KPMG

ARKANSAS CHILDREN'S

Consolidated Financial Statements

June 30, 2019 and 2018

(With Independent Auditors' Report Thereon)

ARKANSAS CHILDREN'S

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Independent Auditors' Report

Arkansas Children's
Little Rock, Arkansas:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Arkansas Children's, which comprise the consolidated balance sheets as of June 30, 2019 and 2018, 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Arkansas Children's as of June 30, 2019 and 2018, and the changes in their net assets and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in note 2(s) to the consolidated financial statements, during the year ended June 30, 2019 Arkansas Children's adopted new accounting guidance in connection with its implementation of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, and FASB ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2019 on our consideration of Arkansas Children's internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and 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 28, 2019

ARKANSAS CHILDREN'S

Consolidated Balance Sheets

June 30, 2019 and 2018

Assets	2019	2018
Current assets:		
Cash and cash equivalents	$ 101,437,613	91,726,445
Accounts receivable:		
Net patient accounts receivable	84,847,660	78,940,766
Pledges receivable – current portion	7,918,737	15,069,568
Other receivables	33,336,262	26,511,741
Investments – at fair value	320,852,968	261,584,470
Assets limited as to use, which are required for current liabilities	6,943,216	6,690,317
Estimated third-party payor settlements – current portion	113,198,389	106,678,829
Inventories	10,823,916	10,140,685
Prepaids and other current assets	10,403,280	9,634,737
Total current assets	689,762,041	606,977,558
Assets limited as to use:		
Board designated investments	228,900,520	219,835,004
Restricted cash for self-insurance funding arrangements	238,657	—
Restricted investments:		
Endowments with donor restrictions	103,072,657	94,399,924
Other investments with donor restrictions	2,288,790	2,303,427
Other investments for self-insurance funding arrangements	1,233,700	—
Investments held by trustee under bond agreements	3,880,101	3,854,941
Total assets limited as to use	339,614,425	320,393,296
Less amounts classified as current	(6,943,216)	(6,690,317)
Assets limited as to use – noncurrent	332,671,209	313,702,979
Pledges receivable – noncurrent	25,933,185	23,002,720
Property, plant, and equipment:		
Land and improvements	44,452,895	45,699,062
Buildings	516,592,244	531,635,928
Equipment	255,992,612	263,103,128
Construction in progress	9,216,612	3,877,408
Total property, plant, and equipment	826,254,363	844,315,526
Less accumulated depreciation	(368,958,266)	(370,917,157)
Property, plant, and equipment – net	457,296,097	473,398,369
Other noncurrent assets	49,582,788	44,017,531
Total assets	$ 1,555,245,320	1,461,099,157

(Continued)

ARKANSAS CHILDREN'S

Consolidated Balance Sheets

June 30, 2019 and 2018

Liabilities and Net Assets		2019	2018
Current liabilities:			
Accounts payable	$	39,410,970	38,379,577
Accrued interest		2,308,217	2,360,317
Accrued expenses and other liabilities		36,373,865	30,264,882
Current portion of long-term debt		6,429,977	5,945,000
Total current liabilities		84,523,029	76,949,776
Noncurrent liabilities:			
Obligations under capital leases		—	54,487
Long-term debt – net of current portion		173,158,588	179,945,796
Total liabilities		257,681,617	256,950,059
Commitments and contingencies			
Net assets:			
Without donor restrictions		1,105,212,336	1,014,682,197
With donor restrictions		192,351,367	189,466,901
Total net assets		1,297,563,703	1,204,149,098
Total liabilities and net assets	$	1,555,245,320	1,461,099,157

See accompanying notes to consolidated financial statements.

ARKANSAS CHILDREN'S

Consolidated Statements of Operations

Years ended June 30, 2019 and 2018

		2019	2018
Revenues, gains and other support:			
Net patient service revenue	$	602,268,177	548,047,450
Specific purpose grants		31,329,701	29,788,536
Supplemental Medicaid reimbursement		42,660,038	42,311,045
Other		20,190,959	19,443,839
Net assets released from restrictions and used for operations		6,891,591	20,846,685
Total revenues, gains and other support		703,340,466	660,437,555
Expenses:			
Salaries and wages		276,838,859	257,237,252
Employee benefits		51,536,933	49,740,283
Supplies and pharmaceuticals		106,223,407	113,258,630
Professional fees		84,774,980	86,715,794
Purchased services		76,952,609	73,419,320
Depreciation		49,400,402	40,468,017
Interest		7,297,003	6,195,027
Utilities		6,178,575	5,859,380
Insurance		3,059,909	3,249,519
Other		10,076,392	13,488,858
Total expenses		672,339,069	649,632,080
Income from operations		31,001,397	10,805,475
Nonoperating revenues, gains, expenses and losses:			
Contributions		12,040,853	6,006,157
Investment income		19,622,043	28,331,008
Other (loss) revenue		(1,776,307)	904,227
Fundraising expenses		(8,795,088)	(9,067,850)
Net nonoperating revenues, gains, expenses and losses		21,091,501	26,173,542
Excess of revenues and gains over expenses and losses		52,092,898	36,979,017
Other changes in net assets without donor restrictions:			
Net unrealized gain (loss) on investments		17,986,705	(3,614,145)
Net assets released from restrictions used for purchase of property and equipment		20,438,757	22,431,351
Grant funds used to purchase capital assets		779,805	1,435,315
Annuity reserve		—	(3,080)
Transfer of net assets		(768,026)	122,703
Increase in net assets without donor restrictions	$	90,530,139	57,351,161

See accompanying notes to consolidated financial statements.

ARKANSAS CHILDREN'S

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2019 and 2018

	Without donor restrictions	With donor restrictions	Total
Balance – June 30, 2017	$ 957,331,036	196,005,941	1,153,336,977
Excess of revenues and gains over expenses and losses	36,979,017	—	36,979,017
Net assets released from donor restrictions and used for operations	—	(20,846,685)	(20,846,685)
Unrealized (loss) gain on investments, net	(3,614,145)	321,617	(3,292,528)
Contributions with donor restrictions	—	30,121,455	30,121,455
Income from investments with donor restrictions	—	1,184,924	1,184,924
Gain on sale of investments with donor restrictions	—	4,978,893	4,978,893
Net assets released from restrictions and used for purchase of property and equipment	22,431,351	(22,431,351)	—
Unexpended grant carryover	—	1,077,189	1,077,189
Other than temporary impairment on investments with donor restrictions	—	(822,379)	(822,379)
Grant funds used to purchase capital assets	1,435,315	—	1,435,315
Annuity reserve	(3,080)	—	(3,080)
Transfer of net assets	122,703	(122,703)	—
Change in net assets	57,351,161	(6,539,040)	50,812,121
Balance – June 30, 2018	1,014,682,197	189,466,901	1,204,149,098
Excess of revenues and gains over expenses and losses	52,092,898	—	52,092,898
Net assets released from donor restrictions and used for operations	—	(6,891,591)	(6,891,591)
Unrealized gain on investments, net	17,986,705	2,654,919	20,641,624
Contributions with donor restrictions	—	23,275,642	23,275,642
Income from investments with donor restrictions	—	1,323,767	1,323,767
Gain on sale of investments with donor restrictions	—	3,079,869	3,079,869
Net assets released from donor restrictions and used for purchase of property and equipment	20,438,757	(20,438,757)	—
Unexpended grant carryover	—	854,085	854,085
Other than temporary impairment on investments with donor restrictions	—	(1,741,494)	(1,741,494)
Grant funds used to purchase capital assets	779,805	—	779,805
Transfer of net assets	(768,026)	768,026	—
Change in net assets	90,530,139	2,884,466	93,414,605
Balance – June 30, 2019	$ 1,105,212,336	192,351,367	1,297,563,703

See accompanying notes to consolidated financial statements.

ARKANSAS CHILDREN'S

Consolidated Statements of Cash Flows

Years ended June 30, 2019 and 2018

		2019	2018
Cash flows from operating activities:			
Change in net assets	$	93,414,605	50,812,121
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation		49,400,402	40,468,017
Net realized and unrealized gains on investments		(35,934,744)	(21,941,254)
Net unrealized losses on other assets		61,500	272,000
Other than temporary impairment of investments		8,674,707	4,034,114
Loss on disposition of fixed assets		1,023,284	84,322
Contributions for restricted endowments and capital assets		(15,523,775)	(1,825,809)
Amortization/accretion of bond premium/discount and bond issuance costs		(360,071)	(348,968)
Changes in operating assets and liabilities:			
Patient and other receivables		(12,731,415)	(28,749,499)
Estimated third-party payor settlements		(12,800,311)	(27,015,611)
Pledges receivable		4,220,366	(3,578,055)
Inventories		(683,231)	(272,464)
Other assets		(114,549)	(1,783,260)
Accounts payable		(1,731,159)	(2,244,247)
Accrued expenses, interest, and other liabilities		6,056,883	288,492
Net cash provided by operating activities		82,972,492	8,199,899
Cash flows from investing activities:			
Purchases of property, plant, and equipment		(31,558,862)	(103,388,993)
Purchases of investments		(164,905,981)	(69,731,360)
Proceeds from maturities and sales of investments		113,940,208	124,450,312
Change in assets held by trustee under bond agreements – other		(25,160)	14,043,406
Net cash used in investing activities		(82,549,795)	(34,626,635)
Cash flows from financing activities:			
Contributions for restricted endowments and capital assets		15,523,775	1,825,809
Principal payments on long-term debt		(5,942,160)	(6,047,798)
Capital lease obligation		(54,487)	(51,569)
Net cash provided by (used in) financing activities		9,527,128	(4,273,558)
Net increase (decrease) in cash and cash equivalents		9,949,825	(30,700,294)
Cash and cash equivalents:			
Beginning of year		91,726,445	122,426,739
End of year	$	101,676,270	91,726,445
Supplemental disclosure of cash flow information – cash paid for interest	$	7,237,526	7,449,931
Noncash operating and investing activities – purchases of property, plant, and equipment in accounts payable		2,762,552	2,045,834

See accompanying notes to consolidated financial statements.

(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 health care 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 health care 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 health care system in the state solely dedicated to caring for children, which allows the organization to uniquely shape the landscape of pediatric care in Arkansas. The system includes a 336-bed hospital in Little Rock with the state's only pediatric Level 1 Trauma Center, burn center, Level 4 neonatal intensive care and pediatric intensive care, and research institute as well as a nationally recognized transport service. It is one of the 25 largest children's hospitals in the United States and is nationally ranked by U.S. News World & Report in cardiology/heart surgery, neurology/neurosurgery, nephrology and pulmonology. ACNW in Springdale includes 233,613 square feet of inpatient beds, emergency care, clinic rooms and diagnostic services. Arkansas Children's also provides the state with outreach programs that include telemedicine, mobile health and school-based health programs. A private nonprofit, Arkansas Children's boasts an internationally renowned reputation for medical breakthroughs and intensive treatments, unique surgical procedures and forward-thinking research and is committed to providing access to the best care. Founded as an orphanage, Arkansas Children's has championed children by making them better today and healthier tomorrow for more than 100 years.

Arkansas Children's carries out its mission through its entities' core business and through community benefit work that focuses on creating "healthier tomorrows" for children in Arkansas. Work to improve child health outcomes is driven by community health needs assessments (CHNA) and implementation strategies (IS). ACH's most recent CHNA, completed in fiscal year 2019, provides guidance for a wide variety of community benefit activities outlined in the IS that will be completed in early fiscal year 2020. ACNW completed its first CHNA in fiscal year 2019 and will complete its IS in fiscal year 2020. For both hospitals, these CHNAs and ISs guide the hospitals' community benefit investments and community partnerships to improve health.

In addition to its own community benefit investments, ACH is the cornerstone organization for the Natural Wonders Partnership Council (NWPC), which brings together child health stakeholders to work strategically to improve the health of children in Arkansas. For each CHNA priority area, NWPC collaborates with lead partners in the community who also address these issues. NWPC's shared action plan guides these coalitions and ensures a focus on healthy children and positive outcomes. NWPC recently adopted a new Action Plan for FY20-22, focusing on making measurable impacts on child health and applying geographically targeted community solutions.

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(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 (the consolidated group is referred to as Arkansas Children's). All significant transactions between these entities have been eliminated in consolidation.

(b) Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. 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 and Cash Equivalents

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.

(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 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, 2019 and 2018, was as follows:

	2019	2018
Medicaid and Medicare	42 %	44 %
Other third-party payors (insurance and managed care)	54	52
Patients	4	4
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 sheets. Investment income (including – realized gains and losses on investments, interest and dividends) is included in excess of revenues and gains over expenses and losses. Unrealized gains and losses on investments are excluded from the excess of revenues and gains over expenses and losses and are reported in the consolidated statements of changes in net assets, except for those losses on investments which have been determined to be other-than-temporary that have been included in the 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 amortized over the terms of the related bond issues using the effective interest method.

Arkansas Children's applies ASU 2015-03, *Interest – Imputation of Interest (Subtopic 835-30); Simplifying the Presentation of Debt Issuance Cost* and 2015-15, *Interest – Imputation of Interest (Subtopic 835-30); Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line of Credit Arrangements*. ASU 2015-03 and 2015-15 require debt issuance costs to be presented net of the associated long-term debt.

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.

Gifts of long-lived assets used in operations, such as land, buildings, or equipment, if received, are reported as support without donor restrictions, and are included in the 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

(Continued)

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 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, 2019 and 2018.

(k) Gifts and Bequests

Gifts and bequests which are not restricted by donors are classified in nonoperating revenues, gains, expenses and losses. Gifts and bequests which 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.

(m) Net Assets

Net assets, revenue, expenses, 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 is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets

(Continued)

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 7, 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 Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 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.

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.

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(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 its 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, 2019 and 2018, 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.

(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 and losses on other than trading investments, 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 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 Measurements

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 August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Arkansas Children's adopted ASU 2016-14 in its consolidated financial statements effective June 30, 2019, applying retrospectively to all periods presented. The impact of adoption changes the classification of net assets on the consolidated balance sheet and consolidated statements of operations from three classes of net assets to two classes of net assets. Arkansas Children's also added disclosures for the liquidity and availability of financial assets at the balance sheet date to meet cash needs for general expenditures within one year and disaggregated functional expense classifications by their natural expense classification.

In May 2014, the FASB issued ASU 2014-09, amended by 2015-14, *Revenue from Contracts with Customers*, which supersedes virtually all existing revenue recognition guidance under U.S. GAAP. The ASU provides a five-step model to recognize revenue in a manner that reflects the timing of the transfer of services to customers and the consideration that an entity expects to receive for the goods and services provided. Arkansas Children's adopted ASU 2014-09 on July 1, 2018 using the retrospective method of transition. Arkansas Children's performed an analysis of revenue streams and transactions under ASU 2014-09. In particular, for net patient service revenue, Arkansas Children's performed an analysis into the application of the portfolio approach as a practical expedient to group patient contracts with similar characteristics, such that revenue for a given portfolio would not be materially different than if it were evaluated on a contract-by-contract basis. Upon adoption, the majority of what was previously classified as provision for uncollectible accounts and presented as a reduction in net patient service revenue on the consolidated statements of operations is treated as an implicit price concession that reduces the transaction price, which is reported as net patient service revenue. For the year ended June 30, 2018, Arkansas Children's recorded approximately $11.90 million of implicit price concessions as a direct reduction of patient service revenue that would have been recorded as provision for bad debt prior to the adoption of ASC 606. For the year ended June 30, 2018, Arkansas Children's recorded approximately $5.42 million as a direct reduction of patient accounts receivable that would have been reflected as allowance for uncollectible accounts prior to the adoption of ASC 606. The new standard also requires enhanced disclosures related to the disaggregation of revenue and significant judgments made in measurement and recognition.

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Liabilities* (ASU 2016-01). ASU 2016-01 addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The ASU is effective for not-for-profit entities for fiscal years beginning after December 15, 2018, with early adoption restricted to certain provisions and within certain time periods. Under the ASU, not-for-profit entities are no longer required to disclose fair value information concerning financial instruments measured at amortized cost, such as long-term debt. This provision of ASU 2016-01 may be early adopted for financial statements, which have not yet been issued or made available for issuance. Arkansas Children's is currently evaluating the impact of the provisions of the new standard on its current policies for recognition and measurement of financial assets and liabilities.

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842) which introduces a right-of-use model which requires lessees to recognize all leases, other than short-term leases with a maximum possible term of one year or less, on their balance sheet. Also, the amortization of these leases will be dependent of the portion of the underlying asset being utilized during the lease term. ASU 2016-02 is effective for Arkansas Children's in fiscal year 2020, with early adoption permitted. Arkansas Children's is evaluating the impact of adopting ASU 2016-02 on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments – a consensus on the FASB Emerging Issues Task Force.* ASU 2016-15 amends ASC 230, *Statement of Cash Flows*, to add or clarify guidance on the classification of certain cash receipts and payments in the statement of cash flows with the intent of reducing diversity in practice with respect to eight types of cash flows. ASU 2016-15 is effective for fiscal years beginning after December 15, 2018 and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, and entities must apply the guidance retrospectively to all periods presented. Arkansas Children's is evaluating the impact of adopting ASU 2016-15 on its consolidated financial statements, which is effective in fiscal year 2020.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires companies to present amounts generally described as restricted cash and cash equivalents in cash and cash equivalents on the statement of cash flows. Arkansas Children's is evaluating the impact of adopting ASU 2016-18 on its consolidated financial statements, which is effective in fiscal year 2020.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 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. The ASU is effective for Arkansas Children's for annual reporting periods beginning after June 15, 2018 for contributions received and after December 15, 2018 for contributions made, with early adoption permitted. Arkansas Children's adopted ASU 2018-08 on its consolidated financial statements effective July 1, 2018, using a modified prospective approach. The adoption of ASU 2018-08 did not have a material impact on Arkansas Children's consolidated financial statements.

(t) Reclassifications

Certain 2018 amounts have been reclassified to conform to the 2019 consolidated financial statements presentation. These reclassifications have not changed the results of operations or cash flows of prior periods.

(Continued)

(3) Liquidity and Availability

Financial assets available for general expenditure within one year of June 30, 2019 include the following:

		2019
Cash and cash equivalents	$	101,437,613
Investments		320,852,968
Estimated third-party payor settlements – current portion		113,198,389
Net patient accounts receivable		84,847,660
Other receivables		33,336,262
	$	653,672,892

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

(4) Charity Care and Net Patient Service Revenue

Patient care service revenue is reported at the amount that reflects the considerations 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 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 health care 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 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, either by policy or law, 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 2019 or 2018.

(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, 2019 and 2018, consisted of the following:

	2019	2018
Patient service revenue	$ 1,119,286,248	998,270,333
Less contractual allowances and implicit price concessions	(517,018,071)	(450,222,883)
Net patient service revenue	$ 602,268,177	548,047,450

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, 2019 and 2018, and are as follows:

	2019	2018
Medicaid and Medicare	60.5 %	60.0 %
Other third-party payors	39.1	39.8
Patients	0.4	0.2
	100 %	100 %

(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, 2019, for the years ended June 30, 2019, 2018, 2017, 2016, 2015 and 2014 totaled $114,012,849, $8,468,410, $3,534,846, $8,093,729, $7,758,830 and $14,241,744, respectively, net of a reserve of $25,584,769 which could differ from actual settlements. Of the total net receivable of $156,110,408 recorded as of June 30, 2019, $42,912,019 is considered noncurrent and is therefore included in other noncurrent assets in the accompanying 2019 consolidated balance sheet. The estimated net settlements at June 30, 2018, for the years ended June 30, 2018, 2017, 2016, 2015, 2014 and 2013 totaled $99,569,117, $3,534,846, $8,093,729, $7,758,830, $10,407,698 and $13,768,720, respectively, net of a reserve of $26,132,867 which could differ from actual settlements. Of the total net receivable of $143,132,940 recorded as of June 30, 2018, $36,454,111 is considered noncurrent and is therefore included in other noncurrent assets in the accompanying 2018 consolidated balance sheet. ACH's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through the year ended June 30, 2014. 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 year ended June 30, 2019, the net patient service revenue in the accompanying consolidated statement of operations increased by approximately $4,500,000 as a result of changes to prior year estimates from final Medicaid settlements and changes in management estimates for related reserves. During the year ended June 30, 2018, the net patient service revenue in the accompanying consolidated statement of operations increased by approximately $3,700,000 as a result of changes to prior year estimates from final Medicaid settlements and changes in management estimates for related reserves.

(c) Supplemental Medicaid Reimbursement

State Medicaid programs incur costs for payments to health care 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, 2019 and 2018, was approximately $42,660,000 and $42,311,000, 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, 2019 and 2018, was approximately $15,400,000 and $11,667,000, respectively. Subsequent to year end, Arkansas Children's performs a cost accounting analysis to calculate the cost of service per type of procedure. The 2019 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 2019 amount. Therefore, Arkansas Children's calculated the 2019 charity cost by using the 2018 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 ASU 2010-23, *Health Care Entities (Topic 954): Measuring Charity Care for Disclosure*, whereby cost is used as the measurement basis for charity care disclosure purposes.

(5) Investments and Assets Limited as to Use

At June 30, 2019 and 2018, investments and assets limited as to use consisted of the following:

	2019			
	Cost	**Accumulated unrealized gains**	**Accumulated unrealized losses**	**Estimated fair value**
Unrestricted, board designated endowment, donor restricted investments and investments restricted for self-insurance funding arrangements:				
U.S. government obligations	$ 376,417,987	5,419,713	(578,258)	381,259,442
Corporate stocks	110,591,774	89,120,110	—	199,711,884
Mutual funds	32,291,727	4,535,029	—	36,826,756
Corporate debt	31,358,674	1,905,103	—	33,263,777
Agencies	4,981,121	105,323	—	5,086,444
Certificates of deposit	200,332	—	—	200,332
Total	$ 555,841,615	101,085,278	(578,258)	656,348,635
Funds held by trustee under bond agreements	$ 3,880,101	—	—	3,880,101

	2018			
	Cost	**Accumulated unrealized gains**	**Accumulated unrealized losses**	**Estimated fair value**
Unrestricted, board designated endowment, donor restricted investments and investments restricted for self-insurance funding arrangements:				
U.S. government obligations	$ 330,283,750	310,667	(5,547,795)	325,046,622
Corporate stocks	98,643,842	81,488,509	—	180,132,351
Mutual funds	32,918,413	3,435,100	—	36,353,513
Corporate debt	30,733,411	81,560	—	30,814,971
Agencies	5,572,236	3,132	—	5,575,368
Certificates of deposit	200,000	—	—	200,000
Total	$ 498,351,652	85,318,968	(5,547,795)	578,122,825
Funds held by trustee under bond agreements	$ 3,854,941	—	—	3,854,941

Included with the investments and assets limited as to use balances disclosed above are U.S. government obligations of approximately $369,583,000 and $319,860,000 which are considered held to maturity as of June 30, 2019 and 2018, respectively. These investments are managed internally and are not actively traded. The remaining amounts within the investments and assets limited as to use balances above are externally managed and are actively traded.

Arkansas Children's total investment portfolio held investments with a net unrealized gain position of approximately $100,507,000 and $79,771,000 at June 30, 2019 and 2018, respectively. At June 30, 2019, Arkansas Children's investment portfolio contained investments whose fair value of $124,970,332 was in an unrealized loss position for more than twelve months and had unrealized losses of $578,258. At June 30, 2018, Arkansas Children's investment portfolio contained investments whose fair value of $214,994,545 was in an unrealized loss position for less than twelve months and had unrealized losses of $3,771,790. At June 30, 2018, Arkansas Children's investment portfolio contained investments whose fair value of $66,825,355 was in an unrealized loss position for more than twelve months and had unrealized losses of $1,776,005. Management considers declines in the fair value of externally managed investment securities below their cost to be other than temporarily impaired if the investment security is in a loss position. During the years ended June 30, 2019 and 2018, Arkansas Children's decreased the carrying value of certain externally managed investments by approximately $8,675,000 and $4,034,000, respectively, due to other than temporary impairment (OTTI). For internally managed securities, Arkansas Children's would record OTTI if Arkansas Children's does not expect to recover the entire amortized cost basis of the security or if they determine that a credit loss exists. During the years ended June 30, 2019 and 2018, no OTTI was recorded relative to internally managed securities. OTTI losses are recorded on a quarterly basis during the fiscal year and unrestricted OTTI amounts are recorded in the consolidated statements of operations.

The trust indentures related to the outstanding bonds (see note 6) 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, 2019 and 2018, were invested in federal government obligations, which are mutual funds backed by U.S. Treasury securities, State and Local Government Series (SLGS) and U.S. Treasury securities and consisted of the following:

		2019	2018
Series 2010 Bond Fund	$	867,273	864,212
Series 2016 Refunding Bond Fund		1,278,895	1,248,670
Series 2016 Bond Fund (ACNW)		1,733,933	1,742,059
Total	$	3,880,101	3,854,941

(6) Long-term Debt

A summary of long-term debt as of June 30, 2019 and 2018, is as follows:

		2019	2018
Pulaski County, Arkansas Hospital Revenue Refunding Bonds, Series 2010, due in variable amounts through March 1, 2022, bearing interest at fixed rates ranging from 2% to 4%, secured by ACH revenues	$	7,150,000	9,330,000
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 1.95%, collateralized by certain equipment		7,878,112	9,490,272
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		85,395,000	85,395,000
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		71,225,000	73,375,000
		171,648,112	177,590,272

	2019	2018
Plus unamortized premium on Series 2010 and 2016 revenue bonds	$ 9,379,618	9,846,601
Less unamortized bond issuance costs on Series 2010, 2013 and 2016 revenue bonds	(1,439,165)	(1,546,077)
Total	179,588,565	185,890,796
Less amounts due within one year	(6,429,977)	(5,945,000)
Long-term debt less current maturities	$ 173,158,588	179,945,796

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

2020	$ 6,429,977
2021	6,645,290
2022	6,841,302
2023	4,808,021
2024	6,713,522
Thereafter	140,210,000
Total	$ 171,648,112

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

(7) Net Assets with Donor Restrictions

Donor restricted net assets at June 30, 2019 and 2018, are available for the following:

	2019	2018
Health care services:		
Capital expenditures	$ 2,459,584	3,472,468
Arkansas Children's Northwest	21,717,842	33,560,184
Research funding	18,430,979	16,704,787
Land receivable	6,590,000	—
Other spendable gifts, trusts and pledges	40,080,305	41,329,538
Endowments with donor restrictions	103,072,657	94,399,924
Total	$ 192,351,367	189,466,901

Net assets with donor restrictions is classified on the balance sheet in Cash and cash equivalents, Pledges receivable current and noncurrent, and Endowments with donor restrictions.

Net assets restricted for Arkansas Children's Northwest include pledges and cash gifts designated for ACNW, which includes capital and noncapital components. Pledges and cash gifts designated for the ACNW project as of June 30, 2019 and 2018, were $17,934,849 and $28,946,067, respectively.

During 2019 and 2018, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes in the amount of $6,891,591 and $20,846,685, respectively. In addition, net assets were released from donor restrictions and used for the purchase of property and equipment in the amount of $20,438,757 and $22,431,351 for June 30, 2019 and 2018, respectively.

(a) Endowment Net Assets

The following table summarizes the changes in endowment net assets for the fiscal years ended June 30, 2019 and 2018:

	Board designated	With donor restrictions	Total
Endowment net assets, June 30, 2017	$ 206,460,009	89,749,217	296,209,226
Investment return:			
Investment income	3,793,477	1,166,884	4,960,361
Net gains (realized and unrealized)	14,510,868	4,423,237	18,934,105
Total investment return	18,304,345	5,590,121	23,894,466
Contributions	—	1,005,877	1,005,877
Transfers	(3,527,679)	562,571	(2,965,108)
Appropriation of endowment asset for expenditures	(1,401,671)	(2,507,862)	(3,909,533)
Endowment net assets, June 30, 2018	219,835,004	94,399,924	314,234,928
Investment return:			
Investment income	4,177,138	1,302,621	5,479,759
Net gains (realized and unrealized)	12,093,689	3,944,548	16,038,237
Total investment return	16,270,827	5,247,169	21,517,996
Contributions	—	2,790,475	2,790,475
Transfers	(598,517)	3,231,494	2,632,977
Appropriation of endowment asset for expenditures	(6,606,794)	(2,596,405)	(9,203,199)
Endowment net assets, June 30, 2019	$ 228,900,520	103,072,657	331,973,177

(b) Transfer of Net Assets

Transfers among net asset classifications at June 30, 2019 and 2018, were primarily due to the matching program and satisfying donor restrictions as follows:

		2019	
		Without donor restrictions	**With donor restrictions**
Matching program	$	(589,891)	589,891
Other		(178,135)	178,135
Total	$	(768,026)	768,026

		2018	
		Without donor restrictions	**With donor restrictions**
Matching program	$	314,955	(314,955)
Other		(192,252)	192,252
Total	$	122,703	(122,703)

(8) Insurance and Legal

Arkansas Children's is self-insured with respect to claims paid for employee health care. Estimates of health claims incurred but unpaid as of June 30, 2019 and 2018, 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, 2019 and 2018, Arkansas Children's has accrued a liability for estimated incurred but unpaid claims of approximately $1,369,000 and $1,184,000, respectively. The expenses related to claims paid during the years ended June 30, 2019 and 2018, were approximately $15,615,000 and $15,245,000, respectively, and are included in employee benefits expense. Arkansas Children's maintains stop-loss 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 the plan year ended June 30, 2019 and $250,000 for the plan year ended June 30, 2018, 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 and $400,000 for the fiscal years ended June 30, 2019 and 2018, respectively. 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 claims not reported prior to

(Continued)

July 1, 2018 remains $225,809. 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 $613,205 and $130,091 was accrued as of June 30, 2019 for professional and general liability and workers' compensation insurance coverage, respectively.

Arkansas Children's is insured for Directors & Officers with estimated liabilities of $35,000 and $189,128 accrued at June 30, 2019 and June 30, 2018, respectively, for deductibles.

Prior to July 1, 2018, Arkansas Children's was self-insured with respect to workers' compensation. Losses from asserted claims and unasserted claims identified under Arkansas Children's incident reporting system were accrued based on estimates that consider Arkansas Children's prior experience and the nature of the claims. An estimated liability of $84,899 was accrued as of June 30, 2018. Arkansas Children's has pledged certificates of deposit of $200,000 as collateral for such liabilities. Arkansas Children's also maintained excess workers compensation coverage with an insurance company. Under the terms of this excess insurance, the insurer was to reimburse 100% of the cost of each employee's claim in excess of $500,000. On an aggregate basis, the employer's limit was approximately $4,294,000 for the two-year policy period. Once the aggregate limit was met, the insurer would provide an additional $2,000,000 of coverage. For indemnification or legal defense in a civil case, the employer liability limit was $1,000,000 subject to a $500,000 retention.

Prior to July 1, 2018, Arkansas Children's was insured by several claims-made liability policies including medical malpractice and general liability. An estimated liability of $399,272 was accrued as of June 30, 2018 to cover policy deductibles, indemnity and expense costs. Arkansas Children's General and Professional Liability insurance coverage was limited, at June 30, 2018, to $1,000,000 per incident with a $3,000,000 aggregate limit. Arkansas Children's also carries an umbrella liability policy in the amount of $20,000,000.

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.

(9) 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 was approximately $5,303,000 and $4,905,000 for the years ended June 30, 2019 and 2018, respectively.

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% and 3% of eligible employees' compensation for fiscal years 2019 and 2018, respectively. Contributions accrued for the plan for the years ended June 30, 2019 and 2018, were approximately $4,046,000 and $5,291,000, respectively.

Arkansas Children's has a nonqualified deferred compensation plan under IRC Section 457(b). Arkansas Children's reports a liability in its consolidated balance sheets with a corresponding asset of approximately $2,702,000 and $2,300,000 as of June 30, 2019 and 2018, 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 2019 and 2018 was approximately $382,000 and $470,000, 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.

(10) 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, 2019 and 2018, contracts for professional services between Arkansas Children's and UAMS resulted in Arkansas Children's incurring expenses of approximately $72,908,000 and $66,619,000, respectively, to UAMS. During the years ended June 30, 2019 and 2018, Arkansas Children's also recorded revenue of approximately $4,677,000 and $4,192,000, 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 $24,219,000 of net revenue for the fees billed with $23,027,000 of collected fees, net of expenses, being remitted to UAMS for the year ended June 30, 2019, and $22,991,000 of net revenue for the fees billed with $21,885,000 of collected fees, net of expenses, being remitted to UAMS for the year ended June 30, 2018. As of June 30, 2019 and 2018, the Arkansas Children's payable due to UAMS was approximately $5,419,000 and $13,677,000, respectively. As of June 30, 2019 and 2018, the Arkansas Children's receivable due from UAMS was approximately $657,000 and $885,000, respectively.

During the years ended June 30, 2019 and 2018, Arkansas Children's also paid approximately $14,657,000 and $41,195,000, respectively, to a company affiliated with a member of the ACF Board of Directors for construction projects. During the years ended June 30, 2019 and 2018, Arkansas Children's paid approximately $591,000 and $789,000, respectively, for goods and services from various other related parties.

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.

(11) 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.

Arkansas Children's applies Accounting Standards Update (ASU) 2015-07, *Fair Value Measurement (Topic 820) – Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share*. Topic 820, permits an entity, as a practical expedient, to measure the fair value of certain investments using the net asset value per share of the investment.

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.

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 of $33,851,922 and $38,072,288 are presented separately on the consolidated balance sheets as of June 30, 2019 and 2018, 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.

(Continued)

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, 2019 and 2018.

	Fair value measurements at June 30, 2019			
	Quoted prices in active markets for identical assets (Level 1)	**Other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
Unrestricted, board designated endowment, donor restricted investments and investments restricted for self-insurance funding arrangements:				
U.S. government obligations	$ —	381,259,442	—	381,259,442
Corporate stocks:				
Consumer staples	14,204,463	—	—	14,204,463
Consumer discretionary	15,701,888	—	—	15,701,888
Energy	15,251,972	—	—	15,251,972
Financials	35,269,490	—	—	35,269,490
Health care	26,588,097	—	—	26,588,097
Industrials	18,781,197	—	—	18,781,197
Information technology	40,458,339	—	—	40,458,339
Materials	18,271,636	—	—	18,271,636
Telecommunication services	9,661,546	—	—	9,661,546
Utilities	3,298,555	—	—	3,298,555
Real estate	2,224,701	—	—	2,224,701
Mutual funds:				
Equities	36,826,756	—	—	36,826,756

(Continued)

	Fair value measurements at June 30, 2019			
	Quoted prices in active markets for identical assets (Level 1)	**Other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
Corporate debt:				
Banks	$ —	9,603,065	—	9,603,065
Consumer goods	—	8,103,338	—	8,103,338
Energy power	—	2,049,648	—	2,049,648
Energy company	—	2,823,603	—	2,823,603
Other financials	—	2,194,497	—	2,194,497
Technology	—	3,884,850	—	3,884,850
Telephone	—	2,615,016	—	2,615,016
Transportation	—	734,404	—	734,404
Other	—	1,255,356	—	1,255,356
Agencies	—	5,086,444	—	5,086,444
Certificates of deposit	—	200,332	—	200,332
Total	236,538,640	419,809,995	—	656,348,635
Funds held by trustee under bond agreements – mutual funds backed by U.S. Treasury securities, and state and local government series	3,880,101	—	—	3,880,101
Total investments and assets limited as to use	$ 240,418,741	419,809,995	—	660,228,736
Other assets:				
Mineral interests	$ —	403,000	—	403,000

	Fair value measurements at June 30, 2018			
	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Unrestricted, board designated endowment, donor restricted investments and investments restricted for self-insurance funding arrangements:				
U.S. government obligations	$ —	325,046,622	—	325,046,622
Corporate stocks:				
Consumer staples	11,380,277	—	—	11,380,277
Consumer discretionary	16,928,424	—	—	16,928,424
Energy	18,308,250	—	—	18,308,250
Financials	30,271,158	—	—	30,271,158
Health care	24,570,856	—	—	24,570,856
Industrials	16,162,230	—	—	16,162,230
Information technology	39,181,986	—	—	39,181,986
Materials	14,305,536	—	—	14,305,536
Telecommunication services	4,075,385	—	—	4,075,385
Utilities	2,958,539	—	—	2,958,539
Real estate	1,930,228	—	—	1,930,228
Other	59,482	—	—	59,482
Mutual funds:				
Equities	36,353,513	—	—	36,353,513
Corporate debt:				
Banks	—	9,521,164	—	9,521,164
Consumer goods	—	7,554,310	—	7,554,310
Energy power	—	1,732,399	—	1,732,399
Energy company	—	2,816,048	—	2,816,048
Other financials	—	1,780,718	—	1,780,718
Technology	—	3,525,381	—	3,525,381
Telephone	—	2,479,708	—	2,479,708

(Continued)

	Fair value measurements at June 30, 2018			
	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Transportation	—	425,501	—	425,501
Other	—	979,742	—	979,742
Agencies	—	5,575,368	—	5,575,368
Certificates of deposit	—	200,000	—	200,000
Total	216,485,864	361,636,961	—	578,122,825
Funds held by trustee under bond agreements – mutual funds backed by U.S. Treasury securities, and state and local government series	$ 3,854,941	—	—	3,854,941
Total investments and assets limited as to use	$ 220,340,805	361,636,961	—	581,977,766
Other assets:				
Mineral interests	$ —	675,000	—	675,000

(12) 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 year ended June 30, 2019:

	2019							
	Program activities			Supporting activities				
	Healthcare services	Research	Total programs	General and administrative	Non-Healthcare services	Fundraising	Total supporting	Total
Salaries and wages	$ 245,063,330	16,458,129	261,521,459	14,849,412	—	4,312,962	19,162,374	280,683,833
Employee benefits	44,478,935	3,664,570	48,143,505	3,340,506	—	835,068	4,175,574	52,319,079
Supplies and pharmaceuticals	103,202,698	2,313,804	105,516,502	481,947	2,298	951,850	1,436,095	106,952,597
Professional fees	84,772,307	852	84,773,159	1,454	—	368	1,822	84,774,981
Purchased services	68,763,238	4,104,561	72,867,799	3,696,408	114,895	2,541,438	6,352,741	79,220,540
Depreciation	45,003,858	2,970,393	47,974,251	1,336,311	—	219,880	1,556,191	49,530,442
Interest	7,208,391	59,969	7,268,360	21,494	—	101,445	122,939	7,391,299
Utilities	5,188,370	775,785	5,964,155	160,120	—	77,697	237,817	6,201,972
Insurance	337,535	—	337,535	1,886,796	843,201	—	2,729,997	3,067,532
Other	8,435,743	613,750	9,049,493	969,271	25,434	947,684	1,942,389	10,991,882
Total	$ 612,454,405	30,961,813	643,416,218	26,743,719	985,828	9,988,392	37,717,939	681,134,157

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 table above differs from its natural classification on the statement of operations by $1,193,304 due to the aforementioned allocations.

(13) Commitments and Contingencies

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.

Arkansas Children's leases various equipment and facilities under operating leases expiring at various dates through 2024. Total rental expense for all operating leases was approximately $2,867,900 and $2,806,000 for the years ended June 30, 2019 and 2018, respectively.

A schedule by year of future minimum lease payments under operating leases as of June 30, 2019, that have initial or remaining terms in excess of one year is as follows:

Years ending June 30:		
2020	$	1,639,251
2021		1,617,957
2022		1,033,799
2023		478,312
2024		254,273
Total minimum payment required	$	5,023,592

(14) Donor-restricted Gifts and Pledges Receivable

Amounts of net pledges receivable (at net present value discounted at a rate of 5.00% for the year ended June 30, 2019 and 4.25% for the year ended June 30, 2018, respectively) as of June 30, 2019 and 2018, are as follows:

		2019	2018
		Net pledges receivable with donor restrictions	Net pledges receivable with donor restrictions
Due in less than one year	$	7,918,737	15,069,568
Due in one to five years		14,068,961	17,308,231
Due in more than five years		467,943	743,993
Total	$	22,455,641	33,121,792

Land receivable, valued at $6,590,000 included in Pledges Receivable as of June 30, 2019, are not shown above as the various properties are held in trust for an expected period of between 10 to 25 years.

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 $4,806,281 and $4,950,496 at June 30, 2019 and 2018, respectively.

The allowance for uncollectible pledges receivable totaled approximately $1,248,000 and $1,817,000 as of June 30, 2019 and 2018, respectively. The discount relating to pledges receivable totaled approximately $1,960,000 and $2,786,000 as of June 30, 2019 and 2018, respectively.

(Continued)

(15) Income Taxes

A deferred tax benefit was calculated for each of the years ended June 30, 2019 and 2018 due to losses in ACCN's operations. The resulting net operating losses were $1,873,872 for 2019 and $1,443,556 for 2018.

The benefits for income taxes for the years ended June 30, 2019 and 2018 consist of the following:

		2019	2018
Deferred:			
Federal	$	357,087	372,189
State		117,948	92,771
Total tax benefit	$	475,035	464,960

ACCN's income tax benefit of $475,035 was reserved in its entirety due to a valuation allowance that was booked as of June 30, 2019. The income tax benefit of $464,960 was included in other nonoperating revenue in the accompanying consolidated statement of operations at June 30, 2018.

The effective tax rate varies from the U.S. federal statutory tax rate for the years ended June 30, 2019 and 2018, principally due to the following:

	2019	2018
Statutory income tax rate	21 %	27 %
State income taxes, net of federal tax benefit	5	5
Total	26 %	32 %

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax reporting purposes. Significant components of deferred tax assets and liabilities at June 30, 2019 and 2018 are as follows:

		Deferred tax asset	
		2019	2018
Deferred tax benefit – U.S. federal	$	357,087	372,189
Deferred tax benefit – state		117,948	92,771
	$	475,035	464,960
Cumulative deferred tax asset	$	1,650,892	1,175,857
Less valuation allowance		(1,650,892)	—
Net deferred tax asset	$	—	1,175,857

(Continued)

ACCN's net deferred tax asset of $1,650,892 was reserved in its entirety due to a valuation allowance that was booked as of June 30, 2019. The net deferred tax asset of $1,175,857 was included in other noncurrent assets in the accompanying consolidated balance sheet at June 30, 2018.

ACCN's net operating loss carryforwards relate to U.S. federal and state net operating losses. Realization of the deferred tax asset related to the net operating loss carryforwards is subject to the limitations set forth in Section 382 of the Internal Revenue Code. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some or all of the deferred tax assets will not be realized. Management believes that it is more likely than not that the deferred tax assets of ACCN will not be realized. A valuation allowance has been established due to the expectation of continued future net losses.

(16) Subsequent Events

Arkansas Children's has evaluated subsequent events through October 28, 2019, the date on which the consolidated financial statements were issued, and determined that there are no subsequent events to be recognized in the consolidated financial statements related notes.

ARKANSAS CHILDREN'S

Single Audit Reports

June 30, 2019

ARKANSAS CHILDREN'S

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

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*

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 the consolidated balance sheet as of June 30, 2019, 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 October 28, 2019.

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) to determine the 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 may exist that have not been identified.

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 determination of financial statement amounts. 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 28, 2019

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 Reports 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

Arkansas Children's
Little Rock, Arkansas:

Report on Compliance for Each Major Federal Program

We have audited Arkansas Children's compliance with the types of compliance requirements described 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, 2019. Arkansas Children's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Arkansas Children's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; 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)*. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Arkansas Children's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Arkansas Children's compliance.

Opinion on Each Major Federal Program

In our opinion, Arkansas Children's complied, in all material respects, with the types of 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, 2019.

Report on Internal Control over Compliance

Management of Arkansas Children's is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Arkansas Children's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Arkansas Children's internal control over compliance.

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 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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, 2019, and have issued our report thereon dated October 28, 2019, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted 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 the 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 auditing standards generally accepted in the United States of America. 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
November 12, 2019

ARKANSAS CHILDREN'S

Schedule of Expenditures of Federal Awards

Year ended June 30, 2019

Federal grantor/pass-through grantor/program or cluster title	Federal CFDA No.	Pass-through entity	Pass-through entity identifying number	Expenditures recognized	Amounts passed through to subrecipients
Research and Development Cluster:					
U.S. Department of Agriculture Programs:					
Agricultural Research Basic and Applied Research	10.001			$ 7,630,781	141,770
Agricultural Research Basic and Applied Research	10.001	Baylor College of Medicine	7000000105	410,671	29,466
Total U.S. Department of Agriculture				8,041,452	171,236
U.S. Department of Defense Programs:					
Military Medical Research and Development	12.420	Feinstein Institute for Medical Research	500512-ACHRI	658	—
National Science Foundation Programs:					
Mathematical and Physical Sciences	47.049			20,817	—
U.S. Department of Health and Human Services:					
Agency for Healthcare Research and Quality Programs:					
Research on Healthcare Costs, Quality and Outcomes	93.226	Johns Hopkins University	90060349	5,091	—
Centers for Disease Control and Prevention Programs:					
Birth Defects and Developmental Disabilities-Prevention and Surveillance	93.073			106,694	—
Birth Defects and Developmental Disabilities-Prevention and Surveillance	93.073			583,966	837
Birth Defects and Developmental Disabilities-Prevention and Surveillance	93.073	UAMS	N/A	14,088	—
Total for Program				704,748	837
Health Resources and Services Administration Programs:					
Maternal and Child Health Federal Consolidated Programs	93.110	University of Texas Health Science Center of Houston	0012728G	4,367	—
National Institutes of Health Programs:					
Environmental Health	93.113			159,709	—
Research and Training in Complementary and Alternative Medicine	93.213	Baylor College of Medicine	7000000292	369	—
Research and Training in Complementary and Alternative Medicine	93.213	University of Utah	10049254-ACRI	13,028	—
Total for Program				13,397	—
National Center on Sleep Disorders Research	93.233	Johns Hopkins University	2003727945	29,462	—
Alcohol Research Programs	93.273	LSU Health Sciences Center-New Orleans	18-21-257 / 19-21-294	60,572	—
Alcohol Research Programs	93.273	Rhode Island Hospital	7017137290-1	10,005	—
Total for Program				70,577	—
Trans-NIH Research Support	93.310	Albert Einstein College of Medicine	311196	12,111	—
Trans-NIH Research Support	93.310	Albert Einstein College of Medicine	311117	3,672	—
Total for Program				15,783	—
National Center for Advancing Translational Sciences	93.350	UAMS	51780	105,384	—
Nursing Research	93.361			351,727	43,137
Sickle Cell Treatment Demonstration Program	93.365	Washington University	WU-18-300 / WU-19-154	31,544	—
Cancer Treatment Research	93.395	Children's Hospital of Philadelphia	9500080215	8,865	—
Cancer Treatment Research	93.395	Children's Hospital of Philadelphia	9500020513	29,555	—
Cancer Treatment Research	93.395	Children's Hospital of Philadelphia	9500080216	2,302	—
Cancer Treatment Research	93.395	Children's Hospital of Philadelphia	9400270813	1,618	—
Total for Program				42,340	—
Cardiovascular Diseases Research	93.837	University of Rochester	416872/ 416872G/GR510484	14,948	—
Cardiovascular Diseases Research	93.837	University of Rochester	417380/URFAO: GR510819	16,265	—
Total for Program				31,213	—

(Continued)

Federal grantor/pass-through grantor/program or cluster title	Federal CFDA No.	Pass-through entity	Pass-through entity identifying number	Expenditures recognized	Amounts passed through to subrecipients
Lung Diseases Research	93.838	Rutgers University	8299	17,048	—
Lung Diseases Research	93.838	Washington University	WU-17-173/WU-18-134/WU-19-123	69,887	—
Lung Diseases Research	93.838	Seattle Children's Hospital	10952SUB	1,610	—
Total for Program				88,545	—
Blood Diseases and Resources Research	93.839	Medical University of South Carolina	MUSC17-080-8C868	21,590	—
Blood Diseases and Resources Research	93.839	All Children's Research Institute	ACRI-62-001	860	—
Blood Diseases and Resources Research	93.839	University of Alabama Birmingham	N/A	3,323	—
Total for Program				25,773	—
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	Children's Hospital Medical Center	134737	77	—
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	Acetaminophen Toxicity Diagnostics, LLD	N/A	119,151	—
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847			306,667	—
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	University of South Florida	N/A	23,894	—
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	La Jolla Institute for Allergy and Immunology	20108-02-111-342	62,172	—
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	Univ. of Kansas Med Center Research Inst.	ZAH00030	10,798	—
Total for Program				522,682	—
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	University of Washington	UWSC7774	12,819	—
Allergy and Infectious Diseases Research	93.855			241,900	—
Allergy and Infectious Diseases Research	93.855			169,611	—
Allergy and Infectious Diseases Research	93.855	Benaroya Research Institute	FY17ITN007/FY18ITN007/FY19ITN007	55,260	—
Allergy and Infectious Diseases Research	93.855	University of California San Diego	82054019	86,727	—
Allergy and Infectious Diseases Research	93.855	University of California San Diego	77382527	88,492	—
Allergy and Infectious Diseases Research	93.855	University of California San Diego	78456631	134,666	—
Allergy and Infectious Diseases Research	93.855	Duke University	Pro 00045657	120	—
Allergy and Infectious Diseases Research	93.855	Johns Hopkins	2003383932 / 2004200724	78,717	—
Allergy and Infectious Diseases Research	93.855	University of Alabama Birmingham	000509729-003	12,470	—
Allergy and Infectious Diseases Research	93.855	Benaroya Research Institute	FY19ITN320	9,190	—
Allergy and Infectious Diseases Research	93.855	University of Nebraska	N/A	514	—
Total for Program				877,667	—
Biomedical Research and Research Training	93.859			2,003,954	641,755
Biomedical Research and Research Training	93.859			2,351,755	645,742
Total for Program				4,355,709	1,287,497
Child Health and Human Development Extramural Research	93.865			361,637	30,200
Child Health and Human Development Extramural Research	93.865			427,891	—
Child Health and Human Development Extramural Research	93.865			175,325	—
Child Health and Human Development Extramural Research	93.865	Drexel University	800169	35,091	—
Child Health and Human Development Extramural Research	93.865	Duke University	200405	10,845	—
Child Health and Human Development Extramural Research	93.865	Vanderbilt University	VUMC 54975	4,055	—
Child Health and Human Development Extramural Research	93.865	Duke University	197946/215519	3,173	—
Child Health and Human Development Extramural Research	93.865	UAMS	50164	16,836	—
Total for Program				1,034,853	30,200
Vision Research	93.867	Jaeb Center for Health Research, Inc.	N/A	848	—
Vision Research	93.867	Jaeb Center for Health Research, Inc.	N/A	53	—
Vision Research	93.867	Jaeb Center for Health Research, Inc.	N/A	530	—
Vision Research	93.867	Jaeb Center for Health Research, Inc.	N/A	2,178	—
Vision Research	93.867	Salus University	SU-ACRI 888	249	—
Total for Program				3,858	—

ARKANSAS CHILDREN'S

Schedule of Expenditures of Federal Awards

Year ended June 30, 2019

Federal grantor/pass-through grantor/program or cluster title	Federal CFDA No.	Pass-through entity	Pass-through entity identifying number	Expenditures recognized	Amounts passed through to subrecipients
Prime Contract #HHSN272201100037C	93.RD	University of Alabama-Birmingham	N/A	370	—
Prime Contract #HHSN272201100038C	93.RD	University of Alabama-Birmingham	000406257-028	6,826	—
Prime Contract #HHSN2752010000031	93.RD	Duke University	218940	24,189	—
Prime Contract #HHSN2752010000031	93.RD	Duke University	201316	4,538	—
Prime Contract #HHSN2752010000031	93.RD	Duke University	218090/210424	23,909	—
Prime Contract #HHSN2752010000031	93.RD	Duke University	201316	962	—
Prime Contract #HHSN2722013000171	93.RD	Duke University	216696	25,803	—
R01CA196854	93.RD	Children's Hospital of Philadelphia	9700040618	11	—
Prime Contract #HHSN2752010000031	93.RD	Duke University	226749	1,369	—
Prime Contract #HHSN2752010000031	93.RD	Duke University	226749	12,207	—
Prime Contract #HHSN272201600017C	93.RD	University of Alabama-Birmingham	000509729-003	10,598	—
UG1CA189955	93.RD	Children's Hospital of Philadelphia	9500100715	2,806	—
8U24OD024957	93.RD	UAMS	50164	1,398	—
1UG3HL141736-01	93.RD	Boston Children's Hospital	N/A	3,464	—
Autism and Developmental Disabilities Monitoring	93.RD	UAMS	N/A	8,271	—
Master Contract	93.RD	UAMS	N/A	2,429	—
KCNQ2 Channels Control Chemoreceptor	93.RD	University of Connecticut	N/A	3,306	—
Office of the Assistant Secretary for Preparedness and Response Programs:					
Prime Contract #HHSO100201300009C	93.RD	Duke University	212079	3,100	—
Total U.S. Department of Health and Human Services				8,622,881	1,361,671
Total Research and Development Cluster*				16,685,808	1,532,907
Other Programs:					
U.S. Department of Agriculture Programs:					
Specialty Crop Block Grant Program – Farm Bill	10.170	Arkansas Agriculture Department	15-SCBGP-AR0052P1	3,862	—
Child and Adult Care Food Program	10.558	Arkansas Department of Human Services	A233	28,890	—
Child and Adult Care Food Program	10.558	Arkansas Department of Human Services	P240	60,864	—
Total for Program				89,754	—
Summer Food Service Program for Children	10.559	Arkansas Department of Human Services	TA672	27,222	—
Distance Learning and Telemedicine Loans and Grants	10.855	USDA	AR740-A17	57,772	—
Distance Learning and Telemedicine Loans and Grants	10.855	USDA	AR740-B17	100,211	—
Total for Program				157,983	—
Total U.S. Department of Agriculture Programs				278,821	—
U.S. Department of Education Programs:					
Special Education_Grants to States (EARS Program)	84.027	Arkansas Department of Education	N/A	225,000	—
U.S. Department of Health and Human Services Programs:					
Blood Disorder Program: Prevention, Surveillance, and Research	93.080	University of Texas Health Science Center of Houston	0014472A / 0011472A	7,886	—
Foster Care_Title IV-E	93.658	Arkansas Department of Human Services	N/A	15,458	—
Hospital Preparedness Program Ebola Preparedness and Response Activities	93.817	Arkansas Department of Health	#4600036757	9,754	—
Maternal and Child Health Services Block Grant to the States	93.994	Arkansas Department of Health	#4600029163	23,641	—
Total U.S. Department of Health and Human Services Programs				56,739	—
Corporation for National and Community Service Programs:					
AmeriCorps	94.006	Arkansas Department of Human Services	N/A	27,993	—
Total Expenditures of Federal Awards				$ 17,274,361	1,532,907

* Denotes major program

See accompanying Independent Auditors' Report.

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

ARKANSAS CHILDREN'S

Schedule of Expenditures of State of Arkansas Financial Assistance

Year ended June 30, 2019

State grantor/pass-through grantor/program title	State award number	Pass-through entity identifying number	Revenue	Expenditures recognized
Direct Appropriations:				
Indigent Care Appropriation (1)	ACT #231	N/A	$ 1,866,966	1,866,966
Intensive Care Nursery (1)	ACT #250	N/A	220,594	220,594
Children's Hospital Payments (1)	ACT #250	N/A	693,000	693,000
Helicopter Funding (1)	ACT #250	N/A	1,000,000	1,000,000
Burn Unit (1)	ACT #250	N/A	990,000	990,000
Arkansas Reproductive Health Monitoring System (1)	ACT #250	N/A	594,000	594,000
Child Health and Family Life Institute (1)	ACT #241	N/A	2,100,000	2,100,000
Division of Developmental Disabilities Services (CMS)	Pmts. Rec'd for patient care	N/A	744,778	744,778
Division of Children and Family Services	Pmts. Rec'd for patient care	N/A	111,533	111,533
Arkansas Attorney General	Pmts. Rec'd for patient care	N/A	11,642	11,642
Passed through the Department of Education:				
HIPPY Arkansas Better Chance	ACT #243	N/A	463,722	463,722
Passed through the Department of Finance and Administration:				
Baby Sharon	ACT #250	N/A	5,112	5,112
Passed through the Department of Health:				
Trauma Center	ACT #393	#4600042753	927,234	927,234
Infant Child Death Review	ACT #1818	#4600029163	142,711	142,711
Tobacco Prevention	ACT #157	#4600042612	233,812	233,812
Tobacco Prevention and Cessation	ACT #157	#4600042568	93,349	93,349
Trauma EMS Transport	ACT #393	#4600042887	1,000	1,000
Passed through the Department of Human Services:				
Foster Care – Title IV-E State	N/A	N/A	4,360	4,360
Passed through UAMS:				
Arkansas Biosciences Institute – CHART Programmatic Area Expenditures (1)	ACT #191	N/A	1,597,281	949,168
Total State Awards			$ 11,801,094	11,152,981

(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, Expenditures of State of Arkansas Financial Assistance and Units of Service.

ARKANSAS CHILDREN'S HOSPITAL

Schedule of Units of Service

Year ended June 30, 2019

(Unaudited)

	Summer lunch/at risk food programs	Child and adult care food program		
		Breakfast	Lunch	Supplements
Number of meals served:				
July	3,005	1,190	2,771	3,000
August	2,747	1,253	3,082	3,129
September	1,489	1,053	2,616	2,734
October	2,302	1,319	3,201	3,188
November	1,719	1,132	2,766	2,766
December	1,418	1,021	2,289	2,283
January	1,721	1,025	3,101	2,443
February	1,732	1,146	2,780	2,799
March	1,661	1,235	2,932	2,968
April	1,977	1,285	3,078	3,088
May	1,974	1,320	3,164	3,175
June	2,400	1,109	2,729	2,795
Total number of meals served	24,145	14,088	34,509	34,368

See accompanying Independent Auditors' Report.

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

(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, 2019. 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, 2019. 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. Such 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 $406,256,456 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, 2019, which are not subject to the audit requirements as defined in the Uniform Guidance.

ARKANSAS CHILDREN'S

Schedule of Findings and Questioned Costs

June 30, 2019

(1) Summary of the Auditors' Results

Audit of the Financial Statements

1. Type of auditors' report issued on whether the financial statements were prepared in accordance with U.S. generally accepted accounting principles – unmodified opinion

2. Internal control deficiencies over financial reporting disclosed by the audit of the financial statements:

   - Material weaknesses identified? – No
   - Significant deficiencies identified? – None reported

3. Noncompliance material to financial statements noted? – No

Audit of Federal Awards

1. Internal control deficiencies over major federal program compliance disclosed by the audit of federal awards:

   - Material weaknesses identified? – No
   - Significant deficiencies identified? – None reported
   - Type of auditors' report issued on compliance for major programs – unmodified opinion

2. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) – No

Name of major federal program or cluster	CFDA number(s)
Research and Development Cluster	Various

3. Dollar threshold used to distinguish between type A and type B programs – $750,000

4. Audit qualified as low-risk auditee? – Yes

(2) Financial Statement Findings

None

(3) Federal Award Findings and Questioned Costs

None