2023	2022
Investments	\$ 517,666,365	534,366,311
Assets limited as to use:		
Board-designated investments	\$ 279,746,118	269,126,693
Restricted cash for self-insurance funding arrangements	1,312,981	173,384
Restricted investments:		
Endowments with donor restrictions	130,657,294	121,603,173
Other investments with donor restrictions	1,174,411	909,783
Other investments for self-insurance funding arrangements	3,053,296	3,119,463
Investments held by trustee under bond agreements	137,482,749	3,106,904
Total assets limited as to use	553,426,849	398,039,400
Less amounts classified as current	(9,703,200)	(5,029,175)
Assets limited as to use – noncurrent	\$ 543,723,649	393,010,225

Included with the investments and assets limited as to use balances disclosed above are US government obligations of approximately \$551,602,000 and \$579,877,000, which are considered available for sale as of June 30, 2023 and 2022, respectively. These investments are managed internally and are not actively traded. The remaining amounts within the investments and assets limited as to use above are externally managed and are actively traded.

The trust indentures related to the outstanding bonds (note 8) require the establishment of certain funds to be held and controlled by an independent trustee as long as the bonds remain outstanding. Such funds are to be used to pay principal and interest on the debt and to finance construction.

Funds held by trustee under bond indenture agreements as of June 30, 2023 and 2022, were invested in federal government obligations, which are mutual funds backed by US Treasury securities, State and Local Government Series (SLGS) and US Treasury securities and consisted of the following:

	2023	2022
Series 2016 Refunding Bond Fund (ACH)	\$ 2,490,326	1,375,642
Series 2016 Bond Fund (ACNW)	1,783,168	1,731,262
Series 2023 Bond Fund (ACH)	133,209,255	—
Total	\$ 137,482,749	3,106,904

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(7) Property, Plant, and Equipment, net

A summary of property and equipment, net, is as follows:

	2023	2022
Land and improvements	\$ 47,261,660	45,180,747
Buildings	550,403,813	537,090,833
Equipment	274,653,654	274,542,275
Construction in progress	9,943,780	7,621,894
Total property, plant and equipment	882,262,907	864,435,749
Less accumulated depreciation	(507,611,829)	(475,953,435)
Property, plant, and equipment, net	\$ 374,651,078	388,482,314

Construction in progress as of June 30, 2023 primarily consists of routine replacement and expansion projects at various Arkansas Children's facilities. The estimated total remaining cost to complete these projects as of June 30, 2023 is approximately \$338,315,000. Depreciation expense was \$49,855,193 and \$49,482,423 in 2023 and 2022, respectively.

(8) Long-Term Debt

A summary of long-term debt as of June 30, 2023 and 2022, is as follows:

	2023	2022
Arkansas Development Finance Authority Revenue Bonds Series 2013, due in amounts of \$45,947 on October 1 and November 1, 2013 and \$184,074 on the first day of each successive month thereafter through September 2023, bearing interest at a fixed rate of 1.95%, collateralized by certain equipment	\$ 481,678	2,384,761
Pulaski County, Arkansas Hospital Revenue Refunding Bonds, Series 2016, due in variable amounts through March 1, 2039, bearing interest at fixed rates ranging from 2% to 5%, collateralized by ACH revenues	84,670,000	85,080,000
City of Springdale Public Facilities Board Hospital Revenue Bonds, Series 2016 (Arkansas Children's Northwest Project), due in variable amounts through March 1, 2036, bearing interest at fixed rates ranging from 2% to 5%, collateralized by Arkansas Children's revenue	61,770,000	64,265,000

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	<u>2023</u>	<u>2022</u>
Pulaski County, Arkansas Hospital Revenue Bonds, Series 2023, due in variable amounts through March 1, 2053, bearing interest at rates ranging from 2% to 5%, collateralized by Arkansas Children's revenue	\$ 128,150,000	—
	275,071,678	151,729,761
Plus unamortized premium	14,455,447	7,934,056
Less unamortized bond issuance costs	<u>(2,163,625)</u>	<u>(1,129,983)</u>
Total	287,363,500	158,533,834
Less amounts due within one year	<u>(7,986,678)</u>	<u>(4,807,611)</u>
Long-term debt less current maturities	\$ <u><u>279,376,822</u></u>	\$ <u><u>153,726,223</u></u>

Scheduled maturities of long-term debt for the years ending June 30 are as follows:

2024	\$ 7,986,678
2025	8,600,000
2026	9,030,000
2027	9,340,000
2028	9,805,000
Thereafter	<u>230,310,000</u>
Total	\$ <u><u>275,071,678</u></u>

Arkansas Children's long-term debt agreements include certain restrictive covenants with which ACH and ACNW must comply, including the debt service coverage ratio and total debt to capitalization.

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(9) Net Assets with Donor Restrictions

Net assets with donor restrictions at June 30, 2023 and 2022, are available for the following:

	<u>2023</u>	<u>2022</u>
Healthcare services:		
Capital expenditures	\$ 1,469,427	1,084,683
Arkansas Children's Northwest	9,469,535	11,419,088
Research funding	9,355,140	10,250,250
Land receivable	6,590,000	6,590,000
Pine Bluff Clinic	1,443,243	1,940,510
ACH Expansion	6,410	—
ACNW Expansion	19,574,096	1,135,865
Other spendable gifts, trusts, and pledges	54,337,229	49,219,670
Endowments with donor restrictions	<u>130,657,294</u>	<u>121,603,173</u>
Total	<u>\$ 232,902,374</u>	<u>203,243,239</u>

Net assets with donor restrictions are classified on the accompanying consolidated balance sheet in cash and cash equivalents, other current receivables, pledges receivable – noncurrent, and assets limited as to use – noncurrent.

Net assets restricted for Arkansas Children's Northwest include pledges and cash gifts designated for ACNW, which includes capital and noncapital components.

During 2023 and 2022, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes in the amount of \$12,633,548 and \$8,060,924, respectively. In addition, net assets were released from donor restrictions and used for the purchase of property and equipment in the amount of \$3,147,821 and \$4,613,105 for June 30, 2023 and 2022, respectively.

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(a) *Endowment Net Assets*

The following table summarizes the changes in endowment net assets for the fiscal years ended June 30, 2023 and 2022:

	Without donor restrictions – board designated	With donor restrictions	Total
Endowment net assets, June 30, 2021	\$ 285,940,026	126,471,525	412,411,551
Investment return:			
Investment income	4,098,036	1,331,441	5,429,477
Net losses (realized and unrealized)	<u>(33,496,506)</u>	<u>(10,401,884)</u>	<u>(43,898,390)</u>
Total investment return	(29,398,470)	(9,070,443)	(38,468,913)
Contributions	—	7,618,908	7,618,908
Transfers	19,850,000	307,876	20,157,876
Appropriation of endowment asset for expenditures	<u>(7,264,863)</u>	<u>(3,724,693)</u>	<u>(10,989,556)</u>
Endowment net assets, June 30, 2022	<u>269,126,693</u>	<u>121,603,173</u>	<u>390,729,866</u>
Investment return:			
Investment income	5,643,137	1,973,027	7,616,164
Net losses (realized and unrealized)	<u>9,309,769</u>	<u>5,284,356</u>	<u>14,594,125</u>
Total investment return	14,952,906	7,257,383	22,210,289
Contributions	—	4,577,108	4,577,108
Transfers	—	162,658	162,658
Appropriation of endowment asset for expenditures	<u>(4,333,481)</u>	<u>(2,943,028)</u>	<u>(7,276,509)</u>
Endowment net assets, June 30, 2023	<u>\$ 279,746,118</u>	<u>130,657,294</u>	<u>410,403,412</u>

(10) **Insurance and Legal**

Arkansas Children's is self-insured with respect to claims paid for employee healthcare. Estimates of health claims incurred but unpaid as of June 30, 2023 and 2022 are accrued based on Arkansas Children's past experience, as well as other considerations including the nature of claims and relevant trends. As of June 30, 2023, and 2022, Arkansas Children's has accrued a liability in the accrued expenses and other liabilities caption within the accompanying consolidated balance sheets for estimated incurred but unpaid claims of approximately \$2,117,000 and \$1,857,000, respectively. The expenses related to claims paid during the years ended June 30, 2023 and 2022, were approximately \$23,615,000 and \$21,409,000, respectively, and are included in employee benefits expense. Arkansas Children's maintains stop-loss

ARKANSAS CHILDREN'S

Notes to Consolidated Financial Statements

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insurance coverage with respect to the employer share of medical insurance claim costs. Under the terms of the stop-loss insurance plan, the stop-loss insurance carrier is to reimburse 100% of the cost of each covered person's paid claims in excess of \$750,000 for both plan years ended June 30, 2023 and 2022, with no maximum annual benefit per person; however, a plan level deductible called an "aggregating specific deductible" must be satisfied by the whole group medical insurance plan before any reimbursements are paid to Arkansas Children's by the stop-loss carrier for an individual stop-loss claim. The plan level aggregating specific deductible amount was \$70,000 for the fiscal years ended June 30, 2023 and 2022. The purpose of the aggregating specific deductible is to reduce annual fixed stop-loss premium costs during the plan year where the group medical insurance plan experiences low volume or no high dollar medical claims.

SCV, a captive insurance company, was formed to provide professional and general liability and workers' compensation insurance coverage to Arkansas Children's effective July 1, 2018. All claims incurred from July 1, 2018 forward are covered under the captive, and the tail liability for professional and general liability claims not reported prior to July 1, 2018 remains \$90,000. Under the terms of the captive, coverage for professional and general liability is \$1,000,000 indemnity and expense limit on a mature claims made basis. Workers' compensation coverage is limited to \$500,000 per claim. An estimated liability of \$2,729,000 and \$265,000 was accrued in the accrued expenses and other liabilities caption within the consolidated balance sheet as of June 30, 2023 for professional and general liability and workers' compensation insurance coverage, respectively. An estimated liability of \$2,145,000 and \$295,000 was accrued in the accrued expenses and other liabilities caption within the consolidated balance sheet as of June 30, 2022. Arkansas Children's carries an umbrella liability policy in the amount of \$20,000,000 to cover professional and general liability claims in excess of \$1,000,000. Arkansas Children's also maintains excess workers' compensation coverage, which will reimburse 100% of the cost of each employee's claim in excess of \$500,000.

Arkansas Children's maintains Directors & Officers liability insurance with estimated liabilities of approximately \$40,000 and \$46,000 accrued at June 30, 2023 and 2022, respectively, for deductibles.

Under Arkansas law, Arkansas Children's has been recognized as a charitable institution that is immune from tort liability or execution in the enforcement of a judgment in a tort action. There is no assurance that this doctrine of charitable immunity will be held to apply to Arkansas Children's in future litigation, but previously decided case law would support such a holding.

There are no proceedings pending against Arkansas Children's, or to its knowledge, threatened against it, which may not be adequately covered by Arkansas Children's reserves and insurance policies or which, in the opinion of management, could have a materially adverse effect on Arkansas Children's consolidated financial statements.

(11) Employee Benefit Plans

Arkansas Children's has a 403(b) plan for the benefit of substantially all of its employees. Employer contributions are made based on the employee's respective contributions, and are vested based on the years of service of the individual employees. Plan expense recorded in employee benefits expense in the accompanying consolidated statements of operations was approximately \$7,702,000 and \$7,594,000 for the years ended June 30, 2023 and 2022, respectively.

ARKANSAS CHILDREN'S

Notes to Consolidated Financial Statements

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Arkansas Children's has a defined contribution retirement plan covering substantially all employees meeting certain eligibility requirements. Employer contributions to the plan are made at the discretion of the Arkansas Children's Board of Directors. Arkansas Children's made contributions of 2% of eligible employees' compensation for fiscal years 2023 and 2022. Contributions accrued for the plan for the years ended June 30, 2023 and 2022, were approximately \$4,321,000 and \$4,730,000, respectively, with the related liability included in accrued expenses and other liabilities in the accompanying consolidated balance sheets.

Arkansas Children's has a nonqualified deferred compensation plan under IRC Section 457(b). Arkansas Children's reports a liability in accrued expenses and other liabilities in the accompanying consolidated balance sheets with a corresponding investment asset of approximately \$4,395,000 and \$3,842,000 as of June 30, 2023 and 2022, respectively. The assets in the plan remain the property of the employer until paid or made available to participants, subject only to the claims of Arkansas Children's general creditors.

Arkansas Children's established a nonqualified deferred compensation plan under IRC Section 457(f) effective June 30, 2014. The plan is a defined contribution plan, which covers certain executive employees. The net expense charged to earnings for fiscal years 2023 and 2022 was approximately \$790,000 and \$679,000, respectively, with the related liability included in accrued expenses and other liabilities in the accompanying consolidated balance sheets. The expense is generally calculated based on a percentage of the annual base pay of the covered executive employees plus an amount for interest as determined in the plan.

(12) Related-Party Transactions

Several Arkansas Children's board members are employed by the University of Arkansas for Medical Sciences (UAMS). During the years ended June 30, 2023 and 2022, contracts for professional services between Arkansas Children's and UAMS resulted in Arkansas Children's incurring expenses of approximately \$101,645,000 and \$101,445,000, respectively, to UAMS. During the years ended June 30, 2023 and 2022, Arkansas Children's also recorded revenue of approximately \$5,551,000 and \$5,300,000, respectively, from UAMS. In addition, ACH bills and collects physician outpatient professional fees for patient care performed at ACH and ACNW, which resulted in ACH and ACNW recording approximately \$27,481,000 of net revenue for the fees billed with approximately \$26,012,000 of collected fees, net of expenses, being remitted to UAMS for the year ended June 30, 2023, and approximately \$25,740,000 of net revenue for the fees billed with approximately \$24,402,000 of collected fees, net of expenses, being remitted to UAMS for the year ended June 30, 2022. As of June 30, 2023, and 2022, the Arkansas Children's payable due to UAMS was approximately \$14,255,000 and \$7,700,000, respectively. As of June 30, 2023, and 2022, the Arkansas Children's receivable due from UAMS was approximately \$595,000 and \$277,000, respectively.

During the years ended June 30, 2023 and 2022, Arkansas Children's also paid approximately \$7,286,000 and \$7,547,000, respectively, to a company affiliated with a member of the ACF Board of Directors for construction projects. During the years ended June 30, 2023 and 2022, Arkansas Children's paid approximately \$1,221,000 and \$1,426,000, respectively, for goods and services from various other related parties.

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June 30, 2023 and 2022

A physician hospital organization (PHO), established in 1994, is 50% owned by ACH and participating physicians, respectively. The PHO identifies contract opportunities for its members. Also, the Arkansas Children's Hospital Auxiliary raises funds for and renders services to ACH and its patients. The activities of these entities are not considered material in relation to the consolidated financial statements of Arkansas Children's.

(13) Fair Value Hierarchy of Financial Instruments

In accordance with FASB ASC Topic 820 (Topic 820), *Fair Value Measurement*, Arkansas Children's has categorized its financial instruments, based on priority of inputs used in valuation techniques, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within multiple levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Level 1 – Valuations based on quoted prices in active markets for identical assets or liabilities that Arkansas Children's has the ability to access. Valuation adjustments are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Level 2 – Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Fair value of a financial instrument is generally defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, as expanded by the previously described Topic 820. For cash and cash equivalents, accounts receivable, accrued interest, estimated third-party payor settlements, accounts payable, and accrued interest payable, the carrying amount is a reasonable estimate of fair value due to the short-term nature of these assets and liabilities, as such these amount are considered to be level 1 financial instruments.

Investments and assets limited as to use are carried on the consolidated balance sheets at estimated fair value. Estimated fair values of investments and assets limited as to use are based on quotes from published market sources. Other assets-mineral interests are reported at fair value as determined by an independent appraiser using the income approach method.

Pledge receivables are reported at the net present value of expected future cash flows. Pledge receivables were \$40,470,768 and \$24,769,024 as of June 30, 2023 and 2022, respectively, and have not been included in the fair value tables that follow as these assets are carried at the net present value of expected future cash flows.

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Notes to Consolidated Financial Statements

June 30, 2023 and 2022

The following tables set forth, by level within the fair value hierarchy, a summary of Arkansas Children's assets measured at fair value on a recurring basis at June 30, 2023 and 2022.

Fair value measurements at June 30, 2023				
	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Investments and assets limited as to use:				
Cash restricted for self-insurance	\$ 1,312,981	—	—	1,312,981
US government obligations	—	562,352,580	—	562,352,580
Corporate stocks:				
Consumer staples	19,127,630	—	—	19,127,630
Consumer discretionary	14,035,796	—	—	14,035,796
Energy	26,249,898	—	—	26,249,898
Financials	42,788,388	—	—	42,788,388
Healthcare	31,252,556	—	—	31,252,556
Industrials	29,973,507	—	—	29,973,507
Information technology	52,916,675	—	—	52,916,675
Materials	24,500,495	—	—	24,500,495
Telecommunication services	16,152,438	—	—	16,152,438
Utilities	3,994,587	—	—	3,994,587
Real estate	2,516,080	—	—	2,516,080
Other	269,737	—	—	269,737
Mutual funds:				
Equities	46,904,313	—	—	46,904,313

ARKANSAS CHILDREN'S

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

Fair value measurements at June 30, 2023				
	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Corporate debt:				
Banks	\$ —	9,833,811	—	9,833,811
Consumer goods	—	11,159,426	—	11,159,426
Energy power	—	3,228,608	—	3,228,608
Energy company	—	1,922,809	—	1,922,809
Industrials	—	2,074,853	—	2,074,853
Other financials	—	2,530,253	—	2,530,253
Technology	—	7,732,977	—	7,732,977
Telephone	—	5,083,743	—	5,083,743
Transportation	—	632,400	—	632,400
Healthcare	—	1,101,646	—	1,101,646
Other	—	2,066,086	—	2,066,086
Agencies	—	11,695,799	—	11,695,799
Certificates of deposit	—	200,393	—	200,393
Mutual funds	<u>137,482,749</u>	<u>—</u>	<u>—</u>	<u>137,482,749</u>
Total investments and assets limited as to use	<u>\$ 449,477,830</u>	<u>621,615,384</u>	<u>—</u>	<u>1,071,093,214</u>
Other noncurrent assets:				
Mineral interests	\$ —	499,000	—	499,000

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Notes to Consolidated Financial Statements

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Fair value measurements at June 30, 2022

	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Investments and assets limited as to use:				
Cash restricted for self-insurance \$	173,384	—	—	173,384
US government obligations		595,926,488	—	595,926,488
Corporate stocks:				
Consumer staples	17,254,312	—	—	17,254,312
Consumer discretionary	15,448,037	—	—	15,448,037
Energy	17,142,735	—	—	17,142,735
Financials	30,828,329	—	—	30,828,329
Healthcare	35,898,992	—	—	35,898,992
Industrials	21,143,767	—	—	21,143,767
Information technology	52,118,376	—	—	52,118,376
Materials	22,864,742	—	—	22,864,742
Telecommunication services	19,137,734	—	—	19,137,734
Utilities	4,620,148	—	—	4,620,148
Real estate	2,947,160	—	—	2,947,160
Other	188,341	—	—	188,341
Mutual funds:				
Equities	40,352,146	—	—	40,352,146

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Notes to Consolidated Financial Statements

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Fair value measurements at June 30, 2022

	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Corporate debt:				
Banks	\$ —	9,851,027	—	9,851,027
Consumer goods	—	12,855,782	—	12,855,782
Energy power	—	3,691,128	—	3,691,128
Energy company	—	1,967,485	—	1,967,485
Industrials	—	1,353,967	—	1,353,967
Other financials	—	2,195,740	—	2,195,740
Technology	—	9,187,696	—	9,187,696
Telephone	—	3,860,797	—	3,860,797
Transportation	—	653,021	—	653,021
Healthcare	—	323,245	—	323,245
Other	—	1,524,804	—	1,524,804
Agencies	—	5,589,031	—	5,589,031
Certificates of deposit	—	200,393	—	200,393
Mutual funds	3,106,904	—	—	3,106,904
 Total investments and assets limited as to use	 \$ <u>283,225,107</u>	 <u>649,180,604</u>	 <u>—</u>	 <u>932,405,711</u>
Other noncurrent assets:				
Mineral interests	\$ —	588,000	—	588,000

ARKANSAS CHILDREN'S

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(14) Functional Expense

Total operating expenses, including nonoperating fundraising expenses, classified by their natural classification on the consolidated statements of operations are presented in their functional classifications as follows for the years ended June 30:

	2023							
	Program activities			Supporting activities				
	Healthcare services	Research	Total program	General and administrative	Non-Healthcare services	Fundraising	Total supporting	Total
Salaries and wages	\$ 359,052,134	21,941,115	380,993,249	20,227,149	20,422	4,813,718	25,061,289	406,054,538
Employee benefits	60,690,377	4,886,036	65,576,413	3,969,489	4,289	974,939	4,948,717	70,525,130
Supplies and pharmaceuticals	152,083,587	3,610,681	155,694,268	405,897	2,275	361,441	769,613	156,463,881
Professional fees	112,740,725	7,871	112,748,596	2,162	—	413	2,575	112,751,171
Purchased services	92,990,210	9,138,566	102,128,776	4,507,520	118,955	2,213,492	6,839,967	108,968,743
Depreciation	45,802,260	3,195,169	48,997,429	806,074	—	127,645	933,719	49,931,148
Interest	6,363,583	54,244	6,417,827	17,085	—	132,457	149,542	6,567,369
Utilities	5,676,954	665,155	6,342,109	185,642	—	55,382	241,024	6,583,133
Insurance	577,912	10,247	588,159	3,361,371	870,244	—	4,231,615	4,819,774
Other	11,829,235	1,116,151	12,945,386	1,566,785	56,459	616,321	2,239,565	15,184,951
Total	\$ 847,806,977	44,625,235	892,432,212	35,049,174	1,072,644	9,295,808	45,417,626	937,849,838

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Notes to Consolidated Financial Statements

June 30, 2023 and 2022

		2022							
		Program activities			Supporting activities				
		Healthcare services	Research	Total program	General and administrative	Non- Healthcare services	Fundraising	Total supporting	Total
Salaries and wages	\$	309,252,467	19,771,797	329,024,264	16,944,681	24,533	4,325,417	21,294,631	350,318,895
Employee benefits		57,011,153	4,237,132	61,248,285	3,524,911	5,152	869,185	4,399,248	65,647,533
Supplies and pharmaceuticals		129,539,982	2,789,431	132,329,413	239,258	2,275	362,456	603,989	132,933,402
Professional fees		105,419,301	6,824	105,426,125	2,313	—	438	2,751	105,428,876
Purchased services		83,766,863	9,264,971	93,031,834	3,679,342	117,625	2,225,324	6,022,291	99,054,125
Depreciation		45,621,693	2,983,805	48,605,498	825,088	—	139,851	964,939	49,570,437
Interest		6,499,970	54,007	6,553,977	17,241	—	141,184	158,425	6,712,402
Utilities		5,827,735	799,890	6,627,625	187,822	—	58,691	246,513	6,874,138
Insurance		1,528,787	—	1,528,787	3,141,381	1,632,345	—	4,773,726	6,302,513
Other		10,526,574	776,621	11,303,195	1,177,571	21,385	562,023	1,760,979	13,064,174
Total	\$	754,994,525	40,684,478	795,679,003	29,739,608	1,803,315	8,684,569	40,227,492	835,906,495

The consolidated financial statements report certain categories of expenses that are attributable to more than one function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The allocations are primarily based on total revenues and full-time equivalent employees of the related program activities, supporting activities, and fundraising. Fundraising expenses functional classification in the tables above differs from its natural classification on the statement of operations by \$1,013,847 and \$985,686 as of June 30, 2023 and 2022, respectively, due to the aforementioned allocations.

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Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(15) Commitments and Contingencies

(a) Federal Awards

ACRI receives federal awards to support its research efforts. These grants are subject to financial and compliance audits by the granting agencies. The amount of expenditures, if any, which may be disallowed by the granting agency cannot be determined at this time; however, management expects such amounts, if any, to be immaterial.

(b) Leases

Arkansas Children's has entered into noncancelable operating leases for equipment and facilities. Arkansas Children's has determined whether each arrangement is a lease at the inception of the contract. Leases with an initial term of 12 months or less are not recorded on the accompanying consolidated balance sheets.

Arkansas Children's has lease agreements that require payments for lease and nonlease components and has elected to account for these as a single lease component. For leases that commenced before the effective date of FASB ASC 842 – *Leases* (Topic 842), Arkansas Children's elected the permitted practical expedients upon adoption of the standard to not reassess the following: (i) whether any expired or existing contracts contain leases; (ii) the lease classification for any expired or existing leases; and (iii) initial direct costs for any existing leases.

Right-of-use (ROU) assets represent Arkansas Children's right to use an underlying asset during the lease term and lease liabilities represent Arkansas Children's obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at the commencement date, based on the net present value of fixed lease payments over the lease term. Arkansas Children's lease terms include options to extend or terminate the lease when it is reasonably certain that the options will be exercised. As most of Arkansas Children's leases do not provide an implicit rate, Arkansas Children's uses its incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. Arkansas Children's considers recent debt issuances as well as publicly available data for instruments with similar characteristics when calculating its incremental borrowing rates. Fixed lease expense is recognized on a straight-line basis over the lease term, while variable payments are recognized in the period incurred.

Operating lease expense for the years ended June 30, 2023 and 2022 was approximately \$3,900,000 and \$3,805,000, respectively. The undiscounted future lease payments under noncancelable operating

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Notes to Consolidated Financial Statements

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leases and reconciliation to the corresponding liability included in the accompanying 2023 consolidated balance sheet follow:

Years ending June 30:		
2024	\$	1,873,739
2025		1,511,170
2026		1,286,719
2027		932,157
2028		687,195
Thereafter		<u>4,915,579</u>
Total lease payments		11,206,558
Less interest		<u>(1,688,398)</u>
Present value of lease liabilities	\$	<u><u>9,518,160</u></u>

At June 30, 2023, the weighted-average remaining lease term is 8.57 years and the weighted average discount rate is 3.44%. At June 30, 2022, the weighted-average remaining lease term was 9.92 years and the weighted average discount rate was 3.24%.

(16) Donor-Restricted Gifts and Pledges Receivable

Amounts of net pledges receivable (at net present value discounted at a rate of 4.75% and 3.25% for the years ended June 30, 2023 and 2022, respectively) as of June 30, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
	Net pledges receivable with donor restrictions	Net pledges receivable with donor restrictions
Due in less than one year	\$ 9,095,164	6,438,578
Due in one to five years	20,007,826	5,678,725
Due in more than five years	<u>331,431</u>	<u>1,688,931</u>
Total	\$ <u><u>29,434,421</u></u>	<u><u>13,806,234</u></u>

Land receivable, valued at \$6,590,000 included in pledges receivable as of June 30, 2023 and 2022, is not shown above as the various properties are held in trust for an expected period of between 10 to 25 years.

ARKANSAS CHILDREN'S

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

Maturities of trusts receivable are not shown above as the maturities of these receivables are dependent upon the life expectancies of the related income beneficiaries. Pledges receivable include donor-restricted trust receivables (at net present value), which totaled approximately \$4,446,000 and \$4,373,000 at June 30, 2023 and 2022, respectively.

The allowance for uncollectible pledges receivable totaled approximately \$401,000 and \$609,000 as of June 30, 2023 and 2022, respectively. The discount relating to pledges receivable totaled approximately \$3,220,000 and \$667,000 as of June 30, 2023 and 2022, respectively.

(17) Subsequent Events

Arkansas Children's has evaluated subsequent events through October 26, 2023, the date on which the consolidated financial statements were issued, and determined that there are no subsequent events identified that would warrant any adjustments, or disclosure in, the consolidated financial statements.



ARKANSAS CHILDREN'S

Single Audit Reports

June 30, 2023

ARKANSAS CHILDREN'S

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

The Board of Directors
Arkansas Children's
Little Rock, Arkansas:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Arkansas Children's, which comprise Arkansas Children's consolidated balance sheet as of June 30, 2023, and the related consolidated statements of operations, changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 26, 2024.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Arkansas Children's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed



no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

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

KPMG LLP

Memphis, Tennessee
October 26, 2023



KPMG LLP
Triad Centre III
Suite 450
6070 Poplar Avenue
Memphis, TN 38119-3901

**Independent Auditors' Report on Compliance for Each Major Federal Program;
Report on Internal Control Over Compliance; and Report on Schedule of
Expenditures of Federal Awards Required by the Uniform Guidance, Schedule of
Expenditures of State of Arkansas Financial Assistance and Schedule of Units of Service**

The Board of Directors
Arkansas Children's
Little Rock, Arkansas:

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Arkansas Children's compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of Arkansas Children's major federal programs for the year ended June 30, 2023. Arkansas Children's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, Arkansas Children's complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

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

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

Responsibilities of Management for Compliance

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



Auditors' Responsibilities for the Audit of Compliance

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Arkansas Children's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Arkansas Children's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Arkansas Children's internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

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



deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2023-001 to be a significant deficiency.

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

Government Auditing Standards requires the auditor to perform limited procedures on Arkansas Children's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. Arkansas Children's is also responsible for preparing a corrective action plan to address each audit finding included in our auditors' report. Arkansas Children's response and corrective action plan were not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response or the corrective action plan.

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

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance, Schedule of Expenditures of State of Arkansas Financial Assistance and Schedule of Units of Service

We have audited the consolidated financial statements of Arkansas Children's as of and for the year ended June 30, 2023, and have issued our report thereon dated October 26, 2023, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the consolidated financial statements. In addition, the accompanying schedule of expenditures of State of Arkansas financial assistance is presented for purposes of additional analysis as required by the State of Arkansas and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the schedules of expenditures of federal awards and expenditures of State of Arkansas financial assistance are fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of units of service is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

KPMG LLP

Memphis, Tennessee
March 26, 2024

ARKANSAS CHILDREN'S
Schedule of Expenditures of Federal Awards
Year ended June 30, 2023

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Assistance listing number</u>	<u>Pass-through Entity</u>	<u>Pass-through entity identifying number</u>	<u>Expenditures recognized</u>	<u>Amounts passed through to subrecipients</u>
Research and Development Cluster:					
U.S. Department of Agriculture:					
Agricultural Research_Basic and Applied Research	10.001			\$ 8,177	99,419
Agricultural Research_Basic and Applied Research	10.001			9,422,580	27,378
Agricultural Research_Basic and Applied Research	10.001			21,188	—
Agricultural Research_Basic and Applied Research	10.001			7,091	—
Total for Program				9,459,036	126,797
Agricultural and Food Research Initiative	10.310			82,911	—
Agricultural and Food Research Initiative	10.310			69,896	—
Agriculture and Food Research Initiative	10.310	National Institute of Food and Agriculture		106,845	—
Total for Program				259,652	—
Total U.S. Department of Agriculture				9,718,688	126,797
U.S. Department of Defense:					
Military Medical Research and Development	12.420	Columbia University	W81XWH-19-1-0266	37,133	—
Military Medical Research and Development	12.420	Boston Children's	N/A	4,909	—
Total U.S. Department of Defense				42,042	—
National Science Foundation:					
Social, Behavioral and Economic Sciences	47.075			3,359	—
U.S. Department of Health and Human Services:					
Centers for Disease Control and Prevention:					
Birth Defects and Developmental Disabilities-Prevention and Surveillance	93.073	UAMS	N/A	52,077	—
Health Resources and Services Administration:					
Maternal and Child Health Federal Consolidated	93.110	University of Texas Health Science Center of Houston	0002466	23,406	—
National Institutes of Health Programs:					
Environmental Health	93.113			64,013	—
Environmental Health	93.113			159,935	—
Total for Program				223,948	—
Oral Diseases and Disorders Research	93.121	University of Florida	00003477	1,332	—
Oral Diseases and Disorders Research	93.121	University of Iowa	S03771	16,278	—
Total for Program				17,610	—
Research Related to Deafness and Communication Disorders	93.173	Boystown	GRT-00280	10,471	—
Research and Training in Complementary and Integrative Health	93.213	University of Utah	10049254-ACRI	26,491	—
Research and Training in Complementary and Integrative Health	93.213	Mount Sinai	0255-D968-4609	50,227	—
Total for Program				76,718	—
National Center on Sleep Disorders Research	93.233	Johns Hopkins University	2003727945 / 20038727945	13,884	—
Alcohol Research Programs	93.273	LSU Health Sciences Center-New Orleans	20-21-324	85,728	—
Alcohol Research Programs	93.273	Rhode Island Hospital	7017137290-1	14,781	—
Total for Program				100,509	—

ARKANSAS CHILDREN'S
Schedule of Expenditures of Federal Awards
Year ended June 30, 2023

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Assistance listing number</u>	<u>Pass-through Entity</u>	<u>Pass-through entity identifying number</u>	<u>Expenditures recognized</u>	<u>Amounts passed through to subrecipients</u>
Drug Abuse and Addiction Research Programs	93.279			\$ 7,791	—
Drug Abuse and Addiction Research Programs	93.279	UCSD	705055	16,678	—
Drug Abuse and Addiction Research Programs	93.279			1,282,096	354,786
Total for Program				<u>1,306,565</u>	<u>354,786</u>
Trans-NIH Research Support	93.310			274,188	—
Trans-NIH Research Support	93.310	UAMS	54487-BREATHE	46,941	—
Trans-NIH Research Support	93.310			60,560	—
Total for Program				<u>381,689</u>	<u>—</u>
National Center for Advancing Translational Sciences	93.350	UAMS	52966	202,958	—
National Center for Advancing Translational Sciences	93.350	Tufts College	102188-00064	4,129	—
Total for Program				<u>207,087</u>	<u>—</u>
Nursing Research	93.361			555,689	53,951
Cancer Treatment Research	93.395	Children's Hospital of Philadelphia	950080200-01C	21,087	—
Cancer Treatment Research	93.395	Children's Hospital of Philadelphia	95002080220-xx	6,808	—
Cancer Treatment Research	93.395			281,631	21,625
Total for Program				<u>309,526</u>	<u>21,625</u>
Cardiovascular Diseases Research	93.837	University of Rochester	417380/URFAO: GR510819	16,952	—
Cardiovascular Diseases Research	93.837	Vanderbilt University	105924	118	—
Cardiovascular Diseases Research	93.837	Indiana University	9414	19,570	—
Total for Program				<u>36,640</u>	<u>—</u>
Lung Diseases Research	93.838	Rutgers University	8299/1160	18,514	—
Lung Diseases Research	93.838	NYU Grossman	PED-03-21	3,957,229	25,109
Lung Diseases Research	93.838	University of Pennsylvania	583403	48,271	—
Lung Diseases Research	93.838	University of Pennsylvania	586554	2,078	—
Lung Diseases Research	93.838	Duke University	A033918	39,138	—
Lung Diseases Research	93.838	University of Michigan	00015491	1,631	—
Lung Diseases Research	93.838	Regents of the UCSF	12795sc	37,202	—
Total for Program				<u>4,104,063</u>	<u>25,109</u>
Blood Diseases and Resources Research	93.839	University of Alabama at Birmingham	000524452-008	33,711	—
Blood Diseases and Resources Research	93.839			110,511	—
Blood Diseases and Resources Research	93.839	Children's Hospital of Philadelphia	3201710624	1,346	—
Blood Diseases and Resources Research	93.839	Nationwide Children's Hospital	700277-0223	3,953	—
Blood Diseases and Resources Research	93.839	University of Texas Southwestern Medical Center	GMO210705	1,245	—
Total for Program				<u>150,766</u>	<u>—</u>
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847			53,673	—
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	La Jolla Institute for Allergy and Immunology	20108-02-111-342	(871)	—
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	Univ. of Kansas Med Center Research Inst.	ZAH00030	1,048	—
Total for Program				<u>53,850</u>	<u>—</u>

ARKANSAS CHILDREN'S
Schedule of Expenditures of Federal Awards
Year ended June 30, 2023

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Assistance listing number	Pass-through Entity	Pass-through entity identifying number	Expenditures recognized	Amounts passed through to subrecipients
Allergy and Infectious Diseases Research	93.855	University of California San Diego	77382527	\$ 1,994	—
Allergy and Infectious Diseases Research	93.855	University of California San Diego	78456631	99,512	—
Allergy and Infectious Diseases Research	93.855	Johns Hopkins University	2004200724	263,238	—
Allergy and Infectious Diseases Research	93.855	Johns Hopkins University	N/A	1,224,572	—
Allergy and Infectious Diseases Research	93.855	University of Alabama at Birmingham	000522211-001	8,305	—
Allergy and Infectious Diseases Research	93.855			69,668	—
Allergy and Infectious Diseases Research	93.855	University of Illinois	01AI135812	186,397	—
Allergy and Infectious Diseases Research	93.855	Duke University	234740	1,823	—
Allergy and Infectious Diseases Research	93.855	Cincinnati Children's Hospital Medical Ctr	309363	15,054	—
Allergy and Infectious Diseases Research	93.855	Benaroya Research Institute	FY22ITN467	123,431	—
Allergy and Infectious Diseases Research	93.855			175,475	55,012
Allergy and Infectious Diseases Research	93.855			523,794	397,759
Allergy and Infectious Diseases Research	93.855			527,353	321,291
Allergy and Infectious Diseases Research	93.855			146,697	34,124
Allergy and Infectious Diseases Research	93.855	Boston Children's Hospital	1983505	2,364	—
Allergy and Infectious Diseases Research	93.855			328,911	209,757
Total for Program				<u>3,698,588</u>	<u>1,017,943</u>
Biomedical Research and Research Training	93.859			2,624,278	144,424
Biomedical Research and Research Training	93.859			3,830,020	339,663
Biomedical Research and Research Training	93.859			11,180	—
Biomedical Research and Research Training	93.859			29,030	16,323
Biomedical Research and Research Training	93.859			316,203	—
Total for Program				<u>6,810,711</u>	<u>500,410</u>
Child Health and Human Development Extramural Research	93.865	Children's Hospital of Philadelphia	20334560	2,595	—
Child Health and Human Development Extramural Research	93.865			8,116	—
Child Health and Human Development Extramural Research	93.865	Children's Mercy Hospital	41606123	8,552	—
Child Health and Human Development Extramural Research	93.865	University of Utah	10058860-13-ARCH	16,630	—
Child Health and Human Development Extramural Research	93.865			608,967	67,076
Total for Program				<u>644,860</u>	<u>67,076</u>
Vision Research	93.867	Jaeb Center for Health Research, Inc.	N/A	149	—
Vision Research	93.867	Jaeb Center for Health Research, Inc.	N/A	14	—
Vision Research	93.867	Jaeb Center for Health Research, Inc.	1808	28,972	—
Total for Program				<u>29,135</u>	<u>—</u>
Prime contract #6132062D0002	93.RD	Consumer Product Safety Commission	9522	36,054	—
8U24OD024957	93.RD	UAMS	50164	5,405	—
Contract	93.RD	UAMS	N/A	3,128	—
Contract	93.RD	University of Calgary	10034797	23,011	—
1UG3HL141736-01	93.RD	Boston Children's Hospital	4615527	6,964	—
Contract #75D30122C13330	93.RD	Boston Children's Hospital	GENFD0002272390	16	—
KCNQ2 Channels Control Chemoreceptor	93.RD	University of Connecticut	N/A	(3,587)	—
Autism and Developmental Disabilities Monitoring	93.RD	UAMS	N/A	7,176	—
Contract #75D30120C07725	93.RD	Boston Children's Hospital	GENFD0002019874	263,428	—
Contract	93.RD	Quadrant	N/A	29,900	—
Total U.S. Department of Health and Human Services				<u>19,264,447</u>	<u>2,040,900</u>
Total Research and Development Cluster *				<u>29,028,536</u>	<u>2,167,697</u>

ARKANSAS CHILDREN'S
Schedule of Expenditures of Federal Awards
Year ended June 30, 2023

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Assistance listing number	Pass-through Entity	Pass-through entity identifying number	Expenditures recognized	Amounts passed through to subrecipients
477 Cluster:					
U.S. Department of Health and Human Services Programs:					
Child Care and Development Block Grant	93.575	Arkansas Department of Human Services	N/A	\$ 100,012	—
American Rescue Plan Act-Child Care Supplemental	93.575	Arkansas Department of Human Services	N/A	545,355	—
Total 477 Cluster				<u>645,367</u>	<u>—</u>
Other Programs:					
Child and Adult Care Food Program	10.558	Arkansas Department of Human Services	A233	27,550	—
Child and Adult Care Food Program	10.558	Arkansas Department of Human Services	P240	15,692	—
Total for Program				<u>43,242</u>	<u>—</u>
Total U.S. Department of Agriculture					
U.S. Department of Treasury:					
Coronavirus Relief Fund	21.019	Arkansas Department of Human Services	N/A	5,976,000	—
U.S. Department of Education:					
Special Education Grants to States (EARS Program)	84.027	Arkansas Department of Education	N/A	250,000	—
U.S. Department of Health and Human Services:					
Blood Disorder Program: Prevention, Surveillance, and Research	93.080	University of Texas Health Science Center of Houston	0011472A	19,747	—
Maternal and Child Health Federal Consolidated Programs	93.110	UAMS	56343	42,531	—
Sickle Cell Treatment Demonstration Program	93.365	Washington University	WU-19-154 / WU-20-194	96,822	—
COVID-19 Testing for the Uninsured	93.461			36,474	—
COVID-19 Provider Relief Fund *	93.498			9,545,384	—
Maternal, Infant and Early Childhood Home Visiting Program	93.870	Arkansas Department of Health	#4600046694	5,419,409	4,495,288
Maternal, Infant and Early Childhood Home Visiting Program ARP 1	93.870	Arkansas Department of Health	#4600050730	269,632	128,986
Maternal, Infant and Early Childhood Home Visiting Program ARP 2	93.870	Arkansas Department of Health	#4600052461	11,846	11,846
Total for Program				<u>5,700,887</u>	<u>4,636,120</u>
Title IV-E Foster Care	93.658	Arkansas Department of Human Services	N/A	4,265	—
Hospital Preparedness Program Ebola Preparedness and Response Activities	93.817	Arkansas Department of Health	N/A	2,599	—
Maternal and Child Health Services Block Grant to the States	93.994	Arkansas Department of Health	#4600046719	28,407	—
Total U.S Department of Health and Human Services				<u>5,736,158</u>	<u>4,636,120</u>
U.S. Department of Transportation:					
Child Passenger Safety Education Project	20.600	Arkansas State Police	M2CPS-2022-08-08-01	377,948	—
Drive Smart Challenge	20.600	Arkansas State Police	M8V-2022-11-11-01	336,320	—
Total U.S. Department of Transportation				<u>714,268</u>	<u>—</u>
U.S. Agency for International Development:					
USAID Foreign Assistance for Programs Overseas	98.001	Purdue University	F9000735402077	34,397	—
U.S. Department of Veteran Affairs					
	64.018			26,089	—
Total Expenditures of Federal Awards				<u>\$ 52,195,015</u>	<u>6,803,817</u>

* denotes major program

See accompanying Independent Auditors' Report.

See accompanying notes to Schedule of Expenditures of Federal Awards and Schedule of Expenditures of State of Arkansas Financial Assistance.

ARKANSAS CHILDREN'S

Schedule of Expenditures of State of Arkansas Financial Assistance

Year ended June 30, 2023

<u>State grantor/pass-through grantor/program title</u>	<u>State award number</u>	<u>Pass-through entity identifying number</u>	<u>Revenue</u>	<u>Expenditures recognized</u>
Direct Appropriations:				
Indigent Care Appropriation (1)	ACT #170	N/A	\$ 1,861,789	1,861,789
Intensive Care Nursery (1)	ACT #199	N/A	218,388	218,388
Children's Hospital Payments (1)	ACT #199	N/A	693,000	693,000
Helicopter Funding (1)	ACT #199	N/A	1,000,000	1,000,000
Burn Unit (1)	ACT #199	N/A	990,000	990,000
Arkansas Reproductive Health Monitoring System (1)	ACT #199	N/A	564,283	486,293
Child Health and Family Life Institute (1)	ACT #213	N/A	2,100,000	2,100,000
Division of Developmental Disabilities Services (CMS)	N/A	N/A	326	326
Division of Children and Family Services	N/A	N/A	652,722	652,722
Arkansas Attorney General	N/A	N/A	16,542	16,542
Passed through the Department of Education:				
HIPPY Arkansas Better Chance	ACT #217	N/A	427,464	427,464
Passed through the Department of Finance and Administration:				
Baby Sharon	ACT #199	N/A	39,810	39,810
Passed through the Department of Health:				
Trauma Center	ACT #393	#4600046674	1,029,677	1,029,677
Burn Center	ACT #393	#4600046672	34,351	34,351
Infant Child Death Review	ACT #1818	#4600029163	113,629	113,629
Tobacco Prevention	ACT #91	#4600042612	347,064	347,064
Passed through the Department of Human Services:				
Foster Care – Title IV-E State	N/A	N/A	1,203	1,203
Passed through UAMS:				
Arkansas Biosciences Institute – CHART Programmatic Area Expenditures	ACT #142	N/A	1,651,647	1,147,466
Total Expenditures of State of Arkansas Financial Assistance			\$ 11,741,895	11,159,724

(1) Remitted to Arkansas Medicaid, on behalf of Arkansas Children's Hospital, to be used as match for supplemental Medicaid payments.

See accompanying Independent Auditors' Report.

See accompanying notes to Schedules of Expenditures of Federal Awards and Expenditures of State of Arkansas Financial Assistance.

ARKANSAS CHILDREN'S

Notes to Schedules of Expenditures of Federal Awards and Expenditures of State of Arkansas Financial Assistance

June 30, 2023

(1) Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards summarizes the expenditures of Arkansas Children's under programs of the federal government for the year ended June 30, 2023. The accompanying Schedule of Expenditures of State of Arkansas Financial Assistance (collectively with the Schedule of Expenditures of Federal Awards, the Schedules) summarizes the expenditures of Arkansas Children's under programs of the state government for the year ended June 30, 2023. The information in the Schedule of Expenditures of Federal Awards is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedules present only a selected portion of the operations of Arkansas Children's, they are not intended to, and do not, present the financial position, changes in net assets or cash flows of Arkansas Children's.

For purposes of the Schedules, federal awards include all grants, contracts, and similar agreements entered into directly between Arkansas Children's and agencies and departments of the federal government and all subawards to Arkansas Children's by nonfederal organizations pursuant to federal grants, contracts, and similar agreements.

(2) Summary of Significant Accounting Policies

For the purpose of the Schedules, expenditures of federal and state award programs are reported on the accrual basis of accounting. Federal expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The 10% de minimis cost rate (as covered in 2 CFR Part 200.414) was not used. Instead a federally negotiated indirect cost rate was used during the year.

(3) Governmental Assistance

In addition to amounts listed on the Schedules, Arkansas Children's reported \$548,080,993 of other governmental assistance, in the form of Medicaid reimbursements and Children's Hospital Graduate Medical Education payments during the fiscal year ended June 30, 2023, which are not subject to the audit requirements as defined in the Uniform Guidance.

(4) Provider Relief Fund

As required by the granting agency, the Provider Relief Fund (PRF) amounts presented in the schedule of expenditures of federal awards represent lost revenues and expenses as reported to the U.S. Department of Health and Human Services for the PRF portal reporting time periods of January 1, 2023 to March 31, 2023 and July 1, 2023 to September 30, 2023.

ARKANSAS CHILDREN'S

Schedule of Units of Service

Year ended June 30, 2023

(Unaudited)

	Summer lunch/at risk food programs	Child and adult care food program		
		Breakfast	Lunch	Supplements
Number of meals served:				
July	597	1,587	1,634	1,619
August	565	1,855	1,895	1,884
September	—	1,497	1,557	1,515
October	—	1,529	1,579	1,580
November	—	1,511	1,546	1,543
December	—	1,463	1,506	1,489
January	—	1,487	1,543	1,528
February	—	1,470	1,508	1,492
March	—	1,755	1,799	1,780
April	—	1,714	1,740	1,731
May	—	1,944	1,993	1,967
June	2,160	1,656	1,695	1,689
Total number of meals served	<u>3,322</u>	<u>19,468</u>	<u>19,995</u>	<u>19,817</u>

See accompanying Independent Auditors' Report.

ARKANSAS CHILDREN'S
Schedule of Findings and Questioned Costs
June 30, 2023

(1) Summary of the Auditors' Results

Audit of the Financial Statements

- (a) Type of auditors' report issued on whether the financial statements were prepared in accordance with U.S. generally accepted accounting principles – unmodified opinion
- (b) Internal control deficiencies over financial reporting disclosed by the audit of the financial statements:
 - Material weaknesses identified? – No
 - Significant deficiencies identified? – None reported
- (c) Noncompliance material to financial statements noted? – No

Audit of Federal Awards

- (d) Internal control deficiencies over major federal program compliance disclosed by the audit of federal awards:
 - Material weaknesses identified? – No
 - Significant deficiencies identified? – Yes
- (e) Type of auditors' report issued on compliance for major programs – unmodified opinion

Name of major federal program or cluster	ALN
COVID-19 Provider Relief Fund	93.498
Research and Development Cluster	Various

- (f) Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) – Yes
- (g) Dollar threshold used to distinguish between type A and type B programs – \$1,566,118
- (h) Auditee qualified as low-risk auditee? – Yes

(2) Findings Relating to the Financial Statements Reported in Accordance with Government Auditing Standards

None

(3) Findings and Questioned Costs Relating to Federal Rewards
Finding 2023-001

Allowable Costs/Cost Principles, Cash Management, Period of Performance

Federal Program:

Research and Development Cluster

ARKANSAS CHILDREN'S
Schedule of Findings and Questioned Costs
June 30, 2023

ALN:

Various

Federal Agency:

U.S. Department of Agriculture

U.S. Department of Defense

National Science Foundation

U.S. Department of Health and Human Services

Federal Award Years:

2023

Criteria

According to 2 CFR 200, Subpart F, nonfederal entities receiving federal awards are required to establish and maintain internal controls designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal controls should include a documented review of the allowability of activities under program legislation, the period of performance of costs incurred during the approved budget period of a federal award's period of performance, and the timing of expense occurrence prior to the request for reimbursement.

Condition

Management represented that Research and Development cluster expenditures were reviewed to ensure that they were allowable under the grant agreement, incurred within the designated period of performance and incurred prior to reimbursement. However, this review and approval was maintained electronically, and due to ineffective general information technology (IT) controls over logical access to the relevant systems, this review control was not designed effectively. General IT controls surrounding access provisioning and de-provisioning were not operating effectively during fiscal year 2023.

Cause

Management inadvertently relied on electronic signoffs evidencing review in a system with an ineffective general IT control environment.

Effect

Failure to establish effective internal controls over allowable costs, period of performance and cash management may result in inaccurate amounts being expensed and reimbursed.

Questioned Cost

None

ARKANSAS CHILDREN'S
Schedule of Findings and Questioned Costs
June 30, 2023

Statistically Valid Sample

The sample was not intended to be, and was not, a statistically valid sample.

Identification of whether the audit finding is a repeat of a finding in the immediately prior audit.

This is not a repeat finding.

Recommendation

We recommend that management implement appropriate controls and processes which include proper logical access controls over relevant IT systems within the review and approval process, or implement manual controls to evidence management's review and approval of expenditures incurred.

Management's Response

During fiscal year 2023, Arkansas Children's implemented an automated tool that allows us to monitor and audit general IT controls going forward over logical access to the relevant systems. We have also strengthened our controls around provisioning and deprovisioning through formalization of our policies around privileged access and have implemented continuous auditing of sensitive roles.

As the automated controls were not in place during the full fiscal year, and therefore not tested during the audit, in fiscal year 2024 Arkansas Children's implemented temporary manual controls and processes. These controls support the review and approval of expenditures monthly to verify that they are allowable, incurred within the designated period of performance and incurred prior to reimbursement.

Finding No. 2023-001
Corrective Action Plan

1. Name of the contact person responsible for corrective action
Gena Wingfield, Chief Financial Officer
2. Corrective action planned
During FY23 Arkansas Children's implemented an automated tool that allows us to monitor and audit general IT controls going forward over logical access to the relevant systems. We have also strengthened our controls around provisioning and deprovisioning through formalization of our policies around privileged access and have implemented continuous auditing of sensitive roles.

As the automated controls were not in place during the full fiscal year, and therefore not tested during the audit, in FY24 Arkansas Children's implemented temporary manual controls and processes. These controls support the review and approval of expenditures monthly to verify that they are allowable, incurred within the designated period of performance and incurred prior to reimbursement.
3. Anticipated completion date
1/31/2024
4. If the client does not agree with the audit findings or believes corrective action is not required, include an explanation and specific reasons
Agree with Finding No. 2023-001
5. The reference numbers the auditors assigned to the audit findings in the schedule of findings and questioned costs
Finding No. 2023-001