



THE CHILDREN'S MERCY HOSPITAL

Uniform Guidance Single Audit Report

June 30, 2022

(With Independent Auditors' Reports Thereon)

THE CHILDREN'S MERCY HOSPITAL

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Independent Auditors' Report

The Board of Directors
Children's Mercy Hospital:

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements the Children's Mercy Hospital and Affiliates (collectively, the Hospital), which comprise the consolidated balance sheets as of June 30, 2022 and 2021, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Hospital as of June 30, 2022 and 2021, and the results of its operations, changes in its net assets, and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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



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

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2022 on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital'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 the Hospital's internal control over financial reporting and compliance.

KPMG LLP

Kansas City, Missouri
November 29, 2022

THE CHILDREN'S MERCY HOSPITAL AND AFFILIATES

Consolidated Balance Sheets

June 30, 2022 and 2021

(In thousands)

Assets	2022	2021
Current assets:		
Cash and cash equivalents	\$ 236,388	110,771
Restricted cash	5,320	5,315
Patient accounts receivable	250,120	222,749
Other receivables	50,968	40,401
Inventories	18,556	17,422
Prepaid expenses	30,038	32,471
Current portion of pledges receivable	13,902	6,491
Total current assets	<u>605,292</u>	<u>435,620</u>
Property and equipment, net	789,310	803,538
Assets limited as to use:		
Restricted investments	115,888	95,638
Held under self-insurance arrangements	51	56
Total assets limited as to use	115,939	95,694
Beneficial interest in the net assets of the Foundation	254,865	285,278
Pledges receivable, net of current portion	27,739	29,873
Investment in unconsolidated joint ventures	7,620	6,427
Long-term investments	1,149,775	1,226,048
Income beneficiary and charitable remainder trusts	46,275	54,964
Right-of-use asset	62,899	71,980
Other assets	62,121	75,833
Total assets	<u><u>\$ 3,121,835</u></u>	<u><u>3,085,255</u></u>
Liabilities and Net Assets		
Current liabilities:		
Current portion of long-term debt and other obligations	\$ 6,296	6,090
Current portion of lease liability	10,612	10,899
Accounts payable and accrued expenses	116,698	113,941
Accrued payroll and related expenses	132,569	123,783
Total current liabilities	266,175	254,713
Reserve for professional liability claims	47,940	43,929
Long-term debt and other obligations, net of current portion	288,453	299,834
Long-term postretirement benefit	59,118	64,661
Lease liability	53,934	62,521
Other noncurrent liabilities	9,078	24,683
Total liabilities	<u>724,698</u>	<u>750,341</u>
Net assets:		
Without donor restriction	1,938,972	1,863,251
With donor restriction	458,165	471,663
Total net assets	<u>2,397,137</u>	<u>2,334,914</u>
Total liabilities and net assets	<u><u>\$ 3,121,835</u></u>	<u><u>3,085,255</u></u>

See accompanying notes to consolidated financial statements.

THE CHILDREN'S MERCY HOSPITAL AND AFFILIATES

Consolidated Statements of Operations

Years ended June 30, 2022 and 2021

(In thousands)

	2022	2021
Revenues, gains, and other support without donor restriction:		
Patient service revenue	\$ 1,550,769	1,399,572
Capitation revenue	241,868	228,787
Other revenue and public assistance:		
Net assets released from restrictions for use in operations	26,877	31,009
Contract revenue	27,207	26,684
Grant revenue	26,813	15,849
Other revenue	20,459	61,967
Total revenues, gains, and other support without donor restriction	1,893,993	1,763,868
Operating expenses:		
Salaries, wages, and benefits	1,071,202	985,133
Supplies and pharmaceuticals	211,489	195,048
Purchased services	163,134	188,242
Other operating expenses	152,115	151,675
Depreciation and amortization	71,517	69,844
Insurance	25,809	23,390
Interest	10,733	10,032
Total operating expenses	1,705,999	1,623,364
Operating income	187,994	140,504
Other income (loss):		
Equity in income of unconsolidated joint ventures	1,194	1,144
Gifts and bequests without donor restriction	4,073	3,897
Net investment income (loss)	(93,191)	224,929
Change in interest rate swap valuation	3,729	2,743
Other nonoperating income	203	203
Total other income (loss), net	(83,992)	232,916
Excess of revenues, gains, and other support over expenses	104,002	373,420
Other changes in net assets without donor restriction:		
Net assets released from restrictions used for purchase of property and equipment	4,081	79,324
Net unrealized change in available-for-sale investments	(32,615)	(4,996)
Net defined postretirement benefit plan	253	121
Total other changes in net assets without donor restriction	(28,281)	74,449
Increase in net assets without donor restriction	\$ 75,721	447,869

See accompanying notes to consolidated financial statements.

THE CHILDREN'S MERCY HOSPITAL AND AFFILIATES

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2022 and 2021

(In thousands)

	Without donor restriction	With donor restriction	Total
Balance, June 30, 2020	\$ 1,415,382	465,391	1,880,773
Excess of revenues, gains, and other support over expenses	373,420	—	373,420
Contributions restricted by donor	—	42,274	42,274
Net assets released from restrictions for use in operations	—	(31,009)	(31,009)
Change in beneficial interest in net assets of the Foundation	—	65,062	65,062
Net assets released from restrictions used for purchase of property and equipment	79,324	(79,324)	—
Net unrealized change in available-for-sale investments	(4,996)	—	(4,996)
Net unrealized change in income beneficiary and charitable remainder trusts	—	9,269	9,269
Net defined postretirement benefit plan	121	—	121
Increase in net assets	447,869	6,272	454,141
Balance, June 30, 2021	1,863,251	471,663	2,334,914
Excess of revenues, gains, and other support over expenses	104,002	—	104,002
Contributions restricted by donor	—	56,562	56,562
Net assets released from restrictions for use in operations	—	(26,877)	(26,877)
Change in beneficial interest in net assets of the Foundation	—	(30,413)	(30,413)
Net assets released from restrictions used for purchase of property and equipment	4,081	(4,081)	—
Net unrealized change in available-for-sale investments	(32,615)	—	(32,615)
Net unrealized change in income beneficiary and charitable remainder trusts	—	(8,689)	(8,689)
Net defined postretirement benefit plan	253	—	253
Increase in net assets	75,721	(13,498)	62,223
Balance, June 30, 2022	\$ 1,938,972	458,165	2,397,137

See accompanying notes to consolidated financial statements.

THE CHILDREN'S MERCY HOSPITAL AND AFFILIATES

Consolidated Statements of Cash Flows

Years ended June 30, 2022 and 2021

(In thousands)

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Change in net assets	\$ 62,223	454,141
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	71,517	69,844
Loss on sale of property and equipment	152	199
Amortization of debt and investments	877	2,116
Equity in income of unconsolidated joint ventures	(1,194)	(1,144)
Change in beneficial interest in the net assets of the Foundation	30,413	(65,062)
Change in interest rate swap valuation	(3,729)	(2,743)
Net realized and unrealized loss (gain) on investments	158,545	(201,337)
Change in income beneficiary and charitable remainder trusts	8,689	(9,269)
Contributions restricted by donor for long-term purposes	(381)	(5,404)
Changes in operating assets and liabilities:		
Patient accounts receivable	(27,371)	(14,484)
Other receivables	(17,783)	(2,430)
Inventories	(1,134)	(1,644)
Prepaid expenses	2,433	(6,454)
Other assets	5,646	366
Right-of-use asset and lease liability	269	392
Accounts payable and accrued expenses	7,742	33,406
Accrued payroll and related expenses	8,786	31,166
Other noncurrent liabilities	<u>(17,138)</u>	<u>20,063</u>
Net cash provided by operating activities	<u>288,562</u>	<u>301,722</u>
Cash flows from investing activities:		
Purchase of property and equipment	(62,453)	(108,105)
Proceeds from sale of property and equipment	28	265
Purchase of investments	(333,560)	(580,444)
Proceeds from sale of investments	<u>236,878</u>	<u>347,339</u>
Net cash used in investing activities	<u>(159,107)</u>	<u>(340,945)</u>
Cash flows from financing activities:		
Repayments of long-term debt and finance leases	(6,152)	(5,566)
Contributions restricted by donor for long-term purposes	<u>2,319</u>	<u>31,743</u>
Net cash (used in) provided by financing activities	<u>(3,833)</u>	<u>26,177</u>
Net increase (decrease) in cash and cash equivalents	125,622	(13,046)
Cash and cash equivalents and restricted cash, beginning of year	<u>116,086</u>	<u>129,132</u>
Cash and cash equivalents and restricted cash, end of year	\$ <u>241,708</u>	\$ <u>116,086</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest, net of amounts capitalized	\$ 12,161	12,501
Noncash investing and financing activities:		
Construction in progress in accounts payable	\$ 3,166	8,153

See accompanying notes to consolidated financial statements.

THE CHILDREN'S MERCY HOSPITAL AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

(1) Organization and Basis of Presentation

The Children's Mercy Hospital and Affiliates (collectively, the Hospital) includes a 334-bed teaching hospital for children located in Kansas City, Missouri, a 52-bed hospital for children located in Overland Park, Kansas, and various outpatient locations. The mission of the Hospital is to improve the health and well-being of children by providing comprehensive, family-centered healthcare and committing to the highest level of clinical and psychosocial care, and to research, academic, and service excellence. Patients and their families are treated with compassion in a family-centered environment that recognizes their physical, emotional, financial, social, and spiritual needs. The comprehensive healthcare environment provided by the Hospital includes clinical services, research, and teaching efforts, which are designed to serve today's and tomorrow's children, and the community in which they live.

The Hospital is supported by The Children's Mercy Hospital Foundation (the Foundation), which was formed for the purpose of financial resource development and investment management for the benefit of the Hospital. The Foundation has not been consolidated or combined in the accompanying consolidated financial statements as it is controlled by a separate and distinct board of directors. However, the Hospital has recorded its underlying beneficial interest in the net assets of the Foundation in the accompanying consolidated financial statements (note 9).

The Hospital consolidates the following subsidiaries:

- *Children's Mercy Integrated Care Solutions (CMICS)* – CMICS brings together a network consisting of the Hospital and community-based physicians who together provide medical care to children in the greater Kansas City area. CMICS provides leadership and resources to support patient outreach, medical home development, care coordination, and disease management and prevention. CMICS has entered into multiple capitated risk agreements with third-party Medicaid insurers (Health Plans) to provide contractual services for in-network activities involving the Hospital. CMICS has contractually committed to be responsible for any gains or losses of the Health Plans for fee-for-service claim payment activities associated with the capitated membership.
- *CMH Insurance Company, LLC (CMHIC)* – CMHIC provides excess liability coverage for the Hospital (note 8).
- *Children's Research Institute, LLC (CRI)* – CRI was created to house the research activities of the Hospital. CRI had no income or assets as of June 30, 2022 or 2021. The Hospital's research activities continue to occur within the operations of the Hospital.
- *Children's Mercy Affiliated Practices (CMAP)* – CMAP consists of 14 separate taxable not-for-profit corporations for which the Hospital is the sole corporate member. The physician providers and staff are employees of the respective CMAP entities. CMAP was designed by management to better manage the continuum of care for the Hospital's patients by more closely aligning and integrating with pediatricians serving the greater Kansas City community. CMAP enables the Hospital to collaborate with pediatricians for changes in the delivery of medical services to better manage the health of the population in the surrounding community, improving outcomes and quality.

Significant intercompany balances and transactions have been eliminated in the consolidation.

THE CHILDREN'S MERCY HOSPITAL AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

(2) Summary of Significant Accounting Policies

(a) Use of Estimates

The preparation of 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 useful lives of fixed assets, implicit price concession on patient service revenue and receivables, investment valuation, and professional liability reserves and loss recoverables.

(b) Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with original maturities of three months or less that have not otherwise been classified as long-term assets due to a designation for long-term purposes.

(c) Restricted Cash

CMICS is contractually obligated to maintain restricted balances for the purpose of funding potential losses related to capitated risk agreements with third-party Medicaid insurers. At June 30, 2022 and 2021, CMICS recorded restricted deposits of \$5,320 and \$5,315, respectively.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the consolidated balance sheets that sum to the total of the same such amounts shown in the consolidated statements of cash flows:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 236,388	110,771
Restricted cash and cash equivalents	<u>5,320</u>	<u>5,315</u>
Total cash, cash equivalents, and restricted cash and cash equivalents in the consolidated statements of cash flows	\$ <u>241,708</u>	<u>116,086</u>

(d) Investments and Assets Limited to Use

(i) Long-Term Investments

Investments are measured at fair value in the accompanying consolidated balance sheets. Alternative investments are valued at net asset value (NAV) as a practical expedient to fair values. The fair value of alternative investments at NAV as determined by the respective funds' investment managers may differ significantly from the values that would have been used had ready markets existed. Net investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in excess of revenues, gains, and other support over expenses unless the income or loss is restricted by donor or law. Changes in unrealized gains and losses on pooled investments, including mutual funds and alternative investments, are included in net

THE CHILDREN'S MERCY HOSPITAL AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

investment income or loss within excess of revenues, gains, and other support over expenses. Debt securities are classified as available-for-sale, and as such, unrealized gains and losses on debt securities are excluded from excess of revenues, gains, and other support over expenses.

The Hospital reviews its investment portfolio to determine whether any unrealized losses on available-for-sale securities are other than temporary. To determine whether an impairment is other than temporary, the Hospital considers all available information relevant to the collectability of the security, including past events, current conditions, and reasonable and supportable forecasts when developing estimates of cash flows expected to be collected. Evidence considered in this assessment includes the reasons for the impairment, the severity and duration of the impairment, changes in value subsequent to year-end, forecasted performance of the investee, and the general market condition in the geographic area or industry the investee operates in. During 2022 and 2021, no other-than-temporary impairments were recognized.

(ii) Assets Limited as to Use

Assets limited as to use represent investments limited for specific purposes. Restricted investments comprise long-term investment balances restricted by donors or contractual payments received in advance for the performance of grant obligations. Restricted investments are adjusted as new gifts are received with donor-imposed restrictions, new advance grant contracts payments are received, the donor restriction expires, or as grant revenue is recognized.

(e) Liquidity and Availability

The Children's Mercy Hospital Finance Committee Investment Policy targets the Hospital maintain 30–40 days cash on hand in cash and cash equivalent accounts. When days cash on hand fluctuates outside the target, the Hospital may transfer amounts from or to long-term investments to maintain proper liquidity. Amounts transferred to long-term investments are allocated based on the Hospital's existing investment mix. While these investments are classified as long-term investments based on management's intent, a majority of these investments are able to be liquidated in one business day. With the exception of alternative equity investments of \$83,562 and \$61,721 and mineral rights of \$1,270 and \$1,004 as of June 30, 2022 and 2021, respectively, all investments are able to be liquidated in less than one week. The Hospital has unfunded capital commitments of \$21,495 and \$26,130 for private equity investments as of June 30, 2022 and 2021, respectively.

Days cash on hand is calculated as cash and long-term investments divided by total daily operating expenses adjusted for depreciation and other noncash adjustments. The Hospital held 343.9 and 354.0 days cash on hand with a working capital of \$339,117 and \$180,907 as of June 30, 2022 and 2021, respectively.

THE CHILDREN'S MERCY HOSPITAL AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

The following table reflects the Hospital's financial assets expected to be available for general expenditures within one year of June 30, 2022 and 2021, respectively.

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 236,388	110,771
Accounts receivable	301,088	263,150
Current portion of pledges receivable without restriction	2,241	356
Long-term investments	<u>1,149,775</u>	<u>1,207,367</u>
	<u>\$ 1,689,492</u>	<u>1,581,644</u>

(f) Property and Equipment

Property and equipment are recorded at cost or, if donated, at fair value on the date of the gift. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method based on the following useful lives:

Buildings and fixed equipment	5–40 Years
Movable equipment (including software)	3–15 Years

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Gifts of long-lived assets, such as buildings or equipment, are reported as without donor restriction, 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 with donor restriction. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

When events or changes in circumstances indicate the carrying amount of property and equipment or intangible assets may not be recoverable, an evaluation of the recoverability of currently recorded costs is performed. The Hospital recorded an impairment of construction in progress assets of \$127 and \$213 in the years ended June 30, 2022 and 2021, respectively, for abandoned construction projects. This loss is included in other operating expenses.

(g) Income Beneficiary and Charitable Remainder Trusts

The Hospital receives payments in conjunction with certain income beneficiary and charitable remainder trusts. Payments are received based on the terms of the specific trust agreements, either in perpetuity with no corresponding transfer of trust assets, or otherwise as established by the agreement. The Hospital records its beneficial interest in the trusts at fair value based on its proportional share of the underlying trust.

THE CHILDREN'S MERCY HOSPITAL AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

(h) Other Assets

Other assets include investment balances held to fund deferred compensation retirement liabilities, professional liability loss recoverables under third-party reinsurance contracts (note 8), and certain intangible assets. The Hospital offers a 457b retirement plan for highly compensated employees. The Hospital maintains investment balances under this deferred compensation retirement plan. The investment balances related to the 457b retirement plan were \$57,547 and \$62,654 as of June 30, 2022 and 2021, respectively. A corresponding liability for this 457b plan is recorded in long-term postretirement benefit.

(i) Insurance and Self-Insurance Risks

The Hospital is exposed to various claims relating to its business, including those for which it retains portions of the losses through the application of deductibles and self-insured retentions. The Hospital is insured for general liability (including named patient perils and employee benefit liability), automobile liability, workers' compensation including employer's liability, nonowned aircraft and helipad liability, security guard liability, professional liability, and managed care errors and omissions liability through a combination of self-insured retentions, third-party insurance coverage, and through its wholly owned captive, CMHIC, which is 100% reinsured. The Hospital is also insured for directors and officers and employment practices liability, cyber/privacy liability, fiduciary liability, crime, and employed lawyers liability through a combination of self-insured retentions or third-party insurance coverage; however, these policies are not included in the CMHIC coverage. The Hospital is also self-insured for group medical claims, but purchases "stop loss" insurance to protect itself from any one significant loss. The Hospital accrues losses within the self-insured retention amounts based upon the aggregate liability for reported claims incurred, as well as an estimated liability for claims incurred but not yet reported.

These types of claims may take a substantial amount of time to resolve, and accordingly, the ultimate liability associated with a particular claim may not be known for an extended period of time. The Hospital's methodology for developing self-insurance reserves is based on management estimates, which incorporate periodic actuarial valuations. The estimation process considers, among other matters, the cost of known claims over time, cost inflation, and incurred but not reported claims. These estimates may change based on, among other things, changes in claims history or receipt of additional information relevant to assessing the claims. Further, these estimates may prove to be inaccurate due to factors, such as adverse judicial determinations or settlements at higher than estimated amounts. Accordingly, the Hospital may be required to increase or decrease its reserve levels.

(j) Defined-Contribution Pension Plans

The Hospital sponsors two defined-contribution pension plans. The Hospital matches 50% of employees' individual contributions to a 403(b) plan, up to a maximum of 3% of the employee's eligible pay. Effective January 1, 2021, the 403(b) plan was amended to reduce the service requirement to be eligible for employer contributions from 2 years to 90 days of service. Additionally, the Hospital makes contributions to a 401(a) plan of 3% to 6% of an employee's salary, based on the employee's age and years of service, for employees who have completed two years of service with 1,000 hours or more each year. The total retirement expense for the years ended June 30, 2022 and 2021 was \$44,701 and \$38,717, respectively, and is included in salaries, wages, and benefits expense in the consolidated statements of operations.

THE CHILDREN'S MERCY HOSPITAL AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

(k) Net Assets

Net assets with donor restrictions are either net assets whose use by the Hospital has been limited by donors to a specific time period or purpose or net assets to be maintained by the Hospital in perpetuity. The Hospital follows the requirements of the Uniform Prudent Management of Institutional Funds Act as they relate to its endowments.

Net assets without donor restrictions are not subject to donor-imposed stipulations and are expendable for any purpose in performing the mission of the Hospital.

(l) Donor-Restricted Promises to Give and Direct Gifts

Unconditional promises to give cash and other assets to the Hospital are reported at fair value based upon discounted estimated future cash flows on the date the promise is received. A promise to give is conditional based on whether the agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets exists. Conditional promises are not recorded until one or more barriers are overcome for the recipient to be entitled to the assets transferred. Intentions to give are not recorded until they become unconditional promises to give. The discount rate used for estimating the fair values of promises to give is a risk-free interest rate based on the yield curve for U.S. Treasury securities at the time of the pledge. Amortization of the discount is recorded as additional contribution revenue. The promises to give are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets. Unconditional promises to give are reported as donor restricted until the gift has been received.

Direct gifts are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished and the gift has been received, donor restricted net assets are recognized in the accompanying consolidated statements of operations as net assets released from restrictions for use in operations. The expiration of donor-imposed restrictions on long-lived assets are recognized when the asset is placed in service. Similarly, donations of cash or other assets that must be used to acquire long-lived assets are reported as donor-restricted support in the period received, and expirations of those donor restrictions are reported when the acquired long-lived assets are placed in service and donor-imposed restrictions are satisfied.

The Hospital has elected the simultaneous release option to conditional contributions. Therefore, for conditional restricted contributions for which both the condition and restriction are met in the same period, the revenue is recognized as without donor restriction. This election primarily impacts federal grants accounted for as contributions. The Hospital has been awarded certain conditional federal contributions for which the condition has not yet been met, and therefore, these awards have not yet been recognized in revenue. As of the years ended June 30, 2022 and 2021, the Hospital had \$14,264 and \$5,151, respectively, in unrecognized revenue related to these contributions.

(m) Patient Service Revenue and Patient Accounts Receivable

Patient service revenue is reported at the amount that reflects the consideration to which the Hospital 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 include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and

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investigations. Generally, the Hospital bills the patients and third-party payors several days after the services are performed 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 the Hospital. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Hospital 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 receiving inpatient acute care services or patients receiving services in outpatient centers. The Hospital measures the performance obligation from admission into the Hospital, or the commencement of an outpatient service, to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to patients and customers in a retail setting (e.g., pharmaceuticals and medical equipment), and the Hospital does not believe it is required to provide additional goods or services related to that sale.

Because all of its performance obligations for patient service revenue relate to contracts with a duration of less than one year, the Hospital has elected to apply the optional exemption provided in U.S. GAAP 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 previously 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.

The Hospital 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 the Hospital's policy, and implicit price concessions provided to patients. The Hospital determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The Hospital determines its estimate of implicit price concessions based on its historical collection experience by class of patients. The Hospital uses a portfolio approach to account for categories of patient contracts as a collective group rather than recognizing revenue on an individual contract basis. The portfolios consist of major payor classes for inpatient revenue and outpatient revenue, separated by hospital and professional revenue. Based on the historical collection trends and other analyses, the Hospital believes that revenue recognized by utilizing the portfolio approach approximates the revenue that would have been recognized if an individual contract approach were used.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Hospital also provides services to uninsured patients and offers those uninsured patients a discount, either by policy or law, from standard charges. The Hospital 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

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are generally recorded as adjustments to patient service revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

Consistent with the Hospital's mission, care is provided to patients regardless of their ability to pay. Therefore, the Hospital has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (e.g., co-pays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the Hospital expects to collect based on its collection history with those patients. Patients who meet the Hospital's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue. The cost of charity care is determined utilizing a cost to charge ratio and applying this ratio to the gross charges associated with charity patients. The costs incurred for services and supplies furnished under the Hospital's charity care policy were \$49,366 and \$28,438 for the years ended June 30, 2022 and 2021, respectively.

Settlements with third-party payors for retroactive revenue 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 agreement with the payor, correspondence from the payor, and the Hospital'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. Estimated settlements are adjusted in future periods as adjustments become known (i.e., new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations.

(n) *Capitation Revenue, Other Revenue and Public Assistance, and Other Receivables*

Capitation revenue is reported at the amount that reflects the consideration to which the CMICS expects to be entitled to for providing patient care and maintenance services for qualified beneficiaries under contracts with certain health plans. CMICS has contracted with the Hospital for all patient care subcapitation activities, which have been eliminated in consolidation.

All capitated contracts with health plans are paid on a per member, per month (PMPM) that have a term of one year that is automatically renewed unless terminated by CMICS or the health plans. All capitated contracts have a single-performance obligation that constitutes a series for the provision of managed healthcare services for a population of enrolled members for the duration of the contract. The transaction price for PMPM contracts is variable as it primarily includes PMPM fees associated with unspecified membership that fluctuates throughout the contract. The majority of net PMPM transaction price relates specifically to efforts to transfer the service for a distinct increment of the series (e.g., day or month) and is recognized as revenue in the month in which members are entitled to service. Because all of its performance obligations for capitated revenue relate to contracts with a duration of less than one year, the Hospital has elected to apply the optional exemption provided in U.S. GAAP 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.

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CMICS is also at-risk for the qualified beneficiaries fee-for-service claims that are processed by the health plans. Fee-for-service revenues and related claims for the qualified beneficiaries are not recognized as revenue or expense in these consolidated financial statements as CMICS is only entitled to/responsible for the net amount of gains/losses generated by fee-for-service activity. Any potential gains from the fee-for-service claims are considered variable consideration and are recognized based on the most likely amount and are only included in revenue to the extent that it is probable that a significant reversal of cumulative revenue will not occur. Losses are recorded as incurred.

During the years ended June 30, 2022 and 2021, CMICS recognized capitated revenue of \$241,868 and \$228,787, respectively. At June 30, 2022 and 2021, CMICS recorded receivables of \$12,010 and \$17,750, respectively, representing the estimated settlements with the Health Plans for the net results of fee-for-service activities with non-Hospital providers and recorded payables of \$20,642 and \$21,448, respectively, due to Health Plans for overpayment of monthly capitation payments.

(o) Excess of Revenues, Gains, and Other Support over Expenses

The accompanying consolidated statements of operations present excess of revenues, gains, and other support over expenses. Changes in net assets without donor restriction that are excluded from excess of revenues, gains, and other support over expenses, consistent with industry practice, include net assets released from restrictions used for purchase of property and equipment, net unrealized change in available-for-sale investments, and accounting for defined postretirement benefit plan.

(p) Operating and Nonoperating Activities

The Hospital's primary mission is to meet the healthcare needs in its market areas through a broad range of general and specialized healthcare services, including inpatient acute care, outpatient services, physician services, and other healthcare services. Activities directly associated with the furtherance of this purpose are considered to be operating activities. Other activities that result in gains or losses peripheral to the Hospital's primary mission are considered to be nonoperating. Nonoperating activities include investment earnings, equity in earnings of unconsolidated joint ventures, and changes in fair value of interest rate swaps.

(q) Derivative Instruments and Hedging Activities

The Hospital has elected to not follow hedge accounting treatment for its cash flow hedges. The Hospital carries the outstanding derivatives at fair value on the consolidated balance sheets and recognizes any changes in its fair value in other income (loss) on the consolidated statements of operations.

(r) Income Taxes

The Internal Revenue Service has determined that the Hospital is a not-for-profit organization as described under Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Internal Revenue Code. CMHIC, CMFHP, and CRI are all disregarded entities for tax purposes in 2022 and 2021.

CMICS is a not-for-profit Kansas taxable corporation, subject to federal and state income taxes. CMAP entities are individual not-for-profit taxable corporations and are subject to federal and state income tax.

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For the tax years ended June 30, 2022 and 2021, CMICS and CMAP entities had no material taxable income.

At June 30, 2022 and 2021, there were no uncertain tax positions.

(s) Risks and Uncertainties

In March 2020, the World Health Organization declared the novel coronavirus (COVID-19) a pandemic. As a result of the pandemic, beginning in March 2020 through May 2020, the Hospital suspended certain elective procedures subject to government mandate. To address the potential impacts on future revenues and expected incremental costs required as a result of COVID-19, the Hospital has taken budget actions to help stabilize operations. The CARES Act provides stimulus in the form of financial aid to cover extensive emergency fundings to hospitals and providers through existing mechanisms to prevent, prepare for, and respond to COVID-19. During the years ended June 30, 2022 and 2021, the Hospital received and recognized \$0 and \$47,650, respectively, under the CARES Act in the form of grants as reimbursement through the Public Health and Social Services Emergency Fund for expenses and lost revenues attributable to COVID-19. These payments are treated as contributions and reflected in other revenue in the consolidated statements of activities. The Hospital received an additional \$27,370 million in CARES Act funding during 2021 in which the Hospital has not yet met the terms and conditions of the award and is recorded as a liability in accounts payable and accrued expenses in the consolidated balance sheet at June 30, 2022. The Hospital has requested further guidance from the Health Resources & Services Administration and is awaiting a response to provide clarity on the recognition of remaining funds. The Hospital continues to monitor the terms and conditions of the CARES Act funding and the impact of the pandemic on revenues and expenses. The Hospital has also deferred \$12,729 of employer payroll taxes through June 30, 2022, pursuant to the Paycheck Protection Program and Health Care Enhancement Act, which is reflected in accrued payroll and related expenses. As of June 30, 2021, the Hospital deferred \$25,458 of employer payroll taxes, which is reflected in accrued payroll and related expenses and other noncurrent liabilities. As of June 30, 2022, the Hospital's patient volumes are approaching levels comparable to the months prior to the COVID-19 pandemic. The severity of the continued impact due to COVID-19 on the Hospital's financial condition will depend on a number of factors, including, but not limited to, the duration and severity of the pandemic, the ability to continue to offer all services, and the impact on investment values, all of which are uncertain and cannot be predicted.

(3) Patient Services Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established charges. A summary of the reimbursement guidelines with top-tier payors is as follows:

Medicaid

- *Missouri* – The Medicaid (Title XIX) and CHIP (Title XXI) programs in the state of Missouri are administered by the Missouri Department of Social Services and MO HealthNet Division. Medical services are made available to Medicaid beneficiaries through three managed care plans as well as the traditional Medicaid program. Reimbursement to the Hospital is received through a combination of fee schedule, discount off charges and capitation for outpatient and physician services, and per diem and capitation for inpatient services.

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- *Kansas* – The Medicaid (Title XIX) and CHIP (Title XXI) programs in the state of Kansas are administered by the Kansas Department of Health and Environment – Division of Health Care Finance under a program known as “KanCare.” Medical services are made available for almost all Medicaid recipients, and all Title XXI recipients through three managed care plans. Reimbursement to the Hospital is received through a combination of fee schedule and capitation for outpatient and physician services and Diagnostic Related Group (DRG) payments and capitation for inpatient services.
- *Supplemental Payments* – The Hospital participates in several supplemental payment programs, including the following recorded within patient service revenue on the statements of operations:
 - 1) The Federal Reimbursement Allowance (FRA) program is administered by MO HealthNet. Under this program, the state of Missouri and program participants take advantage of the government’s Medicaid cost-sharing plan. The payments from this program are distributed to the participating hospitals through various payment streams for treating Medicaid and uninsured patients. The Hospital recorded revenue from the FRA program of \$204,011 and \$171,627 for the years ended June 30, 2022 and 2021, respectively. The Hospital recorded expense from the FRA program of \$64,034 and \$61,822 for the years ended June 30, 2022 and 2021, respectively.
 - 2) The Medicaid Disproportionate Share Hospital funding program for the states of Missouri and Kansas. The program supports hospitals providing a high volume of services to Medicaid and uninsured patients. The Hospital recorded revenue of \$18,389 and \$8,172 for the years ended June 30, 2022 and 2021, respectively.
 - 3) The Hospital participates in various other supplemental programs in both Missouri and Kansas. These programs support graduate medical education, electronic health record utilization, and provision of care for the medically indigent in the state of Kansas. The Hospital recorded revenue of \$20,334 and \$18,336 related to these programs for the years ended June 30, 2022 and 2021, respectively.

Revenue from the Medicaid programs accounted for approximately 36% and 35% of the Hospital’s patient service revenue for the years ended June 30, 2022 and 2021, respectively. Laws and regulations governing the Medicaid program are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Under the Missouri Code of State Regulations Section 13 CSR 70-15.010(7), hospitals are to be paid an outlier adjustment for care provided to children under the age of six who meet the specified criteria. These adjustments are supplemental reimbursements for patients with exceptionally high-cost care or very long lengths of stay. The Hospital has recorded outlier receivables of \$6,528 and \$5,370 as of June 30, 2022 and 2021, respectively, and are recorded in patient accounts receivable in the consolidated balance sheets.

Managed Care and Other

The Hospital has also entered into contractual agreements with certain commercial insurance carriers, Health Maintenance Organizations, and preferred provider organizations. Reimbursement to the Hospital under these agreements is received largely through discount off charge arrangements for inpatient and outpatient services and fee schedules for physician services.

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The Hospital's patient service revenue, recognized for the years ended June 30, 2022 and 2021 by payor and by service line, is as follows:

	<u>2022</u>	<u>2021</u>
Government	39 %	38 %
Commercial	60	60
Self-pay and other	<u>1</u>	<u>2</u>
	<u><u>100 %</u></u>	<u><u>100 %</u></u>
	<u>2022</u>	<u>2021</u>
Inpatient	\$ 598,881	554,146
Outpatient	414,686	397,267
Physician services	181,471	157,135
Third-party settlements	260,938	211,875
Retail pharmacy	74,442	65,059
Other	<u>20,351</u>	<u>14,090</u>
Total	\$ <u><u>1,550,769</u></u>	<u><u>1,399,572</u></u>

The Hospital grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Government	36 %	32 %
Commercial	60	64
Self-pay and other	<u>4</u>	<u>4</u>
	<u><u>100 %</u></u>	<u><u>100 %</u></u>

The Hospital's patients are primarily located in the Kansas City area and surrounding communities.

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(4) Investments and Assets Limited to Use

The carrying amount, gross unrealized holding gains, gross unrealized holding losses, and fair value of securities by major security type and class of security at June 30, 2022 and 2021 were as follows:

	Aggregate cost basis	Net unrealized holding gains (losses)	Aggregate fair value
At June 30, 2022:			
Long-term investments and assets limited as to use:			
Money market funds	\$ 2	—	2
U.S. government:			
Agency bonds	161,425	(10,431)	150,994
Treasury notes	118,673	(17,470)	101,203
Mutual funds:			
Government and corporate bond	225,692	(34,884)	190,808
Domestic equity	645,264	(41,836)	603,428
International equity	160,566	(26,119)	134,447
Alternative investments	61,060	22,502	83,562
Mineral rights and investment	509	761	1,270
Total long-term investments and assets limited as to use	<u>\$ 1,373,191</u>	<u>(107,477)</u>	<u>1,265,714</u>
	Aggregate cost basis	Net unrealized holding gains (losses)	Aggregate fair value
At June 30, 2021:			
Long-term investments and assets limited as to use:			
Money market funds	\$ 4	—	4
U.S. government:			
Agency bonds	147,697	2,937	150,634
Treasury notes	113,386	1,776	115,162
Mutual funds:			
Government and corporate bond	198,881	454	199,335
Domestic equity	532,400	111,244	643,644
International equity	115,367	34,871	150,238
Alternative investments	58,870	2,851	61,721
Mineral rights and investment	509	495	1,004
Total long-term investments and assets limited as to use	<u>\$ 1,167,114</u>	<u>154,628</u>	<u>1,321,742</u>

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Alternative investments primarily comprise of three funds. A debt securities fund in the energy sector that has begun to wind down and will be mostly liquidated by December 2022, a private real estate fund that has quarterly redemptions, and a private equity fund that has a lifecycle of 10 years remaining.

Net investment income for assets limited as to use, cash and cash equivalents, and other investments is made up of the following components for the years ended June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Net investment income:		
Interest and dividend income	\$ 32,739	18,596
Net realized gain on sale of investments	115,235	11,973
Net unrealized gain (loss) on equity investments	<u>(241,165)</u>	<u>194,360</u>
Total net investment income (loss)	\$ <u>(93,191)</u>	<u>224,929</u>
Other changes in net assets without donor restriction:		
Net unrealized (loss) gain in available-for-sale investments	\$ (32,615)	(4,996)

(5) Property and Equipment

Property and equipment at June 30, 2022 and 2021 consisted of the following:

	<u>2022</u>	<u>2021</u>
Land	\$ 27,579	27,579
Buildings and fixed equipment	1,000,700	935,936
Movable equipment:		
Owned	545,094	549,642
Leased under finance lease	<u>—</u>	<u>311</u>
	1,573,373	1,513,468
Accumulated depreciation	<u>(814,795)</u>	<u>(764,934)</u>
	758,578	748,534
Construction in progress	<u>30,732</u>	<u>55,004</u>
Property and equipment, net	\$ <u>789,310</u>	<u>803,538</u>

The Hospital capitalized \$988 of interest cost during the year ended June 30, 2021. The Hospital did not capitalize interest cost during the year ended June 30, 2022.

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(6) Long-Term Debt and Other Obligations

Long-term Debt

Long-term debt as of June 30, 2022 and 2021 consisted of the following:

	<u>2022</u>	<u>2021</u>
Health and Facilities Revenue Bonds, Series 2019 A, interest at variable rate, 1.188750% at June 30, 2022, principal payments ranging from \$1,181 to \$3,106 through 2023	\$ 6,749	9,804
Health and Facilities Revenue Bonds, Series 2019 B, interest at variable rate, 1.488800% at June 30, 2022, principal payments ranging from \$1,596 to \$5,611 through 2032	24,750	24,750
Health and Facilities Revenue Bonds, Series 2017A, interest rate of 4.00% at June 30, 2022, principal payments ranging from \$650 to \$16,100 through 2048	125,865	125,865
Health and Facilities Revenue Bonds, Series 2016, interest at rates ranging from 3.125% to 5.00% at June 30, 2022 principal payments ranging from \$3,190 to \$12,240 through 2039	<u>122,980</u>	<u>126,015</u>
Long-term debt	280,344	286,434
Less current maturities	(6,296)	(6,090)
Plus premium on 2017 bonds	4,436	4,640
Plus premium on 2016 bonds	8,560	9,871
Less debt issuance costs	<u>(2,091)</u>	<u>(2,250)</u>
Long-term debt, net of current portion	284,953	292,605
Interest rate swap liability	<u>3,500</u>	<u>7,229</u>
Long-term debt and other obligations, net of current portion	<u>\$ 288,453</u>	<u>299,834</u>

The Foundation has entered into a guaranty agreement, which unconditionally guarantees the full payment of principal and interest on the Hospital's long-term debt (note 9).

The related trust indenture provides, among other things, for certain covenants related to the incurrence of additional indebtedness, the lease, sale, or disposition of property, and the maintenance of certain financial ratios. As of June 30, 2022 and 2021, the Hospital was in compliance with all financial covenants.

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Aggregate future principal payments on long-term debt and other obligations are as follows:

	Long-term debt
Year ending June 30:	
2023	\$ 6,296
2024	6,526
2025	6,847
2026	7,125
2027	7,776
Thereafter	<u>245,774</u>
Total aggregate future principal payments on long-term debt and other obligations	\$ <u><u>280,344</u></u>

Interest Rate Swaps

The Hospital has entered into interest rate swap agreements to hedge against large fluctuations in the variable rate indebtedness. The amount outstanding at June 30, 2022 and terms of the agreements are as follows:

Year initiated	Notional amount of swap	Interest rate
2002	\$ 4,090	3.50 %
2003	2,350	3.31
2007	25,059	4.01

The fair values of derivative instruments held as of June 30, 2022 and 2021 are as follows:

		Liability derivatives			
		2022		2021	
		Balance sheet location	Fair value	Balance sheet location	Fair value
Derivatives not designated as hedging instruments:					
Interest rate contracts	LT Debt and other obligations	\$ 3,500		LT Debt and other obligations	\$ 7,229

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(7) Pledges Receivable

The Hospital has received certain pledges to support operations and other designated purposes. The present value of the pledges receivable has been computed utilizing rates that range from 0.12% to 2.94%, and the remaining estimated life for each individual pledge, as of June 30, 2022 and 2021. At June 30, 2022 and 2021, pledges receivable consist of the following:

	<u>2022</u>	<u>2021</u>
Amounts due in:		
Less than one year	\$ 13,902	6,491
One to five years	23,127	22,396
More than five years	<u>6,575</u>	<u>8,804</u>
Total pledged contributions	43,604	37,691
Less discount	<u>(1,963)</u>	<u>(1,327)</u>
Net pledges receivable	<u>\$ 41,641</u>	<u>36,364</u>

Pledges receivable as of June 30, 2022 and 2021 are intended for the following purposes:

	<u>2022</u>	<u>2021</u>
Hospital operations	\$ 8,518	2,421
Education, lectureships, and scholarships	106	61
Research	30,966	32,391
Building and equipment	<u>2,051</u>	<u>1,491</u>
Net pledges receivable	<u>\$ 41,641</u>	<u>36,364</u>

(8) Reserve for Professional Liability Claims

The Hospital maintains a self-insured retention for healthcare professional liability, including medical malpractice exposures, for the Missouri hospital, all outpatient locations, and various healthcare professionals, including, but not limited to, nurses, various ancillary staff, and certain physicians based on the physician's state of licensure and state of residence. The Hospital's self-insurance retention for professional liability is limited to \$2,000 per occurrence. All professional liability claims against the Hospital or its employed professional or clinical staff over \$2,000 are then subject to a buffer layer of \$6,000 for each claim and \$18,000 in the aggregate. Claims exceeding \$8,000 are insured through the Hospital's captive insurance program, which is fully reinsured through third-party carriers.

CMHIC also provides coverage in excess of other nonprofessional liability policies at various attachment points. CMHIC has insurance and reinsurance coverage of \$50,000. The Hospital is contingently liable for all reinsurance ceded to others; however, management only engages reputable reinsurers with strong financial ratings and monitors their financial condition. The Hospital has engaged a management company to manage the activities of CMHIC.

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The Hospital has established reserves for possible losses on both asserted and unasserted professional liability claims based upon an independent actuarial study. The Hospital's reserve for professional liability claims was \$47,940 and \$43,929 as of June 30, 2022 and 2021, respectively. The Hospital has recognized \$15,406 and \$18,688 of expenses related to professional liability coverage in the years ended June 30, 2022 and 2021, respectively. Additionally, the Hospital recorded \$4,093 of loss recoverables within other assets related to the estimated excess liability ceded to reinsurers at June 30, 2021. The Hospital recorded 3,871 of loss recoverables as of June 30, 2021 within other receivables due to the lag of timing related to claims paid by the Hospital prior to June 30, 2021 for which reinsurance payments were not yet received. There were no loss recoverables as of June 30, 2022.

(9) The Children's Mercy Hospital Foundation

The Foundation was formed in 1990 for the purpose of financial resource development and investment management for the sole benefit of the Hospital. The Foundation has been recognized as a not-for-profit organization as described under Section 501(c)(3) of the Internal Revenue Code by the Internal Revenue Service and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Internal Revenue Code.

Pursuant to U.S. GAAP, the Hospital recognizes its interest in net assets with and without donor restrictions of the Foundation. Accordingly, the Hospital has recorded its beneficial interest in the Foundation of \$254,865 and \$285,278 as of June 30, 2022 and 2021, respectively. In addition, the Hospital has reflected the change in its beneficial interest in the Foundation for the years ended June 30, 2022 and 2021 as follows:

	<u>2022</u>	<u>2021</u>
Change in beneficial interest:		
Without donor restriction	\$ (23,628)	34,290
With donor restriction	<u>(6,785)</u>	<u>30,772</u>
	<u>(30,413)</u>	<u>65,062</u>
Cash transfers to the hospital:		
For operating fund support	(6,395)	(6,358)
For research and education	<u>(1,734)</u>	<u>(1,247)</u>
	<u>(8,129)</u>	<u>(7,605)</u>
Change in beneficial interest, net of cash transfers	\$ <u><u>(22,284)</u></u>	<u><u>72,667</u></u>

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A condensed summary of the Foundation's financial position at June 30, 2022 and 2021 and results of its activities for the years then ended are as follows:

	<u>2022</u>	<u>2021</u>
Total assets	\$ 255,212	285,526
Total liabilities	\$ 347	248
Net assets	<u>254,865</u>	<u>285,278</u>
Total liabilities and net assets	<u>\$ 255,212</u>	<u>285,526</u>
Change in net assets without donor restriction	\$ (23,628)	34,290
Change in net assets with donor restriction	<u>(6,785)</u>	<u>30,772</u>
Total change in net assets	(30,413)	65,062
Net assets, beginning of year	<u>285,278</u>	<u>220,216</u>
Net assets, end of year	<u>\$ 254,865</u>	<u>285,278</u>

(10) Net Assets with Donor Restriction

Net assets with donor restriction consist of assets held by the Foundation to support Hospital operations, assets held by the Hospital to support construction, research, or other designated activities, and pledges as of June 30, 2022 and 2021 as follows:

	<u>Held by Hospital</u>	<u>Held by Foundation</u>	<u>Total with donor restriction</u>
Net assets with donor restriction as of			
June 30, 2022:			
Hospital operations	\$ 52,014	169,710	221,724
Chairs/professorships	5,640	46,499	52,139
Child abuse prevention/rehabilitation	—	268	268
Education, lectureships, and scholarships	2,555	7,242	9,797
Indigent care	676	1,844	2,520
Other – department specific	10,183	10,098	20,281
Research	128,170	18,283	146,453
Equipment	<u>4,062</u>	<u>921</u>	<u>4,983</u>
	<u>\$ 203,300</u>	<u>254,865</u>	<u>458,165</u>
Subject to spending policy and appropriation	\$ 155,109	174,592	329,701
Not subject to appropriation or expenditure	<u>48,191</u>	<u>80,273</u>	<u>128,464</u>
Total net assets with donor restrictions	<u>\$ 203,300</u>	<u>254,865</u>	<u>458,165</u>

THE CHILDREN'S MERCY HOSPITAL AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

	<u>Held by Hospital</u>	<u>Held by Foundation</u>	<u>Total with donor restriction</u>
Net assets with donor restriction as of June 30, 2021:			
Hospital operations	\$ 53,065	194,720	247,785
Chairs/professorships	8,082	48,341	56,423
Child abuse prevention/rehabilitation	—	305	305
Education, lectureships, and scholarships	2,479	7,791	10,270
Indigent care	824	2,098	2,922
Other – department specific	5,923	11,089	17,012
Research	111,259	20,003	131,262
Equipment	4,753	931	5,684
	<u>\$ 186,385</u>	<u>285,278</u>	<u>471,663</u>
Subject to spending policy and appropriation	\$ 130,494	209,788	340,282
Not subject to appropriation or expenditure	<u>55,891</u>	<u>75,490</u>	<u>131,381</u>
Total net assets with donor restrictions	<u>\$ 186,385</u>	<u>285,278</u>	<u>471,663</u>

Uses of net assets released from restriction, by program, during the years ended June 30, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Hospital operations	\$ 10,544	9,990
Chairs/professorships	299	25
Education, lectureships, and scholarships	170	171
Indigent care	190	122
Other – department specific	1,172	1,405
Research	<u>14,502</u>	<u>19,296</u>
Net assets released for use in operations	26,877	31,009
Net assets released for employee assistance	—	30
Net assets released for equipment	<u>4,124</u>	<u>79,324</u>
Total net assets released	<u>\$ 31,001</u>	<u>110,363</u>

THE CHILDREN'S MERCY HOSPITAL AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

(11) Functional Expenses

The functional expenses of the Hospital at June 30, 2022 are as follows:

	Program activities			General and administrative	Total
	Healthcare	Research	Education		
Salaries, wages, and benefits	\$ 788,451	47,479	23,414	211,858	1,071,202
Supplies and pharmaceuticals	204,089	5,337	178	1,885	211,489
Purchased services	52,493	11,782	3,637	95,222	163,134
Other operating expenses	95,801	2,385	3,215	50,714	152,115
Depreciation	25,363	10,574	3,488	32,092	71,517
Insurance	20,593	—	—	5,216	25,809
Interest	5,690	3,790	—	1,253	10,733
Total	\$ 1,192,480	81,347	33,932	398,240	1,705,999

Functional expenses of the Hospital at June 30, 2021 are as follows:

	Program activities			General and administrative	Total
	Healthcare	Research	Education		
Salaries, wages, and benefits	\$ 688,827	44,402	21,731	230,173	985,133
Supplies and pharmaceuticals	185,261	6,949	144	2,694	195,048
Purchased services	83,612	9,019	3,338	92,273	188,242
Other operating expenses	95,996	2,592	2,897	50,190	151,675
Depreciation	20,443	9,712	1,956	37,733	69,844
Insurance	19,089	—	—	4,301	23,390
Interest	4,590	4,047	—	1,395	10,032
Total	\$ 1,097,818	76,721	30,066	418,759	1,623,364

The Hospital's financial statements report certain categories of expenses that are attributable to more than one function. Therefore, these expenses require allocation on a reasonable basis. The expenses that are allocated include depreciation based on square footage and salaries, wages, and benefits, which includes allocations of benefits based on salaries by function.

(12) Leases

The Hospital leases office and clinical space under long-term operating leases. The leases expire at various dates during the next 14 years. The weighted average remaining lease term is 7.93 and 8.67 years at June 30, 2022 and 2021, respectively. The Hospital's leases do not include at-will termination options for either party to the lease or restrictive financial or other covenants. Payments due under the lease contracts include fixed payments plus, for some of the Hospital's leases, the Hospital's share of the building's property taxes, insurance, utilities, and common area maintenance. The Hospital has elected not to separate lease and nonlease components for building leases, and as such, nonlease components are included as a lease component.

THE CHILDREN'S MERCY HOSPITAL AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

The Hospital does not have any material leases that are classified as finance leases. The Hospital's lease cost for the years ended June 30, 2022 and 2021 was \$12,308 and \$12,000, respectively. Cash paid for amounts included in the measurement of lease liability for the years ended June 30, 2022 and 2021 was \$12,029 and \$11,615, respectively.

Maturities of lease liabilities under noncancellable leases as of June 30, 2022 are as follows:

2023	\$	12,990
2024		11,466
2025		9,949
2026		8,910
2027		7,884
Thereafter		<u>25,252</u>
Total undiscounted lease payments		76,451
Less imputed interest		<u>(11,905)</u>
Total lease liabilities	\$	<u><u>64,546</u></u>

The weighted average discount rate for the Hospital's operating leases is 1.65% at June 30, 2022 and 2021.

(13) Commitments and Contingencies

Noncancelable Contracts

In 2019, the Hospital entered into a noncancelable contract for certain software services. At June 30, 2022, the future minimum payments under this noncancelable contract were as follows:

2023	\$	15,377
2024		15,531
2025		15,270
2026		15,012
2027		15,173
Thereafter		7,627

Legal Matters

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, and government healthcare program participation requirements, reimbursement for healthcare services, and Medicare and Medicaid fraud and abuse. Violations of these laws and regulations could result in sanctions, including expulsion from government healthcare programs, imposition of significant fines and penalties, and significant repayments for healthcare services previously billed.

THE CHILDREN'S MERCY HOSPITAL AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers.

Management believes the Hospital is in compliance with fraud and abuse regulations, as well as other applicable government laws and regulations.

The Hospital has certain pending and threatened litigation and claims incurred in the ordinary course of business; however, management believes that the expected resolution of such contingencies will not exceed insurance coverage and self-insurance reserves and will not materially affect the consolidated financial position or results of operations.

(14) Fair Value Measurements

U.S. GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest-level input that is significant to the fair value measurement in its entirety. The levels of the hierarchy are as follows:

Level 1 inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date

Level 2 inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability

Level 3 inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

THE CHILDREN'S MERCY HOSPITAL AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

The following table presents the placement in the fair value hierarchy of assets and liabilities that are measured at fair value on a recurring basis (including items that are required to be measured at fair value and items for which the fair value option has been elected) at June 30, 2022 and 2021:

2022	Fair value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Cash and cash equivalents	\$ 236,388	236,388	—	—
Restricted cash	5,320	5,320	—	—
Total cash and cash equivalents	241,708	241,708	—	—
Long-term investments and assets limited as to use:				
Money market funds	2	2	—	—
U.S. government:				
Agency bonds	150,994	—	150,994	—
Taxable municipals	101,203	—	101,203	—
Mutual funds:				
Government and corporate bond	190,808	190,808	—	—
Domestic equity	603,428	603,428	—	—
International equity	134,447	134,447	—	—
Alternative investments ⁽¹⁾	83,562	—	—	—
Mineral rights and investment	1,270	—	1,270	—
Total long-term investments and assets limited as to use	1,265,714	928,685	253,467	—
Other assets:				
457b retirement assets	57,547	57,547	—	—
Income beneficiary trusts	37,946	—	—	37,946
Charitable remainder trusts and life interest in real estate	8,329	—	8,329	—
Total assets	\$ 1,611,244	1,227,940	261,796	37,946
Liabilities:				
Interest rate swaps	\$ 3,500	—	3,500	—

⁽¹⁾ Certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

THE CHILDREN'S MERCY HOSPITAL AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

2021	Fair value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Cash and cash equivalents	\$ 110,771	110,771	—	—
Restricted cash	5,315	5,315	—	—
Total cash and cash equivalents	116,086	116,086	—	—
Long-term investments and assets limited as to use:				
Money market funds	4	4	—	—
U.S. government:				
Agency bonds	150,635	—	150,635	—
Taxable municipals	115,162	—	115,162	—
Mutual funds:				
Government and corporate bond	199,335	199,335	—	—
Domestic equity	643,643	643,643	—	—
International equity	150,238	150,238	—	—
Alternative investments ⁽¹⁾	61,721	—	—	—
Mineral rights and investment	1,004	—	1,004	—
Total long-term investments and assets limited as to use	1,321,742	993,220	266,801	—
Other assets:				
457b retirement assets	62,654	62,654	—	—
Income beneficiary trusts	45,808	—	—	45,808
Charitable remainder trusts and life interest in real estate	9,156	—	9,156	—
Total assets	\$ 1,555,446	1,171,960	275,957	45,808
Liabilities:				
Interest rate swaps	\$ 7,229	—	7,229	—

- ⁽¹⁾ Certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

THE CHILDREN'S MERCY HOSPITAL AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

The fair values of the securities included in Level 1 were determined through quoted market prices. Level 1 instruments include money market funds, mutual funds, treasury notes, and equity securities. The fair values of Level 2 instruments were determined through evaluated bid prices based on recent trading activity and other relevant information, including market interest rate curves and referenced credit spreads; estimated prepayment rates, where applicable, are used for valuation purposes and are provided by third-party services where quoted market values are not available. Level 2 instruments include corporate fixed-income securities, government bonds, agency bonds, and interest rate swaps.

Income beneficiary trusts are considered a Level 3 investment as the beneficial interest in the trust itself is considered the unit of measure. While the underlying investments comprise various Level 1 and 2 investments, as these are perpetual trusts, and a third party is the trustee, this instrument is considered unobservable. There were no additional trusts for which it is known that the Hospital is a named beneficiary of during the year ended June 30, 2022 or 2021.

(15) Subsequent Events

The Hospital has reviewed subsequent events through November 29, 2022, the date the financial statements were issued.

No events or transactions during this period would require recognition or disclosure in the consolidated financial statements other than those already reflected.



KPMG LLP
Suite 1100
1000 Walnut Street
Kansas City, MO 64106-2162

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

The Board of Directors
The Children's Mercy Hospital:

We have audited, in accordance with the 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 the Children's Mercy Hospital and Affiliates (collectively, the Hospital), which comprise the Hospital's consolidated balance sheet as of June 30, 2022, 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 November 29, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Hospital's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital'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 the Hospital's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



Purpose of This Report

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

KPMG LLP

Kansas City, Missouri
November 29, 2022



KPMG LLP
Suite 1100
1000 Walnut Street
Kansas City, MO 64106-2162

**Independent Auditors' Report on Compliance for Each Major Federal Program;
Report on Internal Control Over Compliance; and Report on Schedule of
Expenditures of Federal Awards Required by the Uniform Guidance**

The Board of Directors
The Children's Mercy Hospital:

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the Children's Mercy Hospital and affiliates (the Hospital) compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Hospital's major federal programs for the year ended June 30, 2022. The Hospital's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Hospital complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

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

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

Responsibilities of Management for Compliance

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

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Hospital's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS,



Government Auditing Standards, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Hospital's compliance with the requirements of each major federal program as a whole.

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

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

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

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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

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

We have audited the consolidated financial statements of the Hospital as of and for the year ended June 30, 2022, and have issued our report thereon dated November 29, 2022, 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Kansas City, Missouri
March 29, 2023

THE CHILDREN'S MERCY HOSPITAL
Schedule of Expenditures of Federal Awards
Year ended June 30, 2022

Federal grantor/pass-through grantor/program or cluster title	Federal ALN number	Federal award number, contract or pass-through identifying number	Pass-through awards	Direct awards	Total federal expenditures	Amounts provided to subrecipients
Other Federal Programs:						
Department of Homeland Security:						
Missouri State Emergency Management Agency:						
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036		\$ 1,691,799	—	1,691,799	—
Department of Health and Human Services:						
Department of Health and Human Services						
COVID-19 Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution	93.498	NA	—	48,244,085	48,244,085	—
COVID-19 HRSA COVID-19 Claims Reimbursement for the Unisured Program and the COVID-19 Coverage Assistance Fund	93.461	NA	—	716,929	716,929	—
Total Department of Health and Human Services			—	48,961,014	48,961,014	—
Administration for Children, Youth, and Families:						
Family and Community Trust:						
Community Services Block Grant	93.569	FACT-SFSP	(77)	—	(77)	—
Centers for Disease Control:						
Kansas Department of Health and Environment:						
Preventive Health and Health Services Block Grant	93.991	1NB01OT009253-01-01	3,216	—	3,216	—
Kansas Department of Health and Environment:						
Maternal, Infant and Early Childhood Home Visiting Grant	93.870	X10MC43582	199,374	—	199,374	48,967
Mid America Regional Council:						
COVID-19 Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution	93.498	MARC CARES	73,758	—	73,758	—
Missouri Department of Elementary and Secondary Education:						
Every Student Succeeds Act/preschool Development Grants	93.434	3300-0105-7217-PDF2	1,118	—	1,118	—
University of Missouri Kansas City:						
Developmental Disabilities Basic Support and Advocacy Grants	93.630	0011162/00075891	4,375	—	4,375	—
University of Texas Health Science:						
Emergency Medical Services for Children	93.127	UTA20-001239	26,967	—	26,967	—
Health Resources and Services:						
Health Resources and Services:						
Maternal and Child Health Federal Consolidated Programs	93.110	5 H98MC33239-03-00	—	308,160	308,160	2,465
Maternal and Child Health Federal Consolidated Programs	93.110	H98MC33239	—	81,393	81,393	2,062
Kansas Department of Health and Environment:						
Affordable Care Act (aca) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	X02MC19397	—	—	—	—
Missouri Department of Elementary and Secondary Education:						
Maternal, Infant and Early Childhood Home Visiting Grant	93.870	0105-500-3300-7267-EVCI	1,118	—	1,118	—
Missouri Department of Health:						
Maternal and Child Health Services Block Grant to the States	93.994	KQ210049616	9,806	—	9,806	—
Maternal and Child Health Services Block Grant to the States	93.994	KQ210049616	917	—	917	—
University of Missouri Kansas City:						
Health Careers Opportunity Program	93.822	00111926/00076733	9,926	—	9,926	—
Total Health Resources and Services			21,767	389,553	411,320	4,527
Office of Healthy Homes:						
ICAST – INTL Center for Appropriate & Sustainable Tech:						
Healthy Homes and Weatherization Cooperation Demonstration	93.RD	SC-00417	2,933	—	2,933	—
Office of Population Affairs:						
Missouri Family Health Council:						
Family Planning Services	93.217	FPHPA006455	(8,692)	—	(8,692)	—
Family Planning Services	93.217	FPHPA006455	(7)	—	(7)	—
Family Planning Services	93.217	FPHPA006455	194,991	—	194,991	—
Family Planning Services	93.217	FPHPA006561	40,925	—	40,925	—
Family Planning Services	93.217	FPHPA076285	674	—	674	—
Total Office of Population Affairs			227,891	—	227,891	—
Total Department of Health and Human Services			561,322	49,350,567	49,911,889	53,494

THE CHILDREN'S MERCY HOSPITAL
Schedule of Expenditures of Federal Awards
Year ended June 30, 2022

Federal grantor/pass-through grantor/program or cluster title	Federal ALN number	Federal award number, contract or pass-through identifying number	Pass-through awards	Direct awards	Total federal expenditures	Amounts provided to subrecipients
Department of Agriculture:						
Missouri Dept of Mental Health:						
Summer Food Service Program for Children	10.559	ERS46732575	\$ 30,564	—	30,564	—
Department of Treasury:						
Wyandotte Health Foundation:						
COVID-19 Coronavirus Relief Fund	21.019	WYCO CARES	(2,702)	—	(2,702)	—
Total Department of Treasury			(2,702)	—	(2,702)	—
Total Other Federal Programs			2,280,983	49,350,567	51,631,550	53,494
Research and Development Cluster:						
Department of Housing and Urban Development						
University of Missouri:						
A Novel Method for Identifying Homes That Put Children At High Risk For Lead Poisoning	14.RD	00104444/00071699	55,146	—	55,146	—
Department of Veterans Affairs:						
Department of Veterans Affairs:						
Client Language Analysis in Veterans and non-Veterans with Low Motivation to Quit Smoking	64.RD	36C26122C0044	—	962	962	—
Expertise Regarding Obesity and Diet Related to Rural Veterans	64.RD	36C26321C0012	—	5,618	5,618	—
Nursing Unit Design and Hospital Falls	64.RD	VA IPA	—	1,651	1,651	—
Nursing Unit Design and Hospital Falls	64.RD	VA IPA extension 1	—	6,603	6,603	—
Total Department of Veterans Affairs			—	14,834	14,834	—
Environmental Protection Agency:						
BikeWalkKC:						
Environmental Justice Collaborative Problem-Solving Cooperative Agreement Program	66.306	EC-97791001-0	5,490	—	5,490	—
Department of Health and Human Services:						
The Washington University:						
Packaging and Spreading Proven Pediatric Weight Management Interventions for Use by Low-Income Families	93.349	WU-21-427	129,788	—	129,788	—
Packaging and Spreading Proven Pediatric Weight Management Interventions for Use by Low-Income Families	93.349	WU-22-0405	15,066	—	15,066	—
University of Missouri:						
National Bioterrorism Hospital Preparedness Program	93.889	6702	(7)	—	(7)	—
University of Missouri Kansas City:						
Community Programs to Improve Minority Health Grant Program	93.137	0097706/00067310	40,752	—	40,752	—
AHRQ:						
AHRQ:						
Research on Healthcare Costs, Quality and Outcomes	93.226	R21HS023980	—	—	—	—
The Washington University:						
Research on Healthcare Costs, Quality and Outcomes	93.226	WU-21-159	5,296	—	5,296	—
Research on Healthcare Costs, Quality and Outcomes	93.226	WU-22-0060	8,896	—	8,896	—
Total AHRQ			14,192	—	14,192	—
Centers for Disease Control:						
Boston Children's Hospital:						
Immunization Research, Demonstration, Public Information and Education Training and Clinical Skills Improvement Projects	93.185	GENFD0002020419	75,619	—	75,619	—
Immunization Research, Demonstration, Public Information and Education Training and Clinical Skills Improvement Projects	93.185	75D30120C07725	4,300	—	4,300	—
Centers for Disease Control:						
Immunization Research, Demonstration, Public Information and Education Training and Clinical Skills Improvement Projects	93.185	6U01IP001057-04-02	—	23,995	23,995	—
Immunization Research, Demonstration, Public Information and Education Training and Clinical Skills Improvement Projects	93.185	U01IP001154	—	636,573	636,573	—
Immunization Research, Demonstration, Public Information and Education Training and Clinical Skills Improvement Projects	93.185	U01IP001154	—	198,572	198,572	—
Immunization Research, Demonstration, Public Information and Education Training and Clinical Skills Improvement Projects	93.185	U01IP001154	—	304,141	304,141	—

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The American Academy of Pediatrics:						
Health Program for Toxic Substances and Disease Registry	93.161	PO# 100814	\$ 45,485	—	45,485	—
Health Program for Toxic Substances and Disease Registry	93.161	PO# 100814	13,801	—	13,801	—
Health Program for Toxic Substances and Disease Registry	93.161	771122_CMH	79,073	—	79,073	35,000
Health Program for Toxic Substances and Disease Registry	93.161	771122_CMH	15,988	—	15,988	—
Health Program for Toxic Substances and Disease Registry	93.161	PO# 100429	57,313	—	57,313	—
Health Program for Toxic Substances and Disease Registry	93.161	PO# 100788	118,107	—	118,107	—
Health Program for Toxic Substances and Disease Registry	93.161	PO# 100788	19,748	—	19,748	—
The Washington University:						
Birth Defects and Developmental Disabilities – Prevention and Surveillance	93.073	WU-22-0268	35,596	—	35,596	—
Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283	WU-21-167	128,057	—	128,057	—
Packaging and Spreading Proven Pediatric Weight Management Interventions for Use by Low-Income Families	93.349	WU-20-492	—	—	—	—
University of Texas Health Science:						
Blood Disorder Program: Prevention, Surveillance, and Research	93.080	SA0001312	3,602	—	3,602	—
Total Centers for Disease Control			596,689	1,163,281	1,759,970	35,000
Health Resources and Services:						
University of Pittsburgh:						
Maternal and Child Health Federal Consolidated Programs	93.110	AWD00002738 (416932-19)	148	—	148	—
University of Texas Health Science:						
Maternal and Child Health Federal Consolidated Programs	93.110	0012728L	(204)	—	(204)	—
Maternal and Child Health Federal Consolidated Programs	93.110	SA0000874	—	—	—	—
Maternal and Child Health Federal Consolidated Programs	93.110	SA0000874	27,576	—	27,576	—
Total Health Resources and Services			27,520	—	27,520	—
National Institute of Child Health and Human Development:						
Children's Hospital of Los Angeles:						
Child Health and Human Development Extramural Research	93.865	000012747-A	2,084	—	2,084	—
Children's Hospital of Philadelphia:						
Child Health and Human Development Extramural Research	93.865	200896463-RSUB	58,309	—	58,309	—
Child Health and Human Development Extramural Research	93.865	HHSN-2752018000031	—	—	—	—
Cornell University (Weill):						
Child Health and Human Development Extramural Research	93.865	214189-1	12,029	—	12,029	—
Child Health and Human Development Extramural Research	93.865	86433-11269	19,961	—	19,961	—
Duke University:						
Child Health and Human Development Extramural Research	93.865	203-7901	1,595	—	1,595	—
Child Health and Human Development Extramural Research	93.865	A034251	—	—	—	—
Child Health and Human Development Extramural Research	93.865	A034882	6,514	—	6,514	—
Child Health and Human Development Extramural Research	93.865	A032678	12,077	—	12,077	—
Child Health and Human Development Extramural Research	93.865	203-7531	(196)	—	(196)	—
Child Health and Human Development Extramural Research	93.865	HHSN-2752010000031	(26,558)	—	(26,558)	—
POP02	93.RD	00002496	25,429	—	25,429	—
Safety of Furosemide in Premature Infants at Risk of Bronchopulmonary Dysplasia	93.RD	210424	—	—	—	—
Georgetown University:						
Child Health and Human Development Extramural Research	93.865	424233_GR424226-CMH_V4	4,537	—	4,537	—
ICF Macro, Inc:						
Trans-NIH Research Support	93.310	2102238212	789,151	—	789,151	—
Trans-NIH Research Support	93.310	2102238212	160,851	—	160,851	—
Johns Hopkins University:						
Trans-NIH Research Support	93.310	2005486471	5,650	—	5,650	—

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National Institute of Child Health and Human Development:						
Child Health and Human Development Extramural Research	93.865	1R01HD100545-01	\$ —	513,759	513,759	39,192
Child Health and Human Development Extramural Research	93.865	3R21HD098086-02S1	—	148,597	148,597	—
Child Health and Human Development Extramural Research	93.865	K23HD083405	—	(101)	(101)	—
Child Health and Human Development Extramural Research	93.865	K23HD091362	—	71,770	71,770	—
Child Health and Human Development Extramural Research	93.865	KHD096299A	—	182,190	182,190	—
Child Health and Human Development Extramural Research	93.865	P50HD090258	—	(68)	(68)	(68)
Child Health and Human Development Extramural Research	93.865	P50HD090258	—	139,698	139,698	68,967
Child Health and Human Development Extramural Research	93.865	P50HD090258	—	(1,050)	(1,050)	—
Child Health and Human Development Extramural Research	93.865	P50HD090258	—	—	—	—
Child Health and Human Development Extramural Research	93.865	P50HD090258	—	314,546	314,546	—
Child Health and Human Development Extramural Research	93.865	R03HD088776	—	—	—	—
Child Health and Human Development Extramural Research	93.865	R03HD096097	—	7,966	7,966	—
Child Health and Human Development Extramural Research	93.865	R03HD098604	—	24,910	24,910	—
Child Health and Human Development Extramural Research	93.865	R21HD094106	—	1,530	1,530	1,019
Child Health and Human Development Extramural Research	93.865	R21HD098086	—	281,435	281,435	144,982
Child Health and Human Development Extramural Research	93.865	R21HD101111	—	127,450	127,450	28,000
Child Health and Human Development Extramural Research	93.865	T32HD069038	—	—	—	—
Child Health and Human Development Extramural Research	93.865	T32HD069038	—	192,489	192,489	—
Child Health and Human Development Extramural Research	93.865	T32HD069038	—	25,101	25,101	—
Child Health and Human Development Extramural Research	93.865	U10HD068284	—	—	—	—
Pennsylvania State University:						
Child Health and Human Development Extramural Research	93.865	CMHHD089922DF	—	—	—	—
RAND Corporation:						
Child Health and Human Development Extramural Research	93.865	SCON-00000045	59,082	—	59,082	12,159
Child Health and Human Development Extramural Research	93.865	SCON-00000297	6,288	—	6,288	—
RTI International:						
Child Health and Human Development Extramural Research	93.865	3-312-0216392-66500L	616	—	616	—
Seattle Children's Hospital -						
Effectiveness of an mHealth psychosocio intervention to prevent transition from acute to chronic post surgical pain in adolescents	93.RD	FP00000278	6,115	—	6,115	—
The Medical College of Wisconsin, Inc:						
Child Health and Human Development Extramural Research	93.865	R01HD104607	12,705	—	12,705	—
The Research Foundation for Suny on Behalf of the University at Buffalo:						
Child Health and Human Development Extramural Research	93.865	R1245893	227,936	—	227,936	—
University of Kansas Medical Center:						
Child Health and Human Development Extramural Research	93.865	AWD-0001673	78,081	—	78,081	—
Child Health and Human Development Extramural Research	93.865	AWD-0001732	10,657	—	10,657	—
Child Health and Human Development Extramural Research	93.865	AWD-0002299	13,413	—	13,413	—
Child Health and Human Development Extramural Research	93.865	FY2021-088	9,287	—	9,287	—
Child Health and Human Development Extramural Research	93.865	ZAD0000B0	6,241	—	6,241	—
Child Health and Human Development Extramural Research	93.865	QP867590	(44)	—	(44)	—
Child Health and Human Development Extramural Research	93.865	Z9D00080	—	—	—	—
University of Colorado:						
Child Health and Human Development Extramural Research	93.865	FY19.965.001	7,390	—	7,390	—
Child Health and Human Development Extramural Research	93.865	FY20.812.005	10,118	—	10,118	—
University of Pittsburgh:						
Child Health and Human Development Extramural Research	93.865	AWD00004684 (136793-1)	109,492	—	109,492	—
Child Health and Human Development Extramural Research	93.865	AWD00001006 (133613-6)	3,750	—	3,750	2,500
University of Utah:						
Child Health and Human Development Extramural Research	93.865	10058860-20-MERC	5,797	—	5,797	—
Washington State University:						
Child Health and Human Development Extramural Research	93.865	137539 SPC003588	86,654	—	86,654	—
Total National Institute of Child Health and Human Development:			1,725,011	2,030,222	3,755,233	296,751

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National Cancer Institute:						
Children's Hospital of Philadelphia:						
Cancer Treatment Research	93.395	FP0026529_SUB212_01	\$ 6,850	—	6,850	—
Cancer Treatment Research	93.395	FP0026529_SUB212_01	10,146	—	10,146	—
Cancer Treatment Research	93.395	FP0026529_SUB35_01	11,883	—	11,883	—
Cancer Treatment Research	93.395	FP0026529_SUB35_01	2,933	—	2,933	—
National Cancer Institute:						
Cancer Cause and Prevention Research	93.396	R21CA194492	—	—	—	—
Cancer Biology Research	93.396	7R01CA214916-04	—	338,807	338,807	—
University of Kansas Medical Center:						
Cancer Centers Support Grants	93.397	AWD-0001806	156,740	—	156,740	—
Cancer Centers Support Grants	93.397	GR15565	65,671	—	65,671	—
University of Kansas:						
Cancer Detection and Diagnosis Research	93.394	AWD-0002250	8,808	—	8,808	—
Cancer Detection and Diagnosis Research	93.394	FY2020-030-M2	26,190	—	26,190	—
Cancer Detection and Diagnosis Research	93.394	FY2020-030-M3	46,885	—	46,885	—
University of Rochester:						
Cancer Cause and Prevention Research	93.393	SUB00000006/URFAO:GR530012	29,445	—	29,445	—
Total National Cancer Institute			365,551	338,807	704,358	—
National Center for Advancing:						
University of Kansas Medical Center:						
Aging Research	93.866	GR12361/ZAP00070	11,687	—	11,687	—
National Center for Advancing Translational Sciences	93.350	AWD-0001802	419	—	419	—
National Center for Advancing Translational Sciences	93.350	GR116348	57,331	—	57,331	—
National Center for Advancing Translational Sciences	93.350	GR13074	136,003	—	136,003	—
National Center for Advancing Translational Sciences	93.350	GR16349	24,723	—	24,723	—
National Center for Advancing Translational Sciences	93.350	GR16350	36,516	—	36,516	—
National Center for Advancing Translational Sciences	93.350	GR16351	34,872	—	34,872	—
National Center for Advancing Translational Sciences	93.350	GR16352	50,000	—	50,000	—
National Center for Advancing Translational Sciences	93.350	GR16357	24,017	—	24,017	—
National Center for Advancing Translational Sciences	93.350	GR16358	27,111	—	27,111	—
National Center for Advancing Translational Sciences	93.350	GR16361	19,132	—	19,132	—
National Center for Advancing Translational Sciences	93.350	GR16362	24,933	—	24,933	—
National Center for Advancing Translational Sciences	93.350	GR16365	117,931	—	117,931	—
National Center for Advancing Translational Sciences	93.350	ZPBU0023	(728)	—	(728)	—
National Center for Advancing Translational Sciences	93.350	ZPBU0026-Shakhnovich	1,573	—	1,573	—
University of Kansas:						
National Center for Advancing Translational Sciences	93.350	ZPBT0030	1,514	—	1,514	—
National Center for Advancing Translational Sciences	93.350	ZPBU0026-Feldman	(3,987)	—	(3,987)	—
National Center for Advancing Translational Sciences	93.350	ZPBU0030/AWD-0001802	(15,973)	—	(15,973)	—
National Center for Advancing Translational Sciences	93.350	ZPBU0037/AWD-0001802	(3,571)	—	(3,571)	—
University of Pittsburgh:						
National Center for Advancing Translational Sciences	93.350	AWD00000464 (134259-1)	3,001	—	3,001	—
Total National Center for Advancing			546,504	—	546,504	—
National Center for Complementary & Integrative Health:						
Duke University:						
Research and Training in Complementary and Integrative Health	93.213	A03-2244	16,147	—	16,147	—
National Center for Immunization:						
National Center for Immunization and Respiratory Diseases:						
Immunization Research, Demonstration, Public Information and Education Training and Clinical Skills Improvement Projects	93.185	5U01IP001057-02	—	—	—	—
National Center for Immunization and Respiratory Diseases:						
Immunization Research, Demonstration, Public Information and Education training and Clinical Skills Improvement Projects	93.185	5U01IP001057-04	—	(2,443)	(2,443)	—
Immunization Research, Demonstration, Public Information and Education training and Clinical Skills Improvement Projects	93.185	5U01IP001057-05	—	165,171	165,171	—
Immunization Research, Demonstration, Public Information and Education training and Clinical Skills Improvement Projects	93.185	5U01IP001057-05	—	463,175	463,175	—
Prevention and Public Health Fund (affordable Care Act): Enhanced Surveillance for New Vaccine Preventable Disease	93.533	6U01IP001057-04	—	25,193	25,193	—
Total National Center for Immunization			—	651,096	651,096	—

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National Clinical Trials Network: Public Health Institute: Cancer Treatment Research	93.395	9F1CF57AA4C2	\$ 46,083	—	46,083	—
National Eye Institute: Cincinnati Children's Hospital: Vision Research	93.867	309380	1,199	—	1,199	—
JAEB Center for Health Research: Vision Research	93.867	IXT5	3,027	—	3,027	—
Vision Research	93.867	U10EY11751	2,648	—	2,648	—
Vision Research	93.867	UG1EY011751	10,485	—	10,485	—
University of California San Diego: Vision Research	93.867	1UG1EY029658-01	8,265	—	8,265	—
Total National Eye Institute			25,624	—	25,624	—
National Heart Lung and Blood: All Children's Research Institute: Blood Diseases and Resources Research	93.839	ACRI 22	391	—	391	—
Children's Hospital of Philadelphia: Blood Diseases and Resources Research	93.839	1R01HL148054-01	8,450	—	8,450	—
Blood Diseases and Resources Research	93.839	3201710624	621	—	621	—
Blood Diseases and Resources Research	93.839	3201710624	2,420	—	2,420	—
Lung Diseases Research	93.838	3200930821-S1/ 20257283	18,669	—	18,669	—
Lung Diseases Research	93.838	3200930822	9,236	—	9,236	—
Emory University: Cardiovascular Diseases Research	93.837	A577287	20,076	—	20,076	—
National Heart Lung and Blood Institute: Cardiovascular Diseases Research	93.837	R01HL126099	—	3,098	3,098	—
Cardiovascular Diseases Research	93.837	R01HL126099	—	63,997	63,997	24,795
Cardiovascular Diseases Research	93.837	R01HL148463	—	793,873	793,873	639,136
Lung Diseases Research	93.838	R01HL128374	—	(6,803)	(6,803)	—
New England Research Institute: Cardiovascular Diseases Research	93.837	MUSIC	81,530	—	81,530	—
Cardiovascular Diseases Research	93.837	PHN FUEL OLE	27,686	—	27,686	—
Cardiovascular Diseases Research	93.837	U10HL068270	7,259	—	7,259	—
RTI International: Blood Diseases and Resources Research	93.839	216392	15,412	—	15,412	—
Blood Diseases and Resources Research	93.839	U24HL143216	1,605	—	1,605	—
Blood Diseases and Resources Research	93.839	NRN: 0216392	5,243	—	5,243	—
The University of Michigan: Blood Diseases and Resources Research	93.839	SUBK00014454	5,359	—	5,359	—
University of Iowa: Blood Diseases and Resources Research	93.839	S00637-01	—	—	—	—
Blood Diseases and Resources Research	93.839	S00637-03	5,515	—	5,515	—
Blood Diseases and Resources Research	93.839	S00637-04	12,962	—	12,962	—
Total National Heart Lung and Blood			222,434	854,165	1,076,599	663,931
National Human Genome Research: Arima Genomics: Human Genome Research	93.172	R44HG011897	29,259	—	29,259	—
National Human Genome Research Institute: Human Genome Research	93.172	R25HG0009651	—	267	267	—
Human Genome Research	93.172	R25HG0009651	—	37,837	37,837	—
Total National Human Genome Research			29,259	38,104	67,363	—

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National Institute of Allergy:						
Benaroya Research Institute:						
Allergy, Immunology and Transplantation Research	9.855	FY17ITN188	\$ 1,783	—	1,783	—
Allergy, Immunology and Transplantation Research	9.855	FY201TN190	7,053	—	7,053	—
Boston Children's Hospital:						
Allergy, Immunology and Transplantation Research	9.855	GENFD0001983906	6,917	—	6,917	—
Duke University:						
Allergy, Immunology and Transplantation Research	93.855	257187/A031576	3,035	—	3,035	—
Allergy, Immunology and Transplantation Research	93.855	A035448	22,804	—	22,804	—
Fred Hutchinson Cancer Research Center:						
Allergy, Immunology and Transplantation Research	93.855	1032744	(2)	—	(2)	—
Allergy, Immunology and Transplantation Research	93.855	1035759	319,426	—	319,426	—
Johns Hopkins University:						
Allergy, Immunology and Transplantation Research	93.855	2003954018	(306)	—	(306)	—
Allergy, Immunology and Transplantation Research	93.855	5UM1AI068632	737	—	737	—
Allergy, Immunology and Transplantation Research	93.855	5UM1AI068632	(1,675)	—	(1,675)	—
Massachusetts General Hospital:						
Allergy, Immunology and Transplantation Research	93.855	229712	4,768	—	4,768	—
National Institute of Allergy and Infectious Diseases:						
Allergy, Immunology and Transplantation Research	93.847	1R01AI147778	—	565,372	565,372	325,744
Allergy, Immunology and Transplantation Research	93.847	R56AI147778	—	(32,941)	(32,941)	(32,941)
Total National Institute of Allergy			364,540	532,431	896,971	292,803
National Institute of Arthritis:						
Cincinnati Children's Hospital:						
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	138708	—	—	—	—
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	138708	—	—	—	—
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	138708 / OS0002561	126,155	—	126,155	—
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	138708 / OS0002561	5,197	—	5,197	—
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	138708 / OS0002561	29,084	—	29,084	—
Total National Institute of Arthritis			160,436	—	160,436	—
National Institute of Diabetes:						
Ann & Robert H. Lurie Children's Hospital of Chicago:						
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	901628-CMH	2,882	—	2,882	—
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	901628-CMH	7,700	—	7,700	—
Children's Hospital of Philadelphia:						
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	3200370521/PO# 20298933	14,836	—	14,836	—
Emory University:						
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	A245781	(1)	—	(1)	—

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National Institute of Diabetes and Digestive and Kidney Diseases:						
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	1K23DK115827-01A1	\$ —	198,529	198,529	—
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	3U01DK066143-19S1	—	50,745	50,745	29,261
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	5U01DK066143-19	—	716,738	716,738	125,252
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	K01DK119545	—	127,895	127,895	—
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	K08DK125735	—	168,019	168,019	—
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	R01DK107490	—	118,137	118,137	75,006
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	R01DK117296	—	571,204	571,204	203,275
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	U01DK066143	—	(80)	(80)	—
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	U01DK066143	—	—	—	—
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	U01DK066143	—	(1,003)	(1,003)	(1,003)
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	U01DK066143	—	281,971	281,971	190,899
Nationwide Children's Hospital:						
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	700198-0522-00	10,450	—	10,450	—
The Nemours Foundation:						
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	1135299-0-RSUB	86,243	—	86,243	—
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	RSUB1052318	98,520	—	98,520	—
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	RSUB1138099	164,769	—	164,769	—
The University of Michigan:						
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	SUBK00012116	16,052	—	16,052	—
Tulane University:						
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	TUL-HSC-556621-19/20	89,579	—	89,579	—
University of Kansas Medical Center:						
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	AWD0001831	339	—	339	—
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	AWD0001831	9,845	—	9,845	—
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	ZAP00000	155,870	—	155,870	—
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	ZPC00003	(217)	—	(217)	—
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	ZPC00003	(30)	—	(30)	—
University of California San Diego:						
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	110813118 (S9002134)	174,611	—	174,611	—
University of California San Francisco:						
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	11848sc	20,703	—	20,703	—
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	11848sc	3,300	—	3,300	3,300
University of California Los Angeles (UCLA):						
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	1652 G YA009	8,409	—	8,409	—
University of Missouri Kansas City:						
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	0099791/00067449	(10)	—	(10)	—
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	0099791/00067449	23,956	—	23,956	—
Trans-NIH Research Support	93.847	00103399/00072663	54,035	—	54,035	—
University of South Florida:						
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	6163-1082-10-BK	330	—	330	—
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	6163-1082-10-BK	281,085	—	281,085	—
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	TN-01	11,607	—	11,607	—
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	TN-18	7,253	—	7,253	—
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	TN-22	11,267	—	11,267	—
Total National Institute of Diabetes			1,253,383	2,232,155	3,485,538	625,990

THE CHILDREN'S MERCY HOSPITAL
Schedule of Expenditures of Federal Awards
Year ended June 30, 2022

Federal grantor/pass-through grantor/program or cluster title	Federal ALN number	Federal award number, contract or pass-through identifying number	Pass-through awards	Direct awards	Total federal expenditures	Amounts provided to subrecipients
National Institute of Environment:						
University of Kansas Medical Center:						
Environmental Health	93.113	GR16506	\$ 4,730	—	4,730	—
Environmental Health	93.113	ZAS000C0	154,180	—	154,180	—
University of Washington:						
Environmental Health	93.113	UWSC12369	47,542	—	47,542	—
Total National Institute of Environment			206,452	—	206,452	—
National Institute of General Medical Sciences:						
National Institute of General Medical Sciences:						
Biomedical Research and Research Training	93.859	R01GM129783	—	240,517	240,517	18,634
Biomedical Research and Research Training	93.859	R24GM123930	—	23,845	23,845	—
Total National Institute of General Medical Sciences			—	264,362	264,362	18,634
National Institute of Mental Health:						
Laureate Institute for Brain Research:						
Mental Health Research Grants	93.242	1R01H123691-CMH	14,256	—	14,256	—
Mental Health Research Grants	93.242	1R01MH123652-01A1 CMH	13,988	—	13,988	—
RAND Corporation:						
Mental Health Research Grants	93.242	SCON-00000209	19,840	—	19,840	—
University of Kansas Medical Center:						
Mental Health Research Grants	93.242	AWD-0001704-GR13998	40,648	—	40,648	—
Mental Health Research Grants	93.242	FY2022-006	13,444	—	13,444	—
Total National Institute of Mental Health			102,176	—	102,176	—
National Institute of Neurology:						
University of California San Francisco:						
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	11259sc	4,154	—	4,154	—
National Institute of Nursing:						
Indiana University:						
Nursing Research	93.361	1R01NR019190-01	(4,831)	—	(4,831)	—
RAND Corporation:						
Nursing Research	93.361	SCON-00000060	11,761	—	11,761	—
University of Kansas Medical Center:						
Nursing Research	93.361	ZAD00070	55,675	—	55,675	—
Wake Forest University Health Science:						
Nursing Research	93.361	205-100720-550114	167,863	—	167,863	—
Total National Institute of Nursing			230,468	—	230,468	—
National Institute on Minority Health and Health Disparities:						
National Institute on Minority Health and Health Disparities:						
Minority Health and Health Disparities Research	93.307	1R01MD015409-01	—	591,969	591,969	270,587
University of Rochester:						
Minority Health and Health Disparities Research	93.307	SUB00000107/URFAO:GR531126	155,631	—	155,631	—
Total National Institute on Minority Health and Health Disparities			155,631	591,969	747,600	270,587

THE CHILDREN'S MERCY HOSPITAL
Schedule of Expenditures of Federal Awards
Year ended June 30, 2022

Federal grantor/pass-through grantor/program or cluster title	Federal ALN number	Federal award number, contract or pass-through identifying number	Pass-through awards	Direct awards	Total federal expenditures	Amounts provided to subrecipients
Office of the Director:						
Duke University:						
Trans-NIH Research Support	93.310	A032483	\$ 92,835	—	92,835	50,877
Trans-NIH Research Support	93.310	A032483	69,376	—	69,376	—
Massachusetts General Hospital:						
Trans-NIH Research Support	93.310	233284	(663)	—	(663)	—
University of Kansas Medical Center:						
Trans-NIH Research Support	93.310	AWD-0001939	18,714	—	18,714	—
Trans-NIH Research Support	93.310	GR16530	46,973	—	46,973	—
University of Arkansas:						
Trans-NIH Research Support	93.310	54005	2,972	—	2,972	—
Trans-NIH Research Support	93.310	54005 VDORA	1,090	—	1,090	—
Trans-NIH Research Support	93.310	54005-VDORA	11,778	—	11,778	—
Women & Infants Hospital of Ri:						
Trans-NIH Research Support	93.310	5001441	(5,457)	—	(5,457)	—
Trans-NIH Research Support	93.310	5001441	72,102	—	72,102	—
Trans-NIH Research Support	93.310	5001441	372,976	—	372,976	—
Total Office of the Director			682,696	—	682,696	50,877
USA MED Research Acquisition Activity:						
USA MED Research Acquisition Activity:						
Military Medical Research and Development	12.420	W81XWH-20-1-0358	—	48,700	48,700	—
National Institute on Drug Abuse:						
National Institute on Drug Abuse:						
Drug Abuse and Addiction Research Programs	93.279	1K23DA055736-01	—	11,323	11,323	—
Total Research and Development Cluster			7,021,185	8,771,449	15,792,634	2,254,573
Grand total			\$ 9,302,168	58,122,016	67,424,184	2,308,067

See accompanying notes to schedule of expenditures of federal awards.

THE CHILDREN'S MERCY HOSPITAL

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2022

(1) General

The accompanying schedule of expenditures of federal awards (the Schedule) presents the activity of all federal programs of The Children's Mercy Hospital (the Hospital). The Hospital's reporting entity is defined in note 1 to the Hospital's consolidated financial statements. All federal awards received directly from federal agencies, as well as federal awards passed through other governmental agencies, are included in the Schedule. The Hospital did not elect to use the 10% de minimus indirect cost rate as discussed in Uniform Guidance section 200.414 as the Hospital has a negotiated indirect cost rate with the Department of Health and Human Services.

(2) Basis of Accounting

The information in this Schedule 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).

The Schedule is prepared using the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America, and is an acceptable basis of accounting under the Uniform Guidance. The Hospital's financial statements are prepared using the accrual basis of accounting. The Hospital is able to reconcile amounts presented in its financial statements to the related amounts in the Schedule, as required by the Uniform Guidance.

Negative amounts represent adjustments or credits to amounts reported as expenditures in prior years. The pass-through ID numbers were noted in the Schedule when available.

The expenditures reported on the Schedule for COVID-19 Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution (PRF) ALN #93.498, were based on reporting time periods required for PRF portal reporting. The accompanying Schedule includes PRF for Periods 2 and 3 (defined as payments received between July 1, 2020 to June 30, 2021). The PRF payments were provided to eligible providers to support healthcare related expenses or lost revenues attributable to the coronavirus. The funds included in Period 2 included funds received by the Hospital under the HHS Phase 3 distribution which required the Hospital to apply for additional funds that took into account the Hospital's financial losses and changes in operating expenses.

During Period 2, the Hospital received payments of \$75.0M under PRF, which included \$38.6 million from the Phase 3 distribution. The Hospital completed the HRSA Period 2 Portal reporting indicating that \$75.0M of payments were received and reported that COVID-related expenses and lost revenue were incurred in excess of the \$75.0M. No payments were received for Period 3. The Hospital reported \$48.3M of these payments as expenditures for PRF in the Schedule. The Hospital has not recognized \$27.4M of these payments as expenditures in the Schedule as the Phase 3 payment was greater than expected. The Hospital is actively pursuing written and authoritative guidance from HRSA regarding the greater than expected payment.

(3) Relationship to the Consolidated Financial Statements

Federal awards are reported in the consolidated financial statements as other revenue and public assistance.

THE CHILDREN'S MERCY HOSPITAL
Schedule of Findings and Questioned Costs
Year ended June 30, 2022

(1) Summary of Auditors' Results

- (a) Type of report issued on whether the consolidated financial statements were prepared in accordance with generally accepted accounting principles: Unmodified
- (b) Internal control deficiencies over financial reporting disclosed by the audit of the financial statements:
 - Material weaknesses: No
 - Significant deficiencies: None reported
- (c) Noncompliance material to the financial statements: No
- (d) Internal control deficiencies over major programs disclosed by the audit:
 - Material weaknesses: No
 - Significant deficiencies: None reported
- (e) Type of report issued on compliance for major programs: Unmodified
- (f) Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): No
- (g) Major programs:
 - COVID-19 Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution – ALN #93.498
- (h) Dollar threshold used to distinguish between Type A and Type B programs: \$2,022,726
- (i) Auditee qualified as a low-risk auditee: Yes

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

None

(3) Findings and Questioned Cost Relating to Federal Awards

None