



ARKANSAS CHILDREN'S
Consolidated Financial Statements
June 30, 2024 and 2023
(With Independent Auditors' Report Thereon)

ARKANSAS CHILDREN'S

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Independent Auditors' Report

The Board of Directors
Arkansas Children's:

Opinion

We have audited the consolidated financial statements of Arkansas Children's, which comprise the consolidated balance sheets as of June 30, 2024 and 2023, 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 financial position of Arkansas Children's as of June 30, 2024 and 2023, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 Arkansas Children's and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

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

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

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

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

KPMG LLP

Memphis, Tennessee
October 24, 2024

ARKANSAS CHILDREN'S
Consolidated Balance Sheets
June 30, 2024 and 2023

| Assets | 2024 | 2023 |
|---|-------------------------|----------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 162,199,500 | 163,258,360 |
| Net patient accounts receivable | 128,235,629 | 111,147,352 |
| Other current receivables | 42,674,094 | 49,259,680 |
| Investments – at fair value | 631,400,344 | 517,666,365 |
| Assets limited as to use – current | 12,667,754 | 9,703,200 |
| Estimated third-party payor settlements – current | 119,631,697 | 157,364,294 |
| Inventories | 12,975,512 | 13,717,890 |
| Prepays and other current assets | <u>15,456,102</u> | <u>17,024,704</u> |
| Total current assets | 1,125,240,632 | 1,039,141,845 |
| Assets limited as to use – noncurrent | 576,883,322 | 543,723,649 |
| Pledges receivable, net – noncurrent | 34,038,027 | 31,375,604 |
| Property, plant, and equipment, net | 372,344,942 | 374,651,078 |
| Operating right of use assets, net | 14,797,098 | 9,518,160 |
| Other noncurrent assets | <u>92,892,699</u> | <u>65,893,001</u> |
| Total assets | <u>\$ 2,216,196,720</u> | <u>2,064,303,337</u> |
| Liabilities and Net Assets | | |
| Current liabilities: | | |
| Accounts payable | \$ 59,276,107 | 58,792,206 |
| Accrued interest | 4,067,754 | 2,098,200 |
| Accrued expenses and other liabilities | 72,777,597 | 54,994,486 |
| Operating leases – current | 1,786,711 | 1,570,732 |
| Current portion of long-term debt | <u>8,600,000</u> | <u>7,986,678</u> |
| Total current liabilities | 146,508,169 | 125,442,302 |
| Noncurrent liabilities: | | |
| Other long-term payables | 1,508,361 | 2,158,321 |
| Operating leases – noncurrent | 13,010,387 | 7,947,428 |
| Grant carryover | 13,142,755 | 9,098,612 |
| Long-term debt – net of current portion | <u>270,300,966</u> | <u>279,376,822</u> |
| Total liabilities | <u>444,470,638</u> | <u>424,023,485</u> |
| Commitments and contingencies | | |
| Net assets: | | |
| Without donor restrictions | 1,520,571,482 | 1,407,377,478 |
| With donor restrictions | <u>251,154,600</u> | <u>232,902,374</u> |
| Total net assets | <u>1,771,726,082</u> | <u>1,640,279,852</u> |
| Total liabilities and net assets | <u>\$ 2,216,196,720</u> | <u>2,064,303,337</u> |

See accompanying notes to consolidated financial statements.

ARKANSAS CHILDREN'S
Consolidated Statements of Operations
Years ended June 30, 2024 and 2023

| | <u>2024</u> | <u>2023</u> |
|---|-----------------------|--------------------|
| Revenues, gains and other support: | | |
| Net patient service revenue | \$ 870,188,806 | 841,191,482 |
| Specific purpose grants | 54,568,587 | 47,175,941 |
| Supplemental Medicaid reimbursement | 45,296,820 | 44,985,196 |
| Other | 34,890,027 | 36,063,758 |
| Net assets released from restrictions and used for operations | <u>16,398,598</u> | <u>12,633,548</u> |
| Total revenues, gains and other support | <u>1,021,342,838</u> | <u>982,049,925</u> |
| Expenses: | | |
| Salaries and wages | 410,784,632 | 401,762,690 |
| Employee benefits | 74,990,193 | 69,666,735 |
| Supplies and pharmaceuticals | 171,440,664 | 156,114,099 |
| Professional fees | 122,331,250 | 112,751,170 |
| Purchased services | 119,084,650 | 106,987,287 |
| Depreciation | 49,306,333 | 49,855,193 |
| Interest | 6,292,993 | 6,440,792 |
| Utilities | 6,132,807 | 6,583,160 |
| Insurance | 8,238,001 | 4,819,774 |
| Other | <u>16,716,859</u> | <u>14,586,977</u> |
| Total expenses | <u>985,318,382</u> | <u>929,567,877</u> |
| Income from operations | <u>36,024,456</u> | <u>52,482,048</u> |
| Nonoperating revenues, gains, expenses and losses: | | |
| Contributions | 14,545,826 | 12,011,065 |
| Investment income | 31,702,801 | 21,846,347 |
| Gain on sales of investments | 7,243,076 | 942,886 |
| Other gain (loss) on investments | 18,851,771 | (1,101,394) |
| Other gains | 556,102 | 537,844 |
| Fundraising expenses | <u>(9,119,869)</u> | <u>(8,281,961)</u> |
| Net nonoperating revenues, gains, expenses and losses | <u>63,779,707</u> | <u>25,954,787</u> |
| Excess of revenues and gains over expenses and losses | 99,804,163 | 78,436,835 |
| Other changes in net assets without donor restrictions: | | |
| Net unrealized gain on investments | 6,340,115 | 4,375,398 |
| Net assets released from restrictions used for purchase of property and equipment | 6,361,629 | 3,147,821 |
| Grant funds used to purchase capital assets | 892,142 | 2,065,968 |
| Gift annuity reserve | (18,640) | (105,798) |
| Transfer of net assets | <u>(185,405)</u> | <u>27,449</u> |
| Increase in net assets without donor restrictions | <u>\$ 113,194,004</u> | <u>87,947,673</u> |

See accompanying notes to consolidated financial statements.

ARKANSAS CHILDREN'S

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2024 and 2023

| | <u>Without donor restrictions</u> | <u>With donor restrictions</u> | <u>Total</u> |
|---|---------------------------------------|------------------------------------|----------------------|
| Balance – June 30, 2022 | \$ 1,319,429,805 | 203,243,239 | 1,522,673,044 |
| Excess of revenues and gains over expenses and losses | 78,436,835 | — | 78,436,835 |
| Net assets released from donor restrictions and used for operations | — | (12,633,548) | (12,633,548) |
| Unrealized gain on investments, net | 4,375,398 | 154,557 | 4,529,955 |
| Contributions with donor restrictions | — | 38,476,368 | 38,476,368 |
| Income from investments with donor restrictions | — | 1,973,027 | 1,973,027 |
| Gain on sale of investments with donor restrictions | — | 39,189 | 39,189 |
| Other gains on investments with donor restrictions | — | 5,071,005 | 5,071,005 |
| Net assets released from donor restrictions and used for purchase of property and equipment | 3,147,821 | (3,147,821) | — |
| Other than temporary impairment on investments with donor restrictions | — | (246,193) | (246,193) |
| Grant funds used to purchase capital assets | 2,065,968 | — | 2,065,968 |
| Gift annuity reserve | (105,798) | — | (105,798) |
| Transfer of net assets | 27,449 | (27,449) | — |
| Change in net assets | <u>87,947,673</u> | <u>29,659,135</u> | <u>117,606,808</u> |
| Balance – June 30, 2023 | <u>1,407,377,478</u> | <u>232,902,374</u> | <u>1,640,279,852</u> |
| Excess of revenues and gains over expenses and losses | 99,804,163 | — | 99,804,163 |
| Net assets released from donor restrictions and used for operations | — | (16,398,598) | (16,398,598) |
| Unrealized gain on investments, net | 6,340,115 | 80,075 | 6,420,190 |
| Contributions with donor restrictions | — | 27,050,894 | 27,050,894 |
| Income from investments with donor restrictions | — | 2,266,719 | 2,266,719 |
| Gain on sale of investments with donor restrictions | — | 2,264,874 | 2,264,874 |
| Other gains on investments with donor restrictions | — | 9,164,486 | 9,164,486 |
| Net assets released from donor restrictions and used for purchase of property and equipment | 6,361,629 | (6,361,629) | — |
| Grant funds used to purchase capital assets | 892,142 | — | 892,142 |
| Gift annuity reserve | (18,640) | — | (18,640) |
| Transfer of net assets | (185,405) | 185,405 | — |
| Change in net assets | <u>113,194,004</u> | <u>18,252,226</u> | <u>131,446,230</u> |
| Balance – June 30, 2024 | \$ <u>1,520,571,482</u> | <u>251,154,600</u> | <u>1,771,726,082</u> |

See accompanying notes to consolidated financial statements.

ARKANSAS CHILDREN'S

Consolidated Statements of Cash Flows

Years ended June 30, 2024 and 2023

| | <u>2024</u> | <u>2023</u> |
|--|-----------------------|-----------------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ 131,446,230 | 117,606,808 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 49,306,333 | 49,855,193 |
| Net realized and unrealized gains on investments | (47,947,568) | (26,809,211) |
| Other than temporary impairment of investments | — | 17,345,852 |
| Loss on disposition of fixed assets | 7,203 | 21,355 |
| Contributions for restricted endowments and capital assets | (15,085,775) | (12,474,677) |
| Amortization/accretion of bond premium/discount and bond issuance costs | (475,856) | (363,648) |
| Changes in operating assets and liabilities: | | |
| Patient and other receivables | (9,463,944) | (14,166,314) |
| Estimated third-party payor settlements | 37,732,597 | (25,924,524) |
| Pledges receivable | (3,701,170) | (15,701,744) |
| Inventories | 742,378 | (1,677,973) |
| Other assets | (25,431,096) | 12,092,726 |
| Accounts payable | 699,371 | 15,832,532 |
| Accrued expenses, interest, grant carryover, and other liabilities | 23,796,808 | (13,369,249) |
| Net cash provided by operating activities | <u>141,625,511</u> | <u>102,267,126</u> |
| Cash flows from investing activities: | | |
| Purchases of property, plant, and equipment | (46,885,425) | (36,844,455) |
| Purchases of investments and assets limited as to use | (277,775,068) | (334,993,108) |
| Proceeds from sales of investments and assets limited as to use | 213,476,920 | 206,908,561 |
| Net cash used in investing activities | <u>(111,183,573)</u> | <u>(164,929,002)</u> |
| Cash flows from financing activities: | | |
| Contributions for restricted endowments and capital assets | 15,085,775 | 12,474,677 |
| Principal payments on long-term debt | (7,986,678) | (4,808,083) |
| Proceeds from the issuance of long-term debt | — | 135,097,050 |
| Bond issuance costs | — | (1,095,653) |
| Payments on finance lease obligations | (987,405) | (1,162,826) |
| Net cash provided by financing activities | <u>6,111,692</u> | <u>140,505,165</u> |
| Net increase in cash and cash equivalents | 36,553,630 | 77,843,289 |
| Cash and cash equivalents: | | |
| Beginning of year | <u>164,571,341</u> | <u>86,728,052</u> |
| End of year | \$ <u>201,124,971</u> | \$ <u>164,571,341</u> |
| Reconciliation of cash and cash equivalents: | | |
| Cash and cash equivalents | \$ 162,199,500 | 163,258,360 |
| Restricted cash for self-insurance funding | 2,702,154 | 1,312,981 |
| Restricted cash equivalent held by trustee under bond agreements | 36,223,317 | — |
| | <u>\$ 201,124,971</u> | <u>164,571,341</u> |
| Supplemental disclosure of cash flow information | | |
| Cash paid for interest | \$ 10,537,077 | 6,391,004 |
| Noncash operating and investing activities – purchases of property, plant, and equipment in accounts payable | 1,086,632 | 1,302,102 |
| Purchase of property, plant, and equipment through vendor financing and finance lease | 337,445 | 957,733 |
| Noncash operating and investing activities – lease liability on right of use assets | 1,945,148 | 2,214,680 |

See accompanying notes to consolidated financial statements.

ARKANSAS CHILDREN'S

Notes to Consolidated Financial Statements

June 30, 2024 and 2023

(1) Organization

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

Arkansas Children's is the only healthcare system in the state solely dedicated to caring for Arkansas's more than 850,000 children. The private, nonprofit organization includes two pediatric hospitals, a pediatric research institute and USDA nutrition center, a philanthropic foundation, a nursery alliance, statewide clinics, and many education and outreach programs – all focused on fulfilling a promise to define and deliver unprecedented child health. ACH is a 336-bed, Magnet-recognized facility in Little Rock operating the state's only Level I pediatric trauma center; the state's only burn center; the state's only Level IV neonatal intensive care unit; the state's only pediatric intensive care unit; the state's only pediatric surgery program with Level 1 verification from the American College of Surgeons (ACS); and the state's only nationally recognized pediatric transport program. Arkansas Children's is nationally ranked by US News & World Report in seven pediatric subspecialties (2023 – 2024): Cancer, Cardiology & Heart Surgery, Diabetes & Endocrinology, Nephrology, Orthopedics, Pulmonology & Lung Surgery, and Urology. ACNW, the first and only pediatric hospital in the Northwest Arkansas region, is a Level IV pediatric trauma center. ACNW operates a licensed 25-bed inpatient unit; a surgical unit with five operating rooms; outpatient clinics offering over 20 subspecialties; diagnostic services; imaging capabilities; occupational therapy services; and northwest Arkansas' only pediatric emergency department, equipped with 30 exam rooms. Generous philanthropic and volunteer engagement has sustained Arkansas Children's since it began as an orphanage in 1912 and today ensures the system can deliver on its promise of unprecedented child health.

Arkansas Children's carries out its mission through its entities' core business and through community benefit work that focuses on creating "unprecedented child health" for children in Arkansas. Work to improve child health outcomes is driven by community health needs assessments (CHNA) and implementation strategies (IS) for both ACH and ACNW. CHNAs provide each hospital the opportunity to understand and prioritize community health needs through the input gathered from community members, public health experts, stakeholders, as well as existing data sets. CHNAs also satisfy the requirements of the Internal Revenue Service for triennial needs assessments for nonprofit hospitals. ACH and ACNW completed their most recent CHNA in fiscal year 2022. For each hospital, these CHNAs help inform the implementation strategy documents, which are the three-year plans that direct the strategic community benefit work of each hospital. ACH and ACNW each have ISs with goals and actions to address child health priorities for fiscal year 2024 through fiscal year 2026.

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

(2) Summary of Significant Accounting Policies

(a) Principles of Consolidation

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

(b) Use of Estimates

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

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

(c) Cash, Cash Equivalents, and Restricted Cash

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

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

(d) Concentration of Credit Risk

Arkansas Children's grants credit without collateral to its patients, most of whom are Arkansas residents and are insured under Medicaid or other third-party payor agreements. Arkansas Children's must comply with various reporting and operating regulations mandated by the state Medicaid program. Failure to comply with these regulations could result in Arkansas Children's losing its eligibility to receive these funds. Management is not aware of any operations or activities that would jeopardize Arkansas Children's eligibility under this program.

ARKANSAS CHILDREN'S
Notes to Consolidated Financial Statements
June 30, 2024 and 2023

The mix of net patient receivables as of June 30, 2024 and 2023, was as follows:

| | 2024 | 2023 |
|---|-------|-------|
| Medicaid and Medicare | 26 % | 26 % |
| Other third-party payors (insurance and managed care) | 68 | 68 |
| Patients | 6 | 6 |
| Total mix of net patient receivables | 100 % | 100 % |

(e) Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheet. Investment income (including interest and dividends), realized gains/losses on the sale of investments, and other gains/losses on investments are included in excess of revenues and gains over expenses and losses in the consolidated statement of operations. Unrealized gains/losses on available-for-sale debt securities due to circumstances other than credit loss are included in other changes in net assets.

Effective July 1, 2023, Arkansas Children's may record an allowance for credit losses (ACL) under FASB ASC Subtopic 326-30 – *Financial Instruments-Credit Losses – Available-for-Sale Debt Securities*. For available-for-sale debt securities in an unrealized loss position, Arkansas Children's first evaluates whether it intends to sell, or more likely than not will be required to sell the security before recovery of its amortized cost basis. If either criterion is met, the security's amortized cost basis is reduced to fair value and recognized within other gain/loss on investments within the consolidated statement of operations.

For available-for-sale debt securities that management has no intention to sell and believes that it more likely than not will not be required to sell prior to recovery, Arkansas Children's determines if the decline in fair value is due to credit losses or other factors. In making the assessment of whether a loss is from credit or other factors, Arkansas Children's considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security is compared to the amortized cost basis of the security. Arkansas Children's uses an individual security-level, discounted cash flow model based on past events, current conditions, as well as reasonable and supportable forecasts of economic conditions. The single best estimate of projected cash flows is discounted at the security's effective interest rate.

If the present value of cash flows is less than the amortized cost basis, a credit loss exists and an allowance is recognized, limited by the amount that the fair value is less than the amortized cost basis. Any impairment not recorded through an allowance for credit loss is recorded directly to net assets.

Subsequent changes (favorable or unfavorable) in expected credit losses each period are recognized immediately in excess of revenues and gains over expenses and losses in the consolidated statement of operations as a credit loss expense or a reversal of credit loss expense. However, the allowance for credit losses cannot be reduced below zero. Any change in the allowance due to the passage of time is

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recognized as credit loss expense (benefit). Write-offs are charged against the allowance when amounts are deemed uncollectible.

Impairment for available-for-sale debt securities is determined on an individual security basis. Individual security means the level and method of aggregation used by the entity to measure realized and unrealized gains and losses on its debt securities.

(f) Assets Limited as to Use

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

(g) Inventories

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

(h) Costs of Borrowing

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

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

(i) Property, Plant, and Equipment

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

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

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June 30, 2024 and 2023

(j) Impairment of Long-lived Assets

The carrying value of long-lived assets (including property, plant, and equipment) are evaluated for impairment whenever events or changes in circumstances indicate that the net book value of an asset may not be recoverable from the estimated undiscounted future cash flows expected to result from its use and eventual disposition. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment is measured as the amount by which the carrying amount of the asset exceeds the fair value of the asset. As a result of Arkansas Children's review of long-lived assets, no impairments were recorded for the years ended June 30, 2024 and 2023.

(k) Gifts and Bequests

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

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

(l) Pledges Receivable

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

(m) Net Assets

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

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

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

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

(n) Endowments

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

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

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

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

(o) Income Taxes

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

Arkansas Children's applies FASB ASC Topic 740 (Topic 740), *Accounting for Uncertainty in Income Taxes*. Topic 740 clarifies the accounting for uncertainty in income tax positions and provides guidance on when tax positions are recognized in an entity's financial statements and how the values of these positions are determined. Management has analyzed the tax positions taken by Arkansas Children's and has concluded that as of June 30, 2024 and 2023, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the consolidated financial statements.

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

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

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

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

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

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(q) Consolidated Statements of Operations

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

(r) Fair Value Measurement

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The estimated fair value amounts have been determined by Arkansas Children's using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret market data and develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts Arkansas Children's could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

(s) Recently Adopted Accounting Standards

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

Arkansas Children's adopted ASU No. 2016-13 and its related ASUs (collectively referred to as Topic 326) effective July 1, 2023, using a modified retrospective transition approach. As a result, Arkansas Children's was not required to adjust its comparative period financial information for effects of the standard or make the new required credit loss allowance disclosures for periods before the date of adoption. Prior-period amounts continue to be presented in accordance with previously applicable GAAP. The adoption of the standard did not materially impact Arkansas Children's consolidated financial statements.

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(3) Liquidity and Availability

Financial assets available for general expenditure within one year of June 30, 2024 and 2023 include the following:

| | <u>2024</u> | <u>2023</u> |
|---|-------------------------|--------------------|
| Cash and cash equivalents | \$ 162,199,500 | 163,258,360 |
| Net patient accounts receivable | 128,235,629 | 111,147,352 |
| Other current receivables | 25,105,866 | 31,920,565 |
| Investments – at fair value | 631,400,344 | 517,666,365 |
| Estimated third-party payor settlements – current | <u>119,631,697</u> | <u>157,364,294</u> |
| | <u>\$ 1,066,573,036</u> | <u>981,356,936</u> |

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

(4) Other Current Receivables

The composition of other current receivables is as follows:

| | <u>2024</u> | <u>2023</u> |
|--------------------------------------|----------------------|-------------------|
| Supplemental Medicaid receivable | \$ 8,916,716 | 17,817,637 |
| Pledges receivable – current portion | 10,133,911 | 9,095,164 |
| Grant receivables | 7,434,317 | 8,244,950 |
| Other receivables | <u>16,189,150</u> | <u>14,101,929</u> |
| | <u>\$ 42,674,094</u> | <u>49,259,680</u> |

(5) Net Patient Service Revenue and Charity Care

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

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

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depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. For patients in the hospital receiving inpatient acute care services, Arkansas Children's measures the performance obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. For patients receiving outpatient services, the performance obligation is measured over the duration of the outpatient procedure. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided and Arkansas Children's does not believe it is required to provide additional goods or services to the patient.

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

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

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

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

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various healthcare organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations

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entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge Arkansas Children's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon Arkansas Children's. In addition, the contracts Arkansas Children's has with commercial payors also provide for retroactive audit and review of claims.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. Arkansas Children's also provides services to uninsured patients, and offers those uninsured patients a discount, by policy, from standard charges. Arkansas Children's estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Adjustments arising from a change in the transaction price were not significant in 2024 or 2023.

(a) Net Patient Service Revenue

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

Patient service revenue at established rates less third-party payor contractual allowances and implicit price concessions for the years ended June 30, 2024 and 2023, consisted of the following:

| | <u>2024</u> | <u>2023</u> |
|--|-----------------------|----------------------|
| Patient service revenue | \$ 1,705,848,543 | 1,615,680,172 |
| Less contractual allowances and implicit price concessions | <u>(835,659,737)</u> | <u>(774,488,690)</u> |
| Net patient service revenue | <u>\$ 870,188,806</u> | <u>841,191,482</u> |

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

Arkansas Children's net patient service revenues were derived from the following payor sources for the years ended June 30, 2024 and 2023, and are as follows:

| | <u>2024</u> | <u>2023</u> |
|--------------------------|--------------|--------------|
| Medicaid and Medicare | 56.2 % | 58.8 % |
| Other third-party payors | 43.5 | 41.0 |
| Patients | <u>0.3</u> | <u>0.2</u> |
| | <u>100 %</u> | <u>100 %</u> |

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The composition of net patient service revenue based on Arkansas Children's lines of business for the years ended June 30, 2024 and 2023 is as follows:

| | 2024 | 2023 |
|-------------------|----------------|-------------|
| Inpatient | \$ 507,187,208 | 487,943,730 |
| Outpatient | 324,394,148 | 316,449,161 |
| Professional fees | 38,607,450 | 36,798,591 |
| | \$ 870,188,806 | 841,191,482 |

(b) Estimated Third-Party Payor Settlements

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

Arkansas Children's provides care to patients under Medicaid, Medicare, and other contractual arrangements. Certain inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed by the State of Arkansas based on an allowable cost reimbursement methodology. Regulations require annual retroactive settlements for these costs based on cost reports filed by Arkansas Children's. These net settlements are estimated and recorded in the consolidated financial statements in the year the service is provided. The estimated net settlements at June 30, 2024, for open cost report periods from 2020 to the current year is \$194,289,873, net of a reserve of \$37,843,658, which could differ from actual settlements. Of the total net receivable of \$194,289,873 recorded as of June 30, 2024, \$74,658,176 is considered noncurrent and is, therefore, included in other noncurrent assets in the accompanying 2024 consolidated balance sheet. The estimated net settlements at June 30, 2023, for open cost report periods from 2019 to 2023 was \$207,161,323, net of a reserve of \$31,256,392, which could differ from actual settlements. Of the total net receivable of \$207,161,323 recorded as of June 30, 2023, \$49,797,029 was considered noncurrent and was, therefore, included in other noncurrent assets in the accompanying 2023 consolidated balance sheet. ACH's Medicaid cost reports for fiscal years ended June 30, 2020, 2021, 2022, 2023 and 2024 are pending audit by the Medicaid fiscal intermediary. Any differences between estimated settlements and actual settlements will be recorded in the year the cost report is settled by the intermediary, typically after the fiscal intermediary's audit, or when information is available to management that a change in the estimate is warranted. During the years ended June 30, 2024 and 2023, the net patient service revenue in the accompanying consolidated statements of operations increased by approximately \$2,600,000 and \$6,300,000, respectively, as a result of changes to prior year estimates from final Medicaid settlements and changes in management estimates for related reserves.

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(c) Supplemental Medicaid Reimbursement

State Medicaid programs incur costs for payments to healthcare providers that provide medical services to Medicaid recipients, and the federal government pays a portion of those costs to each state based on a formula. Under these federal rules, states are permitted to pay hospitals up to a reasonable estimate of the amount that would have been paid using Medicare payment principles. This is known as the upper payment limit (UPL). The amount of supplemental Medicaid reimbursement recorded as revenue, gains, and other support for the years ended June 30, 2024 and 2023, was approximately \$45,300,000 and \$45,000,000, respectively.

(d) Charity Care

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

Records are maintained to identify and monitor the level of charity care Arkansas Children's provides. These records include the amount of gross charges foregone for services under its charity care policy. Arkansas Children's estimated cost of caring for charity care patients for the years ended June 30, 2024 and 2023, was approximately \$18,500,000 and \$19,400,000, respectively. Subsequent to year-end, Arkansas Children's performs a cost accounting analysis to calculate the cost of service per type of procedure. The 2024 cost will be calculated based on the audited financial statement data; therefore, it was not available at the time of the issuance of the consolidated financial statements in order to disclose the 2024 amount. Therefore, Arkansas Children's calculated the 2024 charity cost by using the 2023 actual allocated cost to charge ratio for charity care adjusted for overall changes in the current year cost profile and applying it to current year charity care charges.

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

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(6) Investments and Assets Limited as to Use

At June 30, 2024 and 2023, investments and assets limited as to use consisted of the following:

| | <u>2024</u> | <u>2023</u> |
|--|-----------------------|--------------------|
| Investments | \$ 631,400,344 | 517,666,365 |
| Assets limited as to use: | | |
| Board-designated investments | \$ 296,803,502 | 279,746,118 |
| Restricted cash for self-insurance funding arrangements | 2,702,154 | 1,312,981 |
| Restricted cash equivalent held by trustee under bond agreements | 36,223,317 | — |
| Restricted investments: | | |
| Endowments with donor restrictions | 144,961,470 | 130,657,294 |
| Other investments with donor restrictions | 1,138,261 | 1,174,411 |
| Other investments for self-insurance funding arrangements | 3,080,311 | 3,053,296 |
| Investments held by trustee under bond agreements | <u>104,642,061</u> | <u>137,482,749</u> |
| Total assets limited as to use | 589,551,076 | 553,426,849 |
| Less amounts classified as current | <u>(12,667,754)</u> | <u>(9,703,200)</u> |
| Assets limited as to use – noncurrent | <u>\$ 576,883,322</u> | <u>543,723,649</u> |

Included with the investments and assets limited as to use balances disclosed above are US government obligations of approximately \$665,254,000 and \$551,602,000 as well as federal government obligation mutual funds of approximately \$140,865,000 and \$137,483,000, which are considered available for sale (AFS) as of June 30, 2024 and 2023, respectively. These investments are managed internally and are not actively traded. The remaining amounts within the investments and assets limited as to use above are externally managed and are actively traded.

Maturities of debt securities classified as AFS were as follows at June 30, 2024 and 2023:

| | <u>June 30, 2024</u> | | <u>June 30, 2023</u> | |
|--|------------------------|--------------------|------------------------|--------------------|
| | <u>Carrying amount</u> | <u>Fair value</u> | <u>Carrying amount</u> | <u>Fair value</u> |
| Due within one year | \$ 212,279,215 | 211,504,987 | 148,848,630 | 147,505,885 |
| Due after one year through five years | 465,619,509 | 439,545,805 | 453,099,240 | 421,224,003 |
| Due after five years through ten years | 158,267,884 | 155,068,867 | 125,619,695 | 120,355,117 |
| | <u>\$ 836,166,608</u> | <u>806,119,659</u> | <u>727,567,565</u> | <u>689,085,005</u> |

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The carrying amount, gross unrealized holding gains (losses), gross unrealized holding (losses), and fair value of AFS debt securities by major security type and class of security at June 30, 2024 and 2023 were as follows:

| | <u>Amortized cost basis</u> | <u>Unrealized holding gains</u> | <u>Unrealized holding (losses)</u> | <u>Allowance for credit losses</u> | <u>Aggregate fair value</u> |
|-----------------------------|-------------------------------------|---|--|--|---------------------------------|
| At June 30, 2024: | | | | | |
| U.S. Government obligations | \$ 696,660,265 | 9,906,728 | (41,312,712) | — | 665,254,281 |
| Mutual funds | <u>139,506,343</u> | <u>1,359,035</u> | <u>—</u> | <u>—</u> | <u>140,865,378</u> |
| Total | <u>\$ 836,166,608</u> | <u>11,265,763</u> | <u>(41,312,712)</u> | <u>—</u> | <u>806,119,659</u> |
| At June 30, 2023: | | | | | |
| U.S. Government obligations | \$ 590,084,816 | 4,564,017 | (43,046,577) | — | 551,602,256 |
| Mutual funds | <u>137,482,749</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>137,482,749</u> |
| Total | <u>\$ 727,567,565</u> | <u>4,564,017</u> | <u>(43,046,577)</u> | <u>—</u> | <u>689,085,005</u> |

For federal government obligations classified as AFS, Arkansas Children's does not record an allowance for credit losses (ACL) because the decline in fair value below amortized cost is not related to credit losses.

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

Funds held by trustee under bond indenture agreements as of June 30, 2024 and 2023, were invested in federal government obligations, which are mutual funds backed by US Treasury securities, State and Local Government Series (SLGS) and US Treasury securities and consisted of the following:

| | <u>2024</u> | <u>2023</u> |
|--|-----------------------|--------------------|
| Series 2016 Refunding Bond Fund (ACH) | \$ 2,580,791 | 2,490,326 |
| Series 2016 Bond Fund (ACNW) | 1,829,613 | 1,783,168 |
| Series 2023 Bond Fund Construction (ACH) | 133,590,844 | 133,209,255 |
| Series 2023 Bond Fund (ACH) | <u>2,864,130</u> | <u>—</u> |
| Total | <u>\$ 140,865,378</u> | <u>137,482,749</u> |

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(7) Property, Plant, and Equipment, net

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

| | <u>2024</u> | <u>2023</u> |
|-------------------------------------|-----------------------|----------------------|
| Land and improvements | \$ 47,393,376 | 47,261,660 |
| Buildings | 561,075,975 | 550,403,813 |
| Equipment | 289,957,788 | 274,653,654 |
| Construction in progress | <u>30,034,463</u> | <u>9,943,780</u> |
| Total property, plant and equipment | 928,461,602 | 882,262,907 |
| Less accumulated depreciation | <u>(556,116,660)</u> | <u>(507,611,829)</u> |
| Property, plant, and equipment, net | <u>\$ 372,344,942</u> | <u>374,651,078</u> |

Construction in progress as of June 30, 2024 primarily consists of routine replacement and expansion projects at various Arkansas Children's facilities. The estimated total remaining cost to complete these projects as of June 30, 2024 is approximately \$385,933,263. Depreciation expense was \$49,306,333 and \$49,855,193 in 2024 and 2023, respectively.

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(8) Long-Term Debt

A summary of long-term debt as of June 30, 2024 and 2023, is as follows:

| | <u>2024</u> | <u>2023</u> |
|---|-----------------------|--------------------|
| Arkansas Development Finance Authority Revenue Bonds Series 2013, due in amounts of \$45,947 on October 1 and November 1, 2013 and \$184,074 on the first day of each successive month thereafter through September 2023, bearing interest at a fixed rate of 1.95%, collateralized by certain equipment | \$ — | 481,678 |
| Pulaski County, Arkansas Hospital Revenue Refunding Bonds, Series 2016, due in variable amounts through March 1, 2039, bearing interest at fixed rates ranging from 2% to 5%, collateralized by ACH revenues | 80,985,000 | 84,670,000 |
| City of Springdale Public Facilities Board Hospital Revenue Bonds, Series 2016 (Arkansas Children's Northwest Project), due in variable amounts through March 1, 2036, bearing interest at fixed rates ranging from 2% to 5%, collateralized by Arkansas Children's revenue | 59,225,000 | 61,770,000 |
| Pulaski County, Arkansas Hospital Revenue Bonds, Series 2023, due in variable amounts through March 1, 2053, bearing interest at rates ranging from 2% to 5%, collateralized by Arkansas Children's revenue | <u>126,875,000</u> | <u>128,150,000</u> |
| | 267,085,000 | 275,071,678 |
| Plus unamortized premium | 13,903,169 | 14,455,447 |
| Less unamortized bond issuance costs | <u>(2,087,203)</u> | <u>(2,163,625)</u> |
| Total | 278,900,966 | 287,363,500 |
| Less amounts due within one year | <u>(8,600,000)</u> | <u>(7,986,678)</u> |
| Long-term debt less current maturities | <u>\$ 270,300,966</u> | <u>279,376,822</u> |

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

| | | | |
|------------|--|----|--------------------|
| 2025 | | \$ | 8,600,000 |
| 2026 | | | 9,030,000 |
| 2027 | | | 9,340,000 |
| 2028 | | | 9,805,000 |
| 2029 | | | 10,270,000 |
| Thereafter | | | <u>220,040,000</u> |
| Total | | \$ | <u>267,085,000</u> |

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

(9) Net Assets with Donor Restrictions

Net assets with donor restrictions at June 30, 2024 and 2023, are available for the following:

| | | <u>2024</u> | <u>2023</u> |
|--|----|--------------------|--------------------|
| Healthcare services: | | | |
| Capital expenditures | \$ | 3,898,412 | 1,469,427 |
| Arkansas Children's Northwest | | 4,348,018 | 9,469,535 |
| Research funding | | 7,740,874 | 9,355,140 |
| Land receivable | | 6,590,000 | 6,590,000 |
| Pine Bluff Clinic | | 558,938 | 1,443,243 |
| ACH Expansion | | 2,325,920 | 6,410 |
| ACNW Expansion | | 27,964,561 | 19,574,096 |
| Other spendable gifts, trusts, and pledges | | 52,766,407 | 54,337,229 |
| Endowments with donor restrictions | | <u>144,961,470</u> | <u>130,657,294</u> |
| Total | \$ | <u>251,154,600</u> | <u>232,902,374</u> |

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

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

During 2024 and 2023, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes in the amount of \$16,398,598 and \$12,633,548, respectively. In addition, net assets

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were released from donor restrictions and used for the purchase of property and equipment in the amount of \$6,361,629 and \$3,147,821 for June 30, 2024 and 2023, respectively.

(a) Endowment Net Assets

The following table summarizes the changes in endowment net assets for the fiscal years ended June 30, 2024 and 2023:

| | Without donor restrictions – board designated | With donor restrictions | Total |
|---|--|------------------------------------|--------------------|
| Endowment net assets, June 30, 2022 | \$ 269,126,693 | 121,603,173 | 390,729,866 |
| Investment return: | | | |
| Investment income | 5,643,137 | 1,973,027 | 7,616,164 |
| Net gains (realized and unrealized) | <u>9,309,769</u> | <u>5,284,356</u> | <u>14,594,125</u> |
| Total investment return | 14,952,906 | 7,257,383 | 22,210,289 |
| Contributions | — | 4,577,108 | 4,577,108 |
| Transfers | — | 162,658 | 162,658 |
| Appropriation of endowment asset for expenditures | <u>(4,333,481)</u> | <u>(2,943,028)</u> | <u>(7,276,509)</u> |
| Endowment net assets, June 30, 2023 | 279,746,118 | 130,657,294 | 410,403,412 |
| Investment return: | | | |
| Investment income | 5,929,821 | 2,266,719 | 8,196,540 |
| Net gains (realized and unrealized) | <u>15,549,156</u> | <u>11,505,999</u> | <u>27,055,155</u> |
| Total investment return | 21,478,977 | 13,772,718 | 35,251,695 |
| Contributions | — | 3,533,522 | 3,533,522 |
| Transfers | — | 140,599 | 140,599 |
| Appropriation of endowment asset for expenditures | <u>(4,421,593)</u> | <u>(3,142,663)</u> | <u>(7,564,256)</u> |
| Endowment net assets, June 30, 2024 | <u>\$ 296,803,502</u> | <u>144,961,470</u> | <u>441,764,972</u> |

(10) Insurance and Legal

Arkansas Children's is self-insured with respect to claims paid for employee healthcare. Estimates of health claims incurred but unpaid as of June 30, 2024 and 2023 are accrued based on Arkansas Children's past experience, as well as other considerations including the nature of claims and relevant trends. As of June 30, 2024, and 2023, Arkansas Children's has accrued a liability in the accrued expenses and other liabilities caption within the accompanying consolidated balance sheets for estimated incurred but unpaid claims of approximately \$2,585,000 and \$2,117,000, respectively. The expenses related to claims paid during the years ended June 30, 2024 and 2023, were approximately \$24,461,000 and \$23,615,000,

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respectively, and are included in employee benefits expense. Arkansas Children's maintains stop-loss insurance coverage with respect to the employer share of medical insurance claim costs. Under the terms of the stop-loss insurance plan, the stop-loss insurance carrier is to reimburse 100% of the cost of each covered person's paid claims in excess of \$750,000 for both plan years ended June 30, 2024 and 2023, with no maximum annual benefit per person; however, a plan level deductible called an "aggregating specific deductible" must be satisfied by the whole group medical insurance plan before any reimbursements are paid to Arkansas Children's by the stop-loss carrier for an individual stop-loss claim. The plan level aggregating specific deductible amount was \$70,000 for the fiscal years ended June 30, 2024 and 2023. The purpose of the aggregating specific deductible is to reduce annual fixed stop-loss premium costs during the plan year where the group medical insurance plan experiences low volume or no high dollar medical claims.

SCV, a captive insurance company, was formed to provide professional and general liability and workers' compensation insurance coverage to Arkansas Children's effective July 1, 2018. All claims incurred from July 1, 2018 forward are covered under the captive, and the tail coverage liability deductible for professional and general liability claims incurred but not reported prior to July 1, 2018 remains \$25,000. Under the terms of the captive, coverage for professional and general liability is \$2,000,000 and \$1,000,000, respectively, indemnity and expense limit on a mature claims made basis. Workers' compensation coverage is limited to \$500,000 per claim. An estimated liability of \$5,689,000 and \$290,000 was accrued in the accrued expenses and other liabilities caption within the consolidated balance sheet as of June 30, 2024 for professional and general liability and workers' compensation insurance coverage, respectively. An estimated liability of \$2,729,000 and \$265,000 was accrued in the accrued expenses and other liabilities caption within the consolidated balance sheet as of June 30, 2023 for professional and general liability and workers' compensation insurance coverage, respectively. Arkansas Children's carries umbrella liability policies in the amount of \$20,000,000 to cover professional and general liability claims in excess of \$2,000,000 and \$1,000,000, respectively. Arkansas Children's also maintains excess workers' compensation coverage, which will reimburse 100% of the cost of each employee's claim in excess of \$500,000.

Arkansas Children's maintains Directors & Officers liability insurance with estimated liabilities of approximately \$130,000 and \$40,000 accrued at June 30, 2024 and 2023, respectively, for deductibles.

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

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

(11) Employee Benefit Plans

Arkansas Children's has a 403(b) plan for the benefit of substantially all of its employees. Employer contributions are made based on the employee's respective contributions and are vested based on the years of service of the individual employees. Plan expense recorded in employee benefits expense in the

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accompanying consolidated statements of operations was approximately \$9,295,000 and \$7,702,000 for the years ended June 30, 2024 and 2023, respectively.

Arkansas Children's has a defined contribution retirement plan covering substantially all employees meeting certain eligibility requirements. Employer contributions to the plan are made at the discretion of the Arkansas Children's Board of Directors. Arkansas Children's made contributions of 2% of eligible employees' compensation for fiscal years 2024 and 2023. Contributions accrued for the plan for the years ended June 30, 2024 and 2023, were approximately \$5,153,000 and \$4,321,000, respectively, with the related liability included in accrued expenses and other liabilities in the accompanying consolidated balance sheets.

Arkansas Children's has a nonqualified deferred compensation plan under IRC Section 457(b). Arkansas Children's reports a liability in accrued expenses and other liabilities in the accompanying consolidated balance sheets with a corresponding investment asset of approximately \$5,375,000 and \$4,395,000 as of June 30, 2024 and 2023, respectively. The assets in the plan remain the property of the employer until paid or made available to participants, subject only to the claims of Arkansas Children's general creditors.

Arkansas Children's established a nonqualified deferred compensation plan under IRC Section 457(f) effective June 30, 2014. The plan is a defined contribution plan, which covers certain executive employees. The net expense charged to earnings for fiscal years 2024 and 2023 was approximately \$787,000 and \$790,000, respectively, with the related liability included in accrued expenses and other liabilities in the accompanying consolidated balance sheets. The expense is generally calculated based on a percentage of the annual base pay of the covered executive employees plus an amount of interest as determined in the plan.

(12) Related-Party Transactions

Several Arkansas Children's board members are employed by the University of Arkansas for Medical Sciences (UAMS). During the years ended June 30, 2024 and 2023, contracts for professional services between Arkansas Children's and UAMS resulted in Arkansas Children's incurring expenses of approximately \$111,258,000 and \$101,645,000, respectively, to UAMS. During the years ended June 30, 2024 and 2023, Arkansas Children's also recorded revenue of approximately \$5,716,000 and \$5,551,000, respectively, from UAMS. In addition, ACH bills and collects physician outpatient professional fees for patient care performed at ACH and ACNW, which resulted in ACH and ACNW recording approximately \$29,634,000 of net revenue for the fees billed with approximately \$28,079,000 of collected fees, net of expenses, being remitted to UAMS for the year ended June 30, 2024, and approximately \$27,481,000 of net revenue for the fees billed with approximately \$26,012,000 of collected fees, net of expenses, being remitted to UAMS for the year ended June 30, 2023. As of June 30, 2024, and 2023, the Arkansas Children's payable due to UAMS was approximately \$9,091,000 and \$14,255,000, respectively. As of June 30, 2024, and 2023, the Arkansas Children's receivable due from UAMS was approximately \$411,000 and \$595,000, respectively.

During the years ended June 30, 2024 and 2023, Arkansas Children's also paid approximately \$18,673,000 and \$7,286,000, respectively, to a company affiliated with a member of the ACF Board of Directors for construction projects. During the years ended June 30, 2024 and 2023, Arkansas Children's paid approximately \$1,311,000 and \$1,221,000, respectively, for goods and services from various other related parties.

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

(13) Fair Value Hierarchy of Financial Instruments

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

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

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

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

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

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

Pledge receivables are reported at the net present value of expected future cash flows. Pledge receivables were \$44,171,938 and \$40,470,768 as of June 30, 2024 and 2023, respectively, and have not been included in the fair value tables that follow as these assets are carried at the net present value of expected future cash flows.

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The following tables set forth, by level within the fair value hierarchy, a summary of Arkansas Children's assets measured at fair value on a recurring basis at June 30, 2024 and 2023.

| | Fair value measurements at June 30, 2024 | | | |
|--|---|--|--|--------------|
| | Quoted prices in active markets for identical assets (Level 1) | Other observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total |
| Investments and assets limited as to use: | | | | |
| Cash restricted for self-insurance | \$ 2,702,154 | — | — | 2,702,154 |
| US government obligations | — | 675,593,206 | — | 675,593,206 |
| Corporate stocks: | | | | |
| Consumer staples | 19,446,124 | — | — | 19,446,124 |
| Consumer discretionary | 13,131,134 | — | — | 13,131,134 |
| Energy | 28,815,094 | — | — | 28,815,094 |
| Financials | 50,082,795 | — | — | 50,082,795 |
| Healthcare | 30,365,871 | — | — | 30,365,871 |
| Industrials | 31,540,710 | — | — | 31,540,710 |
| Information technology | 63,450,044 | — | — | 63,450,044 |
| Materials | 21,997,881 | — | — | 21,997,881 |
| Telecommunication services | 21,036,153 | — | — | 21,036,153 |
| Utilities | 4,594,470 | — | — | 4,594,470 |
| Real estate | 2,548,425 | — | — | 2,548,425 |
| Other | 119,010 | — | — | 119,010 |
| Mutual funds: | | | | |
| Equities | 52,093,119 | — | — | 52,093,119 |
| Federal government obligations | 140,865,378 | — | — | 140,865,378 |

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Fair value measurements at June 30, 2024

| | Quoted prices in active markets for identical assets (Level 1) | Other observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total |
|---|---|--|--|----------------------|
| Corporate debt: | | | | |
| Banks | \$ — | 12,113,216 | — | 12,113,216 |
| Consumer goods | — | 11,194,811 | — | 11,194,811 |
| Energy power | — | 2,882,570 | — | 2,882,570 |
| Energy company | — | 2,926,536 | — | 2,926,536 |
| Industrials | — | 2,093,369 | — | 2,093,369 |
| Other financials | — | 2,882,570 | — | 2,882,570 |
| Technology | — | 6,659,747 | — | 6,659,747 |
| Telephone | — | 4,939,296 | — | 4,939,296 |
| Transportation | — | 296,472 | — | 296,472 |
| Healthcare | — | 1,464,503 | — | 1,464,503 |
| Other | — | 1,293,049 | — | 1,293,049 |
| Agencies | — | 13,623,320 | — | 13,623,320 |
| Certificates of deposit | — | 200,393 | — | 200,393 |
| Total investments and assets limited as to use | \$ 482,788,362 | 738,163,058 | — | 1,220,951,420 |
| Other noncurrent assets: | | | | |
| Mineral interests | \$ — | 499,000 | — | 499,000 |

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| Fair value measurements at June 30, 2023 | | | | |
|---|---|--|--|-------------|
| | Quoted prices in active markets for identical assets (Level 1) | Other observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total |
| Investments and assets limited as to use: | | | | |
| Cash restricted for self-insurance | \$ 1,312,981 | — | — | 1,312,981 |
| US government obligations | — | 562,352,580 | — | 562,352,580 |
| Corporate stocks: | | | | |
| Consumer staples | 19,127,630 | — | — | 19,127,630 |
| Consumer discretionary | 14,035,796 | — | — | 14,035,796 |
| Energy | 26,249,898 | — | — | 26,249,898 |
| Financials | 42,788,388 | — | — | 42,788,388 |
| Healthcare | 31,252,556 | — | — | 31,252,556 |
| Industrials | 29,973,507 | — | — | 29,973,507 |
| Information technology | 52,916,675 | — | — | 52,916,675 |
| Materials | 24,500,495 | — | — | 24,500,495 |
| Telecommunication services | 16,152,438 | — | — | 16,152,438 |
| Utilities | 3,994,587 | — | — | 3,994,587 |
| Real estate | 2,516,080 | — | — | 2,516,080 |
| Other | 269,737 | — | — | 269,737 |
| Mutual funds: | | | | |
| Equities | 46,904,313 | — | — | 46,904,313 |
| Federal government obligations | 137,482,749 | — | — | 137,482,749 |

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

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(14) Functional Expense

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

| | 2024 | | | | | | | |
|------------------------------|-----------------------|-------------------|-----------------------|----------------------------|-------------------------|-------------------|-------------------|--------------------|
| | Program activities | | Supporting activities | | | | | |
| | Healthcare services | Research | Total program | General and administrative | Non-Healthcare services | Fundraising | Total supporting | Total |
| Salaries and wages | \$ 363,080,806 | 25,462,508 | 388,543,314 | 21,622,993 | 21,936 | 5,679,455 | 27,324,384 | 415,867,698 |
| Employee benefits | 65,194,338 | 5,426,906 | 70,621,244 | 4,236,087 | 4,607 | 1,151,398 | 5,392,092 | 76,013,336 |
| Supplies and pharmaceuticals | 167,869,708 | 3,153,124 | 171,022,832 | 404,384 | 2,275 | 406,895 | 813,554 | 171,836,386 |
| Professional fees | 122,319,108 | 10,483 | 122,329,591 | 1,383 | — | 276 | 1,659 | 122,331,250 |
| Purchased services | 100,279,626 | 13,668,932 | 113,948,558 | 4,763,393 | 122,876 | 1,939,631 | 6,825,900 | 120,774,458 |
| Depreciation | 44,789,872 | 3,514,799 | 48,304,671 | 919,817 | — | 146,384 | 1,066,201 | 49,370,872 |
| Interest | 6,211,910 | 55,204 | 6,267,114 | 20,209 | — | 136,265 | 156,474 | 6,423,588 |
| Utilities | 5,280,594 | 631,644 | 5,912,238 | 169,341 | — | 51,228 | 220,569 | 6,132,807 |
| Insurance | 799,432 | 2,500 | 801,932 | 3,844,315 | 3,591,754 | — | 7,436,069 | 8,238,001 |
| Other | 13,373,303 | 1,565,324 | 14,938,627 | 1,701,494 | 54,235 | 755,499 | 2,511,228 | 17,449,855 |
| Total | \$ 889,198,697 | 53,491,424 | 942,690,121 | 37,683,416 | 3,797,683 | 10,267,031 | 51,748,130 | 994,438,251 |

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| | 2023 | | | Supporting activities | | |
|------------------------------|-----------------------|-------------------|--------------------|----------------------------|---------------------|--------------------|
| | Program activities | | Non- | Supporting activities | | Total |
| | Healthcare services | Research | Total program | General and administrative | Healthcare services | Total supporting |
| Salaries and wages | \$ 359,052,134 | 21,941,115 | 380,993,249 | 20,227,149 | 20,422 | 25,061,289 |
| Employee benefits | 60,690,377 | 4,886,036 | 65,576,413 | 3,969,489 | 4,289 | 4,948,717 |
| Supplies and pharmaceuticals | 152,083,587 | 3,610,681 | 155,694,268 | 405,897 | 2,275 | 769,613 |
| Professional fees | 112,740,725 | 7,871 | 112,748,596 | 2,162 | — | 2,575 |
| Purchased services | 92,990,210 | 9,138,566 | 102,128,776 | 4,507,520 | 118,955 | 6,839,967 |
| Depreciation | 45,802,260 | 3,195,169 | 48,997,429 | 806,074 | — | 933,719 |
| Interest | 6,363,583 | 54,244 | 6,417,827 | 17,085 | — | 149,542 |
| Utilities | 5,676,954 | 665,155 | 6,342,109 | 185,642 | — | 241,024 |
| Insurance | 577,912 | 10,247 | 588,159 | 3,361,371 | 870,244 | 4,231,615 |
| Other | 11,829,235 | 1,116,151 | 12,945,386 | 1,566,785 | 56,459 | 2,239,565 |
| Total | \$ 847,806,977 | 44,625,235 | 892,432,212 | 35,049,174 | 1,072,644 | 45,417,626 |
| | | | | | | 937,849,838 |

The consolidated financial statements report certain categories of expenses that are attributable to more than one function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The allocations are primarily based on total revenues and full-time equivalent employees of the related program activities, supporting activities, and fundraising. Fundraising expenses functional classification in the tables above differs from its natural classification on the statement of operations by \$1,147,162 and \$1,013,847 as of June 30, 2024 and 2023, respectively, due to the aforementioned allocations.

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(15) Commitments and Contingencies

(a) Federal Awards

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

(b) Leases

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

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

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

Operating lease expense for the years ended June 30, 2024 and 2023 was approximately \$4,190,000 and \$3,900,000, respectively. The undiscounted future lease payments under noncancelable operating

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leases and reconciliation to the corresponding liability included in the accompanying 2024 consolidated balance sheet follow:

| | | | | |
|------------------------------------|----|--------------------------|--|--|
| Year ending June 30: | | | | |
| 2025 | \$ | 2,617,738 | | |
| 2026 | | 2,400,907 | | |
| 2027 | | 2,091,465 | | |
| 2028 | | 1,942,763 | | |
| 2029 | | 1,339,168 | | |
| Thereafter | | <u>9,955,249</u> | | |
| Total lease payments | | 20,347,290 | | |
| Less interest | | <u>(5,550,192)</u> | | |
| Present value of lease liabilities | \$ | <u><u>14,797,098</u></u> | | |

At June 30, 2024, the weighted-average remaining lease term is 10.39 years and the weighted average discount rate is 6.28%. At June 30, 2023, the weighted-average remaining lease term was 8.57 years and the weighted average discount rate was 3.44%.

(16) Donor-Restricted Gifts and Pledges Receivable

Amounts of net pledges receivable (at net present value discounted at a rate of 8.25% and 4.75% for the years ended June 30, 2024 and 2023, respectively) as of June 30, 2024 and 2023 are as follows:

| | | <u>2024</u> | <u>2023</u> |
|-----------------------------|----|---|---|
| | | Net pledges receivable with donor restrictions | Net pledges receivable with donor restrictions |
| Due in less than one year | \$ | 10,133,911 | 9,095,164 |
| Due in one to five years | | 19,984,727 | 20,007,826 |
| Due in more than five years | | <u>1,030,401</u> | <u>331,431</u> |
| Total | \$ | <u><u>31,149,039</u></u> | <u><u>29,434,421</u></u> |

Land receivable, valued at \$6,590,000 included in pledges receivable as of June 30, 2024 and 2023, is not shown above as the various properties are held in trust for an expected period of between 10 to 25 years.

ARKANSAS CHILDREN'S

Notes to Consolidated Financial Statements

June 30, 2024 and 2023

Maturities of trusts receivable are not shown above as the maturities of these receivables are dependent upon the life expectancies of the related income beneficiaries. Pledges receivable include donor-restricted trust receivables (at net present value), which totaled approximately \$6,433,000 and \$4,446,000 at June 30, 2024 and 2023, respectively.

The allowance for uncollectible pledges receivable totaled approximately \$556,000 and \$401,000 as of June 30, 2024 and 2023, respectively. The discount relating to pledges receivable totaled approximately \$4,454,000 and \$3,220,000 as of June 30, 2024 and 2023, respectively.

(17) Subsequent Events

Arkansas Children's has evaluated subsequent events through October 24, 2024, the date on which the consolidated financial statements were issued, and determined that there are no subsequent events identified that would warrant any adjustments, or disclosure in, the consolidated financial statements.



ARKANSAS CHILDREN'S

Single Audit Reports

June 30, 2024

ARKANSAS CHILDREN'S

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

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

The Board of Directors
Arkansas Children's:

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 Arkansas Children's, which comprise the Arkansas Children's consolidated balance sheet as of June 30, 2024, and the related consolidated statement of operations, changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 24, 2024.

Report on Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity'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 Arkansas Children's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



Purpose of This Report

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

KPMG LLP

Memphis, Tennessee
October 24, 2024



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

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

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Arkansas Children's compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of Arkansas Children's major federal programs for the year ended June 30, 2024. Arkansas Children's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, Arkansas Children's complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2024.

Basis for Opinion on Each Major Federal Program

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

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

Responsibilities of Management for Compliance

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



Auditors' Responsibilities for the Audit of Compliance

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

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

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

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

Report on Internal Control Over Compliance

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, Schedule of Expenditures of State of Arkansas Financial Assistance and Schedule of Units of Service Required by the State of Arkansas

We have audited the consolidated financial statements of Arkansas Children's as of and for the year ended June 30, 2024, and have issued our report thereon dated October 24, 2024, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards and the accompanying schedule of State of Arkansas financial assistance are presented for purposes of additional analysis as required by Uniform Guidance and the State of Arkansas, respectively, and are 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 and the schedule of expenditures of State of Arkansas financial assistance are fairly stated in all material respects in relation to the consolidated financial statements as a whole.

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

KPMG LLP

Memphis, Tennessee
December 17, 2024

ARKANSAS CHILDREN'S
Schedule of Expenditures of Federal Awards
Year ended June 30, 2024

| Federal Grant/Pass-Through Grant/Program or Cluster Title | Assistance listing number | Pass-through Entity | Pass-through entity identifying number | Expenditures recognized | Amounts passed through to subrecipients |
|--|---------------------------|--|--|-------------------------|---|
| Research and Development Cluster: U.S. Department of Agriculture: Agricultural Research Basic and Applied Research | 10.001 | | | \$ (8,177) | — |
| Agricultural Research Basic and Applied Research | 10.001 | | | 9,926,337 | 73,959 |
| Agricultural Research Basic and Applied Research | 10.001 | | | (21,188) | — |
| Agricultural Research Basic and Applied Research | 10.001 | | | 53,443 | — |
| Agricultural Research Basic and Applied Research | 10.001 | | | 53,440 | — |
| Total for Program | | | | 10,009,900 | 73,959 |
| Agriculture and Food Research Initiative (AFRI) | 10.310 | | | 91,312 | — |
| Agriculture and Food Research Initiative (AFRI) | 10.310 | | | 37,465 | — |
| Agriculture and Food Research Initiative (AFRI) | 10.310 | National Institute of Food and Agriculture | 2022-0884-01 | 34,211 | — |
| Total for Program | | | | 162,988 | — |
| Total U.S. Department of Agriculture | | | | 10,172,788 | 73,959 |
| U.S. Department of Defense: Military Medical Research and Development | 12.420 | Boston Children's | None Identified | 16,784 | — |
| Total U.S. Department of Defense | | | | 16,784 | — |
| National Science Foundation: Social, Behavioral, and Economic Sciences | 47.075 | | | 59,001 | — |
| Total National Science Foundation | | | | 59,001 | — |
| U.S. Department of Health and Human Services: Centers for Disease Control and Prevention: Birth Defects and Developmental Disabilities-Prevention and Surveillance | 93.073 | UAMS | None Identified | 54,460 | — |
| Agency for Healthcare Research and Quality: Research on Healthcare Costs, Quality and Outcomes | 93.226 | The Children's Hospital of Philadelphia | 00003489 | 3,822 | — |
| Administration for Children and Families: Every Student Succeeds Act | 93.434 | University of Arkansas | 4600044192 | 61,952 | 39,021 |
| National Institutes of Health: Environmental Health | 93.113 | | | 36,605 | — |
| Environmental Health | 93.113 | | | 155,079 | — |
| Total for Program | | | | 191,684 | — |
| Oral Diseases and Disorders Research | 93.121 | University of Florida | 0003477 | 20,173 | — |
| Oral Diseases and Disorders Research | 93.121 | University of Iowa | S03771 | (1,619) | — |
| Total for Program | | | | 18,554 | — |
| Research Related to Deafness and Communication Disorders | 93.173 | Boystown | GRT-00280 | 13,631 | — |
| Research and Training in Complementary and Integrative Health | 93.213 | University of Utah | 10049254-ACRI | 11,324 | — |
| Research and Training in Complementary and Integrative Health | 93.213 | Mount Sinai | 0255-D968-4629 | 42,010 | — |
| Total for Program | | | | 53,334 | — |
| Alcohol Research Programs | 93.273 | LSU Health Sciences Center-New Orleans | 20-21-324 | 46,507 | — |
| Alcohol Research Programs | 93.273 | Rhode Island Hospital | 7017137260-1 | 3,072 | — |
| Total for Program | | | | 49,579 | — |
| Drug Abuse and Addiction Research Programs | 93.279 | UCSD | 705655 | 70,479 | — |
| Drug Abuse and Addiction Research Programs | 93.279 | | | 1,959,931 | 480,857 |
| Total for Program | | | | 2,029,510 | 480,857 |

(Continued)

ARKANSAS CHILDRENS
Schedule of Expenditures of Federal Awards
Year ended June 30, 2024

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | Assistance listing number | Pass-through Entity | Pass-through entity identifying number | Expenditures recognized | Amounts passed through to subrecipients |
|---|---------------------------|---|--|-------------------------|---|
| Trans-NIH Research Support | 93.310 | | | 548,769 | |
| Trans-NIH Research Support | 93.310 | UAMS | 54487-BREATHE | 28,999 | |
| Trans-NIH Research Support | 93.310 | | | 13,658 | |
| Total for Program | | | | 591,426 | |
| National Center for Advancing Translational Sciences | 93.350 | UAMS | 52966 | 190,899 | |
| Nursing Research | 93.361 | | | 328,864 | 35,485 |
| Cancer Cause and Prevention Research | 93.393 | The University of North Carolina at Chapel Hill | 51278935130827 | 141,644 | |
| Cancer Detection and Diagnosis Research | 93.394 | Children's Hospital of Philadelphia | CA193478-01A1 | 25 | |
| Cancer Treatment Research | 93.395 | Children's Hospital of Philadelphia | 95090200.01C | 101,877 | |
| Cancer Treatment Research | 93.395 | Children's Hospital of Philadelphia | 95090200220-xx | 78,313 | |
| Cancer Treatment Research | 93.395 | Children's Hospital of Philadelphia | | 427,185 | 14,905 |
| Total for Program | | | | 607,175 | 14,905 |
| Cardiovascular Diseases Research | 93.637 | University of Rochester | 417380URFAD:GR510919 | 6,728 | |
| Cardiovascular Diseases Research | 93.637 | University of Rochester | 105924 | 19,528 | |
| Cardiovascular Diseases Research | 93.637 | Indiana University | 9414 | 43,638 | |
| Cardiovascular Diseases Research | 93.637 | | | 227,047 | |
| Cardiovascular Diseases Research | 93.637 | Vanderbilt University | PA-21-35 | 1,192 | |
| Cardiovascular Diseases Research | 93.637 | Indiana University | F30AL168803 | 26,322 | |
| Cardiovascular Diseases Research | 93.637 | | | 33,153 | |
| Total for Program | | | | 358,015 | |
| Lung Diseases Research | 93.638 | Rutgers University | 82981160 | 12,503 | |
| Lung Diseases Research | 93.638 | NYU Grossman | PE0-03-21 | 6,087,804 | 5,151,627 |
| Lung Diseases Research | 93.638 | University of Pennsylvania | 583403 | 56,414 | |
| Lung Diseases Research | 93.638 | University of Pennsylvania | 586554 | 4,078 | |
| Lung Diseases Research | 93.638 | Duke University | A033918 | (3,901) | |
| Lung Diseases Research | 93.638 | University of Michigan | 00015491 | 900 | |
| Lung Diseases Research | 93.638 | Regents of the UCSP | 127956c | 38,000 | |
| Lung Diseases Research | 93.638 | | | 13,376 | |
| Lung Diseases Research | 93.638 | Rutgers University | 833361 | 45,600 | |
| Total for Program | | | | 6,255,798 | 5,151,627 |
| Blood Diseases and Resources Research | 93.639 | University of Alabama at Birmingham | 000524452-008 | (17,677) | |
| Blood Diseases and Resources Research | 93.639 | | | 199,789 | |
| Blood Diseases and Resources Research | 93.639 | Children's Hospital of Philadelphia | 3201710624 | 4,016 | |
| Blood Diseases and Resources Research | 93.639 | Children's Hospital of Philadelphia | 7022710223 | 9,044 | |
| Blood Diseases and Resources Research | 93.639 | University of Texas Southwestern Medical Center | GMG210705 | 3,297 | |
| Blood Diseases and Resources Research | 93.639 | | | 1,426 | |
| Total for Program | | | | 199,772 | |
| Diabetes, Digestive, and Kidney Diseases Extramural Research | 93.847 | Univ. of Kansas Med Center Research Inst. | ZAH00030 | 10,881 | |
| Diabetes, Digestive, and Kidney Diseases Extramural Research | 93.847 | Truists of Indiana University | 54760000 | 6,960 | |
| Diabetes, Digestive, and Kidney Diseases Extramural Research | 93.847 | University of Iowa | 504360-01 | 11,780 | |
| Total for Program | | | | 29,621 | |

ARKANSAS CHILDREN'S
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2024

| Federal Grant/Pass-Through Grant/Program or Cluster Title | Assistance number | Pass-through Entity | Pass-through entity identification number | Expenditures recognized | Amounts passed through subgrantees |
|---|-------------------|--|---|-------------------------|------------------------------------|
| Alergy and Infectious Diseases Research | 93.855 | University of California San Diego | 78456631 | 68,377 | — |
| Alergy and Infectious Diseases Research | 93.855 | Johns Hopkins University | 2044200724 | 275,038 | — |
| Alergy and Infectious Diseases Research | 93.855 | Johns Hopkins University | 2008465341 | 700,338 | — |
| Alergy and Infectious Diseases Research | 93.855 | University of Alabama at Birmingham | 00052211-001 | 1,115 | — |
| Alergy and Infectious Diseases Research | 93.855 | University of Illinois | 01A135812 | (69,081) | — |
| Alergy and Infectious Diseases Research | 93.855 | Cincinnati Children's Hospital Medical Ctr | 3205303 | 67,770 | — |
| Alergy and Infectious Diseases Research | 93.855 | Benaroya Research Institute | F72217487 | (7,079) | — |
| Alergy and Infectious Diseases Research | 93.855 | MP-T Pharmaceuticals LLC | 1444117879 | 80,702 | — |
| Alergy and Infectious Diseases Research | 93.855 | Menarini Transparens, Inc. | 0444168228 | 202,152 | 60,171 |
| Alergy and Infectious Diseases Research | 93.855 | — | — | 15,269 | — |
| Alergy and Infectious Diseases Research | 93.855 | — | — | 84,654 | 236,62 |
| Alergy and Infectious Diseases Research | 93.855 | — | — | 864,054 | 550,042 |
| Alergy and Infectious Diseases Research | 93.855 | — | — | 2,200 | — |
| Alergy and Infectious Diseases Research | 93.855 | The Regents of the University of Michigan | 00064989 | 4,713 | — |
| Alergy and Infectious Diseases Research | 93.855 | Boston Children's Hospital | 1183506 | 463,950 | — |
| Alergy and Infectious Diseases Research | 93.855 | — | — | 3,837 | — |
| Total for Program | | | | 2,794,652 | 646,897 |
| Biomedical Research and Research Training | 93.859 | — | — | 2,008,184 | 186,518 |
| Biomedical Research and Research Training | 93.859 | — | — | 2,524,184 | 743,380 |
| Biomedical Research and Research Training | 93.859 | — | — | 82,812 | — |
| Biomedical Research and Research Training | 93.859 | — | — | 546,096 | — |
| Biomedical Research and Research Training | 93.859 | — | — | 151,729 | — |
| Total for Program | | | 519268 | 5,743,271 | 929,899 |
| Child Health and Human Development Extramural Research | 93.855 | Children's Hospital of Philadelphia | 20344560 | 7,839 | — |
| Child Health and Human Development Extramural Research | 93.855 | Children's Mercy Hospital | 41609123 | 1,765 | — |
| Child Health and Human Development Extramural Research | 93.855 | University of Utah | 10088850-1-ARCH | 9,180 | — |
| Child Health and Human Development Extramural Research | 93.855 | University of Utah | 10088850-1-ARCH | 8,860 | — |
| Child Health and Human Development Extramural Research | 93.855 | Children's Hospital of Philadelphia | 0003193 | 528,585 | 15,868 |
| Total for Program | | | | 11,471 | — |
| Vision Research | 93.897 | Jobb Center for Health Research, Inc. | None Identified | 850,330 | 15,868 |
| Vision Research | 93.897 | Jobb Center for Health Research, Inc. | 1888 | 622 | — |
| Total for Program | | | | 55,733 | — |
| Medical Library Assistance | 93.879 | University of Illinois | 109157-19020 | 56,355 | — |
| Total National Institutes of Health | | | | 2,175 | — |
| Prime Contract #HHSN252010000031 | 93.8D | Duke University | 20056193 | 20,289,671 | 7,475,338 |
| Prime Contract #HHSN252010000031 | 93.8D | Duke University | 20060193 | 11,495 | — |
| Prime Contract #HHSN252010000031 | 93.8D | Duke University | 218837 | 11,893 | — |
| Prime Contract #HHSN172101800017C | 93.8D | University of Alabama at Birmingham | 00056979-003 | 15,296 | — |
| Contract | 93.8D | American College of Medical Toxicology, Inc. | NOCE2021 | 79 | — |
| Contract | 93.8D | University of Pennsylvania | 64671 | (20) | — |
| Contract | 93.8D | Public Health Institute | AR11036 | 21,165 | — |
| Contract | 93.8D | Children's Hospital of Philadelphia | 4746 | 7,414 | — |
| Contract | 93.8D | Children's Hospital of Philadelphia | AKC01822 | 7,414 | — |
| Contract | 93.8D | UMMS | 50164 | 44,972 | — |
| Contract | 93.8D | Army Med Res AOC Activity | HTM25 | 152,595 | — |
| Contract | 93.8D | University of Calgary | 10034797 | 30,351 | — |

ARKANSAS CHILDREN'S
Schedule of Expenditures of Federal Awards
Year ended June 30, 2024

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | Audience listing number | Pass-through Entity | Pass-through entity identifying number | Expenditures recognized | Amounts paid through to subrecipients |
|---|-------------------------------|--|--|----------------------------|--|
| 1033HL141736-01 Arkansas Department of Health Prime Contract #62-22-100 | 93 RD | Boston Children's Hospital Boston, MA | 401557 | 13,900 | — |
| Contract #F503012C213305 Arkansas Department of Health Contract #F503012C037725 | 93 RD | University of Pittsburgh Pittsburgh, PA | 03233569-233788 | 1,435 | — |
| Total U.S. Department of Health and Human Services Total Research and Development Cluster * | 93 RD | Children's Hospital UAMS Boston Children's Hospital | 00002738 None Identified GENED0002018874 | 782 18,000 186,435 | — |
| | | | | 20,923,610 | 7,514,359 |
| | | | | 31,172,183 | 7,588,318 |
| U.S. Department of Health and Human Services-CCDF Cluster: Child Care and Development Block Grant | 93 375 | Arkansas Department of Human Services | None Identified | 13,876 | — |
| U.S. Department of Agriculture: Child and Adult Care Food Program Child Care and Development | 10 558 93 RD 10 558 | Arkansas Department of Human Services Arkansas Department of Human Services | 0333 P240 | 20,882 108,505 | — |
| Total for Program | | | | 129,187 | — |
| U.S. Department of Education - Special Education Cluster (DEA): Special Education Grants to States (EARS Program) | 84 027 | Arkansas Department of Education | None Identified | 250,000 | — |
| U.S. Department of Health and Human Services: Blood Disorder Program: Prevention, Surveillance, and Research | 93 080 | University of Texas Health Science Center of Houston | 0011472A | 15,115 | — |
| Maternal and Child Health Federal Consolidated Programs | 93 110 | UAMS | 59343 | 270,876 | — |
| Total U.S. Health Federal Consolidated Programs | 93 110 | University of Texas Health Science Center of Houston | 0002466 | 19,973 | — |
| Total for Program | | | | 281,849 | — |
| Slake Call Treatment Demonstration Program | 93 365 | Washington University | WU-19-154/WU-20-194 | 73,319 | — |
| Maternal, Infant and Early Childhood Homevisiting Program | 93 870 | Arkansas Department of Health | #4900046894 | 4,777,855 | 3,954,907 |
| Maternal, Infant and Early Childhood Homevisiting Program ARP 1 | 93 870 | Arkansas Department of Health | #4900060720 | 345,497 | 289,871 |
| Maternal, Infant and Early Childhood Homevisiting Program ARP 2 | 93 870 | Arkansas Department of Health | #4900052481 | 341,330 | 16,425 |
| Maternal, Infant and Early Childhood Home Visiting Program ARP 3 | 93 870 | Arkansas Department of Health | #4900053328 | 54,256 | 45,758 |
| Total for Program * | | | | 6,701,387 | 5,436,790 |
| Foster Care Title IV-E Maternal and Child Health Services Block Grant to the States | 93 065 93 094 | Arkansas Department of Human Services Arkansas Department of Health | None Identified #4900046719 | 21,033 | — |
| Total U.S. Department of Health and Human Services | | | | 6,728,459 | 5,436,790 |
| U.S. Department of Transportation: State and Community Highway Safety - Child Passenger Safety Education Project State and Community Highway Safety - Drive Smart Challenge | 20 600 20 600 | Arkansas State Police Arkansas State Police | MZCPS-2022-06-08-01 MRV-2022-11-1-01 | 363,938 75,772 | — |
| Total U.S. Department of Transportation-Highway Safety Cluster | | | | 439,710 | — |
| U.S. Agency for International Development: USAID Foreign Assistance for Programs Overseas | 98 001 | Purdue University | F900735402077 | (10,288) | — |
| U.S. Department of Veterans Affairs: Sharing Specialized Medical Resources: Total Expenditures of Federal Awards | 64 018 | VA Health Administration | 36C24E239014 | 7,789 | — |
| * denotes major program | | | | \$ 39,094,939 | 13,025,108 |

See accompanying Independent Auditors' Report.
See accompanying notes to Schedule of Expenditures of Federal Awards and Schedule of Expenditures of State of Arkansas Financial Institutions.

ARKANSAS CHILDREN'S

Schedule of Expenditures of State of Arkansas Financial Assistance

Year ended June 30, 2024

| State grantor/pass-through grantor/program title | State award number | Pass-through entity identifying number | Revenue | Expenditures recognized |
|---|--------------------|--|---------------|-------------------------|
| Direct Appropriations: | | | | |
| Indigent Care Appropriation (1) | ACT 875 | N/A | \$ 1,991,435 | 1,991,435 |
| Intensive Care Nursery (1) | ACT 796 | N/A | 161,063 | 161,063 |
| Children's Hospital Payments (1) | ACT 796 | N/A | 623,566 | 623,566 |
| Helicopter Funding (1) | ACT 796 | N/A | 1,000,000 | 1,000,000 |
| Burn Unit (1) | ACT 796 | N/A | 890,564 | 890,564 |
| Arkansas Reproductive Health Monitoring System (1) | ACT 796 | N/A | 534,566 | 509,519 |
| Child Health and Family Life Institute (1) | ACT 865 | N/A | 2,100,000 | 2,100,000 |
| Division of Developmental Disabilities Services (CMS) | N/A | N/A | 20 | 20 |
| Division of Children and Family Services | N/A | N/A | 185,862 | 185,862 |
| Arkansas Attorney General | N/A | N/A | 7,058 | 7,058 |
| Passed through the Department of Education: | | | | |
| HIPPY Arkansas Better Chance | ACT 572 | None Identified | 491,490 | 491,490 |
| Baby Sharon | ACT 199 | None Identified | 109,041 | 109,041 |
| Passed through the Department of Health: | | | | |
| Trauma Center | ACT 393 | #4600046674 | 1,297,826 | 1,297,826 |
| Burn Center | ACT 393 | #4600046672 | 47,856 | 47,856 |
| Infant Child Death Review | ACT 1818 | #4600029163 | 84,131 | 84,131 |
| Tobacco Prevention | ACT 282 | #4600042612 | 290,743 | 290,743 |
| Passed through the Department of Human Services: | | | | |
| Foster Care - Title IV-E State | N/A | None Identified | 1,156 | 1,156 |
| Passed through UAMS: | | | | |
| Arkansas Biosciences Institute - CHART Programmatic Area Expenditures | ACT 430 | None Identified | 1,879,657 | 1,702,610 |
| Arkansas Financial Assistance | | | | |
| Total Expenditures of State of Arkansas Financial Assistance | | | \$ 11,696,034 | 11,493,940 |

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

See accompanying Independent Auditors' Report.

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

ARKANSAS CHILDREN'S

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

June 30, 2024

(1) Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards summarizes the expenditures of Arkansas Children's under programs of the federal government for the year ended June 30, 2024. The accompanying Schedule of Expenditures of State of Arkansas Financial Assistance (collectively with the Schedule of Expenditures of Federal Awards, the Schedules) summarizes the expenditures of Arkansas Children's under programs of the state government for the year ended June 30, 2024. The information in the Schedule of Expenditures of Federal Awards is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedules present only a selected portion of the operations of Arkansas Children's, they are not intended to, and do not, present the financial position, changes in net assets or cash flows of Arkansas Children's.

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

(2) Summary of Significant Accounting Policies

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

(3) Governmental Assistance

In addition to amounts listed on the Schedules, Arkansas Children's reported \$542,222,012 of other governmental assistance, in the form of Medicaid reimbursements and Children's Hospital Graduate Medical Education payments during the fiscal year ended June 30, 2024, which are not subject to the audit requirements as defined in the Uniform Guidance.

ARKANSAS CHILDREN'S

Schedule of Units of Service

Year ended June 30, 2024

(Unaudited)

| | Summer lunch/at risk food programs | Child and adult care food program | | |
|------------------------------|---|--|---------------|--------------------|
| | | Breakfast | Lunch | Supplements |
| Number of meals served: | | | | |
| July | 2,536 | 1,488 | 1,503 | 1,504 |
| August | 1,770 | 1,319 | 1,341 | 1,353 |
| September | 2,476 | 1,512 | 1,522 | 1,544 |
| October | 2,198 | 1,013 | 1,013 | 1,013 |
| November | 1,865 | 866 | 1,484 | 1,438 |
| December | 1,470 | 823 | 1,422 | 1,477 |
| January | 1,494 | 933 | 1,726 | 1,725 |
| February | 2,167 | 1,112 | 1,994 | 1,926 |
| March | 2,121 | 1,106 | 2,082 | 2,005 |
| April | 2,307 | 1,407 | 2,837 | 2,153 |
| May | 2,425 | 842 | 2,366 | 1,493 |
| June | 2,876 | 744 | 1,884 | 1,292 |
| Total number of meals served | <u>25,705</u> | <u>13,165</u> | <u>21,174</u> | <u>18,923</u> |

ARKANSAS CHILDREN'S
Schedule of Findings and Questioned Costs
June 30, 2024

(1) Summary of the Auditors' Results

Audit of the Financial Statements

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

Audit of Federal Awards

- (d) Internal control deficiencies over major federal programs disclosed by the audit of federal awards:
 - Material weaknesses identified? – No
 - Significant deficiencies identified? –None reported
- (e) Type of auditors' report issued on compliance for major programs – unmodified
- (f) Major programs:

| Name of major federal program or cluster | ALN |
|---|---------|
| Maternal, Infant and Early Childhood Homevisiting Grant Program | 93.870 |
| Research and Development Cluster | Various |

- (g) Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) – No
- (h) Dollar threshold used to distinguish between type A and type B programs –\$ 1,172,848
- (i) Auditee qualified as low-risk auditee? – Yes

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

None

(3) Findings and Questioned Costs Relating to Federal Rewards

None