



**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

<b>Assets</b>	<b>2024</b>	<b>2023</b>
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	15,456,102	17,024,704
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	92,892,699	65,893,001
Total assets	\$ 2,216,196,720	2,064,303,337
<b>Liabilities and Net Assets</b>		
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	8,600,000	7,986,678
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	270,300,966	279,376,822
Total liabilities	444,470,638	424,023,485
Commitments and contingencies		
Net assets:		
Without donor restrictions	1,520,571,482	1,407,377,478
With donor restrictions	251,154,600	232,902,374
Total net assets	1,771,726,082	1,640,279,852
Total liabilities and net assets	\$ 2,216,196,720	2,064,303,337

See accompanying notes to consolidated financial statements.

**ARKANSAS CHILDREN'S**

Consolidated Statements of Operations

Years ended June 30, 2024 and 2023

	<b>2024</b>	<b>2023</b>
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	16,398,598	12,633,548
Total revenues, gains and other support	1,021,342,838	982,049,925
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	16,716,859	14,586,977
Total expenses	985,318,382	929,567,877
Income from operations	36,024,456	52,482,048
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	(9,119,869)	(8,281,961)
Net nonoperating revenues, gains, expenses and losses	63,779,707	25,954,787
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	(185,405)	27,449
Increase in net assets without donor restrictions	\$ 113,194,004	87,947,673

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

	<b>2024</b>	<b>2023</b>
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	141,625,511	102,267,126
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	(111,183,573)	(164,929,002)
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	6,111,692	140,505,165
Net increase in cash and cash equivalents	36,553,630	77,843,289
Cash and cash equivalents:		
Beginning of year	164,571,341	86,728,052
End of year	\$ 201,124,971	164,571,341
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	—
	\$ 201,124,971	164,571,341
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.

## ARKANSAS CHILDREN'S

### Notes to Consolidated Financial Statements

June 30, 2024 and 2023

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

## ARKANSAS CHILDREN'S

### Notes to Consolidated Financial Statements

June 30, 2024 and 2023

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.

## ARKANSAS CHILDREN'S

### Notes to Consolidated Financial Statements

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.

## ARKANSAS CHILDREN'S

### Notes to Consolidated Financial Statements

June 30, 2024 and 2023

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.

## ARKANSAS CHILDREN'S

### Notes to Consolidated Financial Statements

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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.

## ARKANSAS CHILDREN'S

### Notes to Consolidated Financial Statements

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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.

## ARKANSAS CHILDREN'S

### Notes to 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:

	2024	2023
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	119,631,697	157,364,294
	\$ 1,066,573,036	981,356,936

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:

	2024	2023
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	16,189,150	14,101,929
	\$ 42,674,094	49,259,680

#### (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

## ARKANSAS CHILDREN'S

### Notes to Consolidated Financial Statements

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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

## ARKANSAS CHILDREN'S

### Notes to Consolidated Financial Statements

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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:

	<b>2024</b>	<b>2023</b>
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:

	<b>2024</b>	<b>2023</b>
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>

## ARKANSAS CHILDREN'S

### Notes to Consolidated Financial Statements

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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.

## ARKANSAS CHILDREN'S

### Notes to Consolidated Financial Statements

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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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Notes to Consolidated Financial Statements

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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:

	<b>2024</b>	<b>2023</b>
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	104,642,061	137,482,749
Total assets limited as to use	589,551,076	553,426,849
Less amounts classified as current	(12,667,754)	(9,703,200)
Assets limited as to use – noncurrent	\$ 576,883,322	543,723,649

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:

	<b>June 30, 2024</b>		<b>June 30, 2023</b>	
	<b>Carrying amount</b>	<b>Fair value</b>	<b>Carrying amount</b>	<b>Fair value</b>
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
	\$ 836,166,608	806,119,659	727,567,565	689,085,005

## ARKANSAS CHILDREN'S

### Notes to Consolidated Financial Statements

June 30, 2024 and 2023

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>

**ARKANSAS CHILDREN'S**

Notes to Consolidated Financial Statements

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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.

**ARKANSAS CHILDREN'S**

Notes to Consolidated Financial Statements

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**(8) Long-Term Debt**

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

	2024	2023
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	126,875,000	128,150,000
	267,085,000	275,071,678
Plus unamortized premium	13,903,169	14,455,447
Less unamortized bond issuance costs	(2,087,203)	(2,163,625)
Total	278,900,966	287,363,500
Less amounts due within one year	(8,600,000)	(7,986,678)
Long-term debt less current maturities	\$ 270,300,966	279,376,822

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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><u>267,085,000</u></u>

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

**(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><u>251,154,600</u></u>	<u><u>232,902,374</u></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

## ARKANSAS CHILDREN'S

### Notes to Consolidated Financial Statements

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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:

	<b>Without donor restrictions – board designated</b>	<b>With donor restrictions</b>	<b>Total</b>
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,

## ARKANSAS CHILDREN'S

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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

## ARKANSAS CHILDREN'S

### Notes to Consolidated Financial Statements

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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.

## ARKANSAS CHILDREN'S

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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.

## ARKANSAS CHILDREN'S

### Notes to Consolidated Financial Statements

June 30, 2024 and 2023

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

**ARKANSAS CHILDREN'S**

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<b>Fair value measurements at June 30, 2024</b>				
	<b>Quoted prices in active markets for identical assets (Level 1)</b>	<b>Other observable inputs (Level 2)</b>	<b>Significant unobservable inputs (Level 3)</b>	<b>Total</b>
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
	<u>—</u>	<u>738,163,058</u>	<u>—</u>	<u>738,163,058</u>
Total investments and assets limited as to use	\$ <u>482,788,362</u>	<u>738,163,058</u>	<u>—</u>	<u>1,220,951,420</u>
Other noncurrent assets:				
Mineral interests	\$ —	499,000	—	499,000

## ARKANSAS CHILDREN'S

### Notes to Consolidated Financial Statements

June 30, 2024 and 2023

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

**ARKANSAS CHILDREN'S**

Notes to Consolidated Financial Statements

June 30, 2024 and 2023

<b>Fair value measurements at June 30, 2023</b>				
	<b>Quoted prices in active markets for identical assets (Level 1)</b>	<b>Other observable inputs (Level 2)</b>	<b>Significant unobservable inputs (Level 3)</b>	<b>Total</b>
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
	<u>—</u>	<u>621,615,384</u>	<u>—</u>	<u>621,615,384</u>
Total investments and assets limited as to use	\$ <u>449,477,830</u>	<u>621,615,384</u>	<u>—</u>	<u>1,071,093,214</u>
Other noncurrent assets:				
Mineral interests	\$ —	499,000	—	499,000

**ARKANSAS CHILDREN'S**

Notes to Consolidated Financial Statements

June 30, 2024 and 2023

**(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	Non-Healthcare services	General and administrative	Fundraising	Total supporting	Total
Salaries and wages	\$ 363,080,806	25,462,508	388,543,314	21,936	21,622,993	5,679,455	27,324,384	415,867,698
Employee benefits	65,194,338	5,426,906	70,621,244	4,607	4,236,087	1,151,398	5,392,092	76,013,336
Supplies and pharmaceuticals	167,869,708	3,153,124	171,022,832	2,275	404,384	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	122,876	4,763,393	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	3,591,754	3,844,315	—	7,436,069	8,238,001
Other	13,373,303	1,565,324	14,938,627	54,235	1,701,494	755,499	2,511,228	17,449,855
<b>Total</b>	<b>\$ 889,198,697</b>	<b>53,491,424</b>	<b>942,690,121</b>	<b>3,797,683</b>	<b>37,683,416</b>	<b>10,267,031</b>	<b>51,748,130</b>	<b>994,438,251</b>

**ARKANSAS CHILDREN'S**

Notes to Consolidated Financial Statements

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

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.

## ARKANSAS CHILDREN'S

### Notes to Consolidated Financial Statements

June 30, 2024 and 2023

#### (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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Notes to Consolidated Financial Statements  
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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:

	<b>2024</b>	<b>2023</b>
	<b>Net pledges receivable with donor restrictions</b>	<b>Net pledges receivable with donor restrictions</b>
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.

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### Notes to Consolidated Financial Statements

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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

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KPMG LLP  
Triad Centre III  
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6070 Poplar Avenue  
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## **Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards***

The Board of Directors  
Arkansas Children's:

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 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
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			59,388	—
Agricultural Research Basic and Applied Research	10.001			53,440	—
Total for Program				10,009,800	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	16,764	—
Total U.S. Department of Defense				16,764	—
National Science Foundation: Social, Behavioral, and Economic Sciences Total National Science Foundation	47.075			59,001	—
Total for Program				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 Environmental Health	93.113 93.113			38,605 155,079	— —
Total for Program				191,684	—
Oral Diseases and Disorders Research	93.121	University of Florida	00003477	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 Research and Training in Complementary and Integrative Health	93.213 93.213	University of Utah Mount Sinai	10049254-ACRI 0255-D968-4609	11,324 42,010	— —
Total for Program				53,334	—
Alcohol Research Programs Alcohol Research Programs	93.273 93.273	LSU Health Sciences Center-New Orleans Rhode Island Hospital	20-21-324 7017137290-1	45,507 3,072	— —
Total for Program				48,579	—
Drug Abuse and Addiction Research Programs Drug Abuse and Addiction Research Programs	93.279 93.279	UCSD	705055	70,479 1,959,031	— 480,657
Total for Program				2,029,510	480,657

**ARKANSAS CHILDREN'S**

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	28,989	—
Trans-NIH Research Support	93.310			13,658	—
Total for Program				591,426	—
National Center for Advancing Translational Sciences	93.350	UAMS	52966	190,699	—
Nursing Research	93.361			328,664	35,485
Cancer Cause and Prevention Research	93.393	The University of North Carolina at Chapel Hill	5127893J5130827	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	950080200-01C	101,677	—
Cancer Treatment Research	93.395	Children's Hospital of Philadelphia	95002060220-xx	78,313	—
Cancer Treatment Research	93.395			427,185	14,905
Total for Program				607,175	14,905
Cardiovascular Diseases Research	93.837	University of Rochester	417380/URFAO: GR510819	6,728	—
Cardiovascular Diseases Research	93.837	Vanderbilt University	105924	19,925	—
Cardiovascular Diseases Research	93.837	Indiana University	9414	43,638	—
Cardiovascular Diseases Research	93.837			227,047	—
Cardiovascular Diseases Research	93.837			1,192	—
Cardiovascular Diseases Research	93.837	Vanderbilt University	PA-21-35	26,322	—
Cardiovascular Diseases Research	93.837	Indiana University	F304L165803	33,163	—
Total for Program				358,015	—
Lung Diseases Research	93.838	Rutgers University	8299/1160	12,503	—
Lung Diseases Research	93.838	NYU Grossman	PE0-03-21	6,087,804	5,151,627
Lung Diseases Research	93.838	University of Pennsylvania	583403	56,414	—
Lung Diseases Research	93.838	University of Pennsylvania	586554	4,078	—
Lung Diseases Research	93.838	Duke University	A033918	(3,901)	—
Lung Diseases Research	93.838	University of Michigan	00015491	1,600	—
Lung Diseases Research	93.838	Regents of the UCSF	12795sc	38,324	—
Lung Diseases Research	93.838			13,376	—
Lung Diseases Research	93.838	Rutgers University	833361	45,600	—
Total for Program				6,255,798	5,151,627
Blood Diseases and Resources Research	93.839	University of Alabama at Birmingham	000524452-008	(17,677)	—
Blood Diseases and Resources Research	93.839			196,799	—
Blood Diseases and Resources Research	93.839	Children's Hospital of Philadelphia	3201710624	4,886	—
Blood Diseases and Resources Research	93.839	Nationwide Children's Hospital	700277-0223	9,041	—
Blood Diseases and Resources Research	93.839	University of Texas Southwestern Medical Center	GMO210705	3,297	—
Blood Diseases and Resources Research	93.839			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	Trustees of Indiana University	R25DK099080	6,960	—
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	University of Iowa	S04380-01	34,917	—
Total for Program				11,780	—
				64,538	—

ARKANSAS CHILDREN'S

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
Allergy and Infectious Diseases Research	93.855	University of California San Diego	78456631	69,377	--
Allergy and Infectious Diseases Research	93.855	Johns Hopkins University	2004200724	275,036	--
Allergy and Infectious Diseases Research	93.855	Johns Hopkins University	2006463341	700,338	--
Allergy and Infectious Diseases Research	93.855	University of Alabama at Birmingham	000522211-001	1,479	--
Allergy and Infectious Diseases Research	93.855	University of Illinois	01A1135812	115	--
Allergy and Infectious Diseases Research	93.855	Duke University	234740	(99,081)	--
Allergy and Infectious Diseases Research	93.855	Cincinnati Children's Hospital Medical Ctr	309363	6,873	--
Allergy and Infectious Diseases Research	93.855	Benaroya Research Institute	FY22ITN467	11,239	--
Allergy and Infectious Diseases Research	93.855	RAFT Pharmaceuticals LLC	R44A1147879	(7,078)	--
Allergy and Infectious Diseases Research	93.855	Moonlight Therapeutics, Inc.	U44A1165328	80,702	--
Allergy and Infectious Diseases Research	93.855			11,232	--
Allergy and Infectious Diseases Research	93.855			202,152	60,171
Allergy and Infectious Diseases Research	93.855			15,259	--
Allergy and Infectious Diseases Research	93.855			36,624	236,864
Allergy and Infectious Diseases Research	93.855			664,854	550,042
Allergy and Infectious Diseases Research	93.855			2,200	--
Allergy and Infectious Diseases Research	93.855	The Regents of the University of Michigan	00004969	20,963	--
Allergy and Infectious Diseases Research	93.855	Boston Children's Hospital	1983505	4,713	--
Allergy and Infectious Diseases Research	93.855			453,950	--
Allergy and Infectious Diseases Research	93.855			3,837	--
Total for Program				2,794,492	846,897
Biomedical Research and Research Training	93.859			2,036,184	186,516
Biomedical Research and Research Training	93.859			2,924,954	743,383
Biomedical Research and Research Training	93.859			814	--
Biomedical Research and Research Training	93.859			82,612	--
Biomedical Research and Research Training	93.859			546,996	--
Biomedical Research and Research Training	93.859			151,751	--
Total for Program			519,988	5,743,271	929,899
Child Health and Human Development Extramural Research	93.865	Children's Hospital of Philadelphia	20334560	7,839	--
Child Health and Human Development Extramural Research	93.865	Children's Hospital of Philadelphia	41606123	7,707	--
Child Health and Human Development Extramural Research	93.865	University of Utah	10058860-13-ARCH	1,765	--
Child Health and Human Development Extramural Research	93.865	University of Utah	10058860-13-ARCH	9,160	--
Child Health and Human Development Extramural Research	93.865	Children's Hospital of Philadelphia	0003193	13,800	--
Child Health and Human Development Extramural Research	93.865			528,588	15,868
Child Health and Human Development Extramural Research	93.865			11,471	--
Total for Program				580,330	15,868
Vision Research	93.867	Jaeb Center for Health Research, Inc.	None Identified	622	--
Vision Research	93.867	Jaeb Center for Health Research, Inc.	1808	55,733	--
Total for Program				56,355	--
Medical Library Assistance	93.879	University of Illinois	109757-19030	2,175	--
Total National Institutes of Health				20,269,671	7,475,338
Prime Contract #HHSN2752018000031	93.RD	Duke University	00000193	11,495	--
Prime Contract #HHSN2752010000031	93.RD	Duke University	226749	2,285	--
Prime Contract #HHSN2752010000031	93.RD	Duke University	218637	11,893	--
Prime Contract #HHSN172101600017C	93.RD	University of Alabama at Birmingham	000509729-003	15,296	--
Contract	93.RD	American College of Medical Toxicology, Inc.	NOSE2021	79	--
Purchased Service Agreement #64671	93.RD	University of Pennsylvania	64671	(293)	--
Contract	93.RD	Public Health Institute	AR11036	21,185	--
Contract	93.RD	Nationwide Children's Hospital	00329159	4,924	--
Contract	93.RD	Children's Hospital of Philadelphia	AHOD1622	7,416	--
8U24OD024957	93.RD	UAMS	50164	44,972	--
Contract	93.RD	Army Med Res ACO Activity	HT9425	152,595	--
Contract	93.RD	University of Calgary	10034797	30,557	--

**ARKANSAS CHILDREN'S**

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 listing number	Pass-through Entity identifying number	Expenditures recognized	Amounts passed through to subrecipients
TUG3HL141736-01	93.RD		4615527	2,400	—
Prime Contract #HHSN27201600018C		Boston Children's Hospital	000509734-028	13,500	—
Contract #G-22-100	93.RD	University of Alabama at Birmingham	632335599-233789	1,435	—
Contract #75D30122C133300	93.RD	Leland Stanford Junior University	00002738	782	—
Contract #75D30120C07725	93.RD	University of Pittsburgh	GENFD0002272390	18,174	—
Total U.S. Department of Health and Human Services	93.RD	Boston Children's Hospital	GENFD0002019874	180,435	—
Total Research and Development Cluster *				20,923,610	7,514,359
				31,172,163	7,588,318
U.S. Department of Health and Human Services-CODF Cluster: Child Care and Development Block Grant	93.575	Arkansas Department of Human Services	None Identified	13,626	—
U.S. Department of Agriculture: Child and Adult Care Food Program	10.558	Arkansas Department of Human Services	A233	20,682	—
Child and Adult Care Food Program	10.558	Arkansas Department of Human Services	P240	108,505	—
Total for Program				129,187	—
U.S. Department of Education - Special Education Cluster (IDEA): 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	93.090	University of Texas Health Science Center of Houston	0011472A	15,115	—
Maternal and Child Health Federal Consolidated Programs	93.110	UAMS	56343	270,876	—
Maternal and Child Health Federal Consolidated Programs	93.110	University of Texas Health Science Center of Houston	0002466	10,973	—
Total for Program				281,849	—
Sickle Cell 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	#4600046594	4,777,855	3,954,907
Maternal, Infant and Early Childhood Homevisiting Program ARP 1	93.870	Arkansas Department of Health	#4600052481	17,128	815,464
Maternal, Infant and Early Childhood Homevisiting Program ARP 2	93.870	Arkansas Department of Health	#4600052481	841,330	815,464
Maternal, Infant and Early Childhood Homevisiting Program ARP 3	93.870	Arkansas Department of Health	#4600053200	736,645	405,748
Total for Program *				6,701,327	5,436,790
Foster Care Title IV-E	93.658	Arkansas Department of Human Services	None Identified	4,099	—
Maternal and Child Health Services Block Grant to the States	93.994	Arkansas Department of Health	#4600046719	21,033	—
Total U.S. Department of Health and Human Services				6,726,459	5,436,790
U.S. Department of Transportation-Highway Safety Cluster: State and Community Highway Safety -Child Passenger Safety Education Project	20.600	Arkansas State Police	MZCPS-2022-08-08-01	362,938	—
State and Community Highway Safety -Drive Smart Challenge	20.600	Arkansas State Police	MRV-2022-11-11-01	72,772	—
Total U.S. Department of Transportation-Highway Safety Cluster				435,710	—
U.S. Agency for International Development: USAID Foreign Assistance for Programs Overseas	98.001	Purdue University	F9000735402077	(10,288)	—
U.S. Department of Veteran Affairs: Sharing Specialized Medical Resources:	64.018	VA Health Health Administration	36C24E23P0014	7,799	—
Total Expenditures of Federal Awards				\$ 39,094,839	\$ 13,025,108

\* denotes major program

See accompanying Independent Auditors' Report.

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

**ARKANSAS CHILDREN'S**

Schedule of Expenditures of State of Arkansas Financial Assistance

Year ended June 30, 2024

<u>State grantor/pass-through grantor/program title</u>	<u>State award number</u>	<u>Pass-through entity identifying number</u>	<u>Revenue</u>	<u>Expenditures recognized</u>
Direct Appropriations:				
Indigent Care Appropriation (1)	ACT 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
Passed through the Department of Finance and Administration:				
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			\$ 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 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)

	<b>Summer lunch/at risk food programs</b>	<b>Child and adult care food program</b>		
		<b>Breakfast</b>	<b>Lunch</b>	<b>Supplements</b>
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:

<u>Name of major federal program or cluster</u>	<u>ALN</u>
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