

OFFICIAL STATEMENT

**NEW ISSUE
BOOK-ENTRY ONLY**

**RATINGS*: Moody's: "A1" (stable outlook)
S&P: "AA-" (stable outlook)**

In the opinion of Bond Counsel, under existing law and assuming compliance with certain covenants, interest on the Series 2023 Bonds is excludable from gross income for federal income tax purposes, and interest on the Series 2023 Bonds is not an item of tax preference for purposes of the federal alternative minimum tax; however, with respect to certain corporations, interest on the Series 2023 Bonds will be taken into account in determining annual adjusted financial statement income for the purpose of computing the federal alternative minimum tax. In Bond Counsel's further opinion, under existing law, the Series 2023 Bonds and interest thereon are exempt from all state, county and municipal taxation in the State of Arkansas. See the caption "TAX MATTERS" herein.



**\$128,150,000
PULASKI COUNTY, ARKANSAS
HOSPITAL REVENUE BONDS
(ARKANSAS CHILDREN'S HOSPITAL)
SERIES 2023**

Dated: Date of Delivery

Due: March 1, as shown on inside cover

The Hospital Revenue Bonds (Arkansas Children's Hospital), Series 2023 (the "Series 2023 Bonds"), are being issued by Pulaski County, Arkansas (the "Issuer") pursuant to Arkansas Code Annotated Sections 14-265-101 *et seq.* (the "Act") for the purpose of providing a portion of the funds needed for (i) financing the acquisition, construction and equipping of certain additions and improvements (the "Project") to Arkansas Children's Hospital, a pediatric hospital located in the City of Little Rock, Arkansas (the "LR Hospital"), and (ii) paying certain expenses in connection with the issuance of the Series 2023 Bonds. See the captions "THE PROJECT" and "SOURCES AND USES OF FUNDS" herein.

The Series 2023 Bonds are issuable as fully registered bonds and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, to which principal, premium, if any, and interest payments on the Series 2023 Bonds will be made so long as Cede & Co. is the registered owner of the Series 2023 Bonds. Individual purchases of the Series 2023 Bonds will be made only in book-entry form, in denominations of \$5,000 and integral multiples in excess thereof. Individual purchasers of the Series 2023 Bonds ("Beneficial Owners") will not receive physical delivery of bond certificates. See the caption "BOOK-ENTRY ONLY SYSTEM" herein.

Interest on the Series 2023 Bonds is payable semiannually each March 1 and September 1, commencing March 1, 2024. All such interest payments shall be payable to the person in whose name such Series 2023 Bond is registered on the bond registration books maintained by Bank OZK (the "Trustee"), in Little Rock, Arkansas, as of the close of business on the fifteenth day of the calendar month immediately preceding the interest payment date on which interest is due. Principal of and premium, if any, on the Series 2023 Bonds shall be payable at the principal corporate trust office of the Trustee. So long as DTC or its nominee is the registered owner of the Series 2023 Bonds, disbursement of such payments to DTC or its nominee is the responsibility of the Trustee. Disbursement of such payments to DTC Participants is the responsibility of DTC, and disbursement of such payments to Beneficial Owners is the responsibility of DTC Participants or Indirect Participants, as more fully described herein.

The Series 2023 Bonds are limited obligations being issued and secured pursuant to a Trust Indenture dated as of October 1, 1985, as previously supplemented and as further supplemented by a 2023 Supplemental Trust Indenture dated as of June 15, 2023 (as supplemented, the "Indenture"), between the Issuer and the Trustee. Pursuant to the Indenture, the Issuer will assign to the Trustee all of its right, title and interest in and to the Lease Agreement dated as of October 1, 1985, as previously supplemented and as further supplemented by a 2023 Supplemental Lease Agreement dated as of June 15, 2023 (as supplemented, the "Lease Agreement"), between the Issuer and Arkansas Children's Hospital, an Arkansas nonprofit corporation ("ACH" or the "Corporation"), including the lease payments required to be made by ACH under the Lease Agreement, but excluding certain rights of the Issuer to the payment of its expenses and indemnification. The Series 2023 Bonds are payable (except to the extent payable from proceeds of the Series 2023 Bonds and the investment income therefrom and, in certain circumstances, from the proceeds of insurance and condemnation awards with respect to the LR Hospital) as to principal, premium, if any, and interest solely from the revenues and receipts to be derived by the Issuer under the Lease Agreement. The obligation of ACH to make payments under the Lease Agreement will be secured by the Gross Revenues of ACH (defined herein). Payment of principal and interest on the Series 2023 Bonds is guaranteed by (i) Arkansas Children's, Inc., the parent corporation of ACH, (ii) ACH, (iii) Arkansas Children's Northwest, Inc., and (iv) Arkansas Children's Hospital Foundation, Inc. (collectively, the "Guarantors") pursuant to separate Guaranty Agreements dated as of June 15, 2023 (the "Guaranty Agreements"). The Series 2023 Bonds rank on a parity of security with the Issuer's outstanding Hospital Revenue Refunding Bonds (Arkansas Children's Hospital), Series 2016, and any Additional Bonds issued under the Indenture. In addition, ACH's repayment obligation with respect to the Series 2023 Bonds is secured on a parity basis under the Lease Agreement with ACH's guaranty obligations relating to the 2016 Northwest Bonds (defined herein). See the caption "SECURITY FOR THE BONDS" herein.

The Series 2023 Bonds are special and limited obligations of the Issuer secured by and payable solely as described in the preceding paragraph. The Series 2023 Bonds shall not constitute or give rise to or impose upon the Issuer a general liability or a charge upon its general credit or property other than the Trust Estate (as defined in the Indenture). Neither the Series 2023 Bonds, the Indenture, the Lease Agreement nor any other agreement of the Issuer shall be construed to constitute an indebtedness for which the faith and credit of the Issuer or any of its revenues are pledged. See the captions "SECURITY FOR THE BONDS" and "RISK FACTORS" herein.

The Series 2023 Bonds are subject to optional, mandatory and extraordinary redemption prior to maturity as described under the caption "THE SERIES 2023 BONDS" herein.

The Series 2023 Bonds are offered, subject to prior sale, when, as, and if issued and received by the Underwriter, subject to the approval of validity by Friday, Eldredge & Clark, LLP, Bond Counsel, and subject to certain other conditions. Certain legal matters will be passed upon for the Underwriter by Kutak Rock LLP, counsel to the Underwriter, and for ACH and the Affiliate Guarantors by Friday, Eldredge & Clark, LLP. It is expected that the Series 2023 Bonds will be available for delivery through the facilities of DTC in New York, New York, on or about June 28, 2023.

Stephens Inc.

The date of this Official Statement is June 6, 2023.

* See the caption "RATINGS" herein.

MATURITY SCHEDULE

\$128,150,000
PULASKI COUNTY, ARKANSAS
HOSPITAL REVENUE BONDS
(ARKANSAS CHILDREN'S HOSPITAL)
SERIES 2023

<u>Maturity</u> <u>(March 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP**</u>
2024	\$1,275,000	5.000%	3.480%	745392 JP6
2025	2,060,000	5.000%	3.470%	745392 JQ4
2026	2,165,000	5.000%	3.300%	745392 JR2
2027	2,270,000	5.000%	3.250%	745392 JS0
2028	2,385,000	5.000%	3.250%	745392 JT8
2029	2,505,000	5.000%	3.310%	745392 JU5
2030	2,630,000	5.000%	3.340%	745392 JV3
2031	2,760,000	5.000%	3.330%	745392 JW1
2032	2,900,000	5.000%	3.350%	745392 JX9
2033	3,045,000	5.000%	3.390%	745392 JY7
2034	3,195,000	5.000%	3.450%*	745392 JZ4
2035	3,355,000	5.000%	3.560%*	745392 KA7
2036	3,525,000	5.000%	3.700%*	745392 KB5
2037	3,700,000	5.000%	3.860%*	745392 KC3
2038	3,885,000	5.000%	3.950%*	745392 KD1
2039	4,080,000	5.000%	4.000%*	745392 KE9
2040	4,285,000	5.000%	4.100%*	745392 KF6
2041	4,500,000	5.000%	4.170%*	745392 KG4
2042	4,725,000	5.000%	4.200%*	745392 KH2
2043	4,960,000	5.000%	4.230%*	745392 KJ8

\$28,345,000 4.250% Term Bond due March 1, 2048 – Yield: 4.470% CUSIP** 745392 KK5
\$35,600,000 5.250% Term Bond due March 1, 2053 – Yield: 4.350%* CUSIP** 745392 KL3

* Priced to the first par call date of March 1, 2033.

** CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed on behalf of the American Bankers Association by FactSet Research Systems Inc. This data is not intended to create a database and does not serve in any way as a substitute for CUSIP Global Services. CUSIP numbers have been assigned by an independent company not affiliated with the Issuer and are included solely for the convenience of the registered owners of the Series 2023 Bonds. The Issuer and the Underwriter are not responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness by the Issuer on the Series 2023 Bonds and by the Underwriter on the Series 2023 Bonds or as included herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Series 2023 Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Series 2023 Bonds.

NO DEALER, BROKER, SALESMAN OR OTHER PERSON HAS BEEN AUTHORIZED BY THE ISSUER, ACH, THE AFFILIATE GUARANTORS OR THE UNDERWRITER TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS, OTHER THAN THOSE CONTAINED IN THIS OFFICIAL STATEMENT, AND IF GIVEN OR MADE, SUCH OTHER INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE FOREGOING. THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY, NOR SHALL THERE BE ANY SALE OF THE SERIES 2023 BONDS BY ANY PERSON IN ANY STATE IN WHICH IT IS UNLAWFUL FOR SUCH PERSON TO MAKE SUCH OFFER, SOLICITATION OR SALE. THE INFORMATION AND EXPRESSIONS OF OPINION HEREIN ARE SUBJECT TO CHANGE WITHOUT NOTICE, AND NEITHER THE DELIVERY OF THIS OFFICIAL STATEMENT NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE ISSUER, ACH OR THE AFFILIATE GUARANTORS SINCE THE DATE HEREOF.

NO REGISTRATION STATEMENT RELATING TO THE SERIES 2023 BONDS HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THE SERIES 2023 BONDS HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION, NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT.

THE INFORMATION SET FORTH HEREIN HAS BEEN FURNISHED BY THE ISSUER, ACH, THE AFFILIATE GUARANTORS AND FROM OTHER SOURCES THAT ARE BELIEVED TO BE RELIABLE. THE UNDERWRITER HAS REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT IN ACCORDANCE WITH, AND AS PART OF, ITS RESPONSIBILITIES TO INVESTORS UNDER THE FEDERAL SECURITIES LAWS AS APPLIED TO THE FACTS AND CIRCUMSTANCES OF THIS TRANSACTION, BUT THE UNDERWRITER DOES NOT GUARANTEE THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2023 BONDS OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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SUMMARY STATEMENT

This Summary Statement is subject in all respects to the more complete information contained in this Official Statement. The offering of the Series 2023 Bonds to potential investors is made only by means of the entire Official Statement, including the cover page and Appendices hereto. No person is authorized to detach this Summary Statement or otherwise to use it without the entire Official Statement. Definitions of certain words and terms used in this Summary Statement are set forth in Appendix B to this Official Statement.

The Offering

The offering consists of Hospital Revenue Bonds (Arkansas Children's Hospital), Series 2023, dated as of the date of their delivery (the "Series 2023 Bonds"), to be issued in the aggregate principal amount of \$128,150,000 by Pulaski County, Arkansas (the "Issuer" or the "County"). The Issuer is a political subdivision organized and existing under the laws of the State of Arkansas (the "State"). Pursuant to the provisions of Amendment 65 to the Constitution of the State and Act 175 of the General Assembly of the State for the year 1961, as amended, codified as Arkansas Code Annotated §§14-265-101 *et seq.* (the "Act"), the Issuer is authorized to acquire, own, construct, reconstruct, extend, equip, improve, maintain, operate, sell, lease or contract concerning facilities that can be used for hospitals, and to issue revenue bonds for such purposes. See the caption "THE ISSUER" herein.

ACH and the LR Hospital

Arkansas Children's Hospital, an Arkansas nonprofit corporation ("ACH" or the "Corporation"), and the Issuer have entered into a Lease Agreement dated as of October 1, 1985, as amended and supplemented (the "Lease Agreement"), pursuant to which ACH leases and operates a 336 licensed-bed pediatric hospital known as Arkansas Children's Hospital (the "LR Hospital") located at 1 Children's Way in the City of Little Rock, Arkansas. ACH is recognized as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, and, together with its predecessors, has operated a children's care facility in the City of Little Rock since 1912. See the caption "ACH" herein and "APPENDIX A – ACH, ACNW and the Hospitals" hereto.

Purpose

The proceeds of the sale of the Series 2023 Bonds, along with other available moneys, will be utilized (i) to acquire, construct and equip betterments and improvements to the LR Hospital (the "Project"), and (ii) to pay the costs of issuing the Series 2023 Bonds. See the captions "SOURCES AND USES OF FUNDS" and "THE PROJECT" herein.

Security for the Bonds

The Series 2023 Bonds are limited obligations of the Issuer, payable from amounts due to the Issuer from ACH under the Lease Agreement. As security for its obligations under the Lease Agreement, ACH will pledge and grant a security interest in the Gross Revenues of ACH (as defined herein). As additional security, (i) Arkansas Children's, Inc., an Arkansas nonprofit corporation (the "Parent"), (ii) ACH, (iii) Arkansas Children's Northwest, Inc., an Arkansas nonprofit corporation ("ACNW"), and (iv) Arkansas Children's Hospital Foundation, Inc., an Arkansas nonprofit corporation (the "Foundation," and together with the Parent and ACNW, the "Affiliate Guarantors"), will each execute and deliver a Guaranty Agreement dated as of June 15, 2023 (the "Guaranty Agreements"), to the Trustee (defined below), pursuant to which each of ACH and the Affiliate Guarantors (collectively, the "Guarantors") will severally and unconditionally guarantee payment of the debt service on the Series 2023 Bonds. ACNW will further guarantee the performance of the obligations of ACH under the Lease Agreement. The obligations of ACNW under its Guaranty Agreement are secured by a pledge of and security interest in the Gross Receipts of ACNW. See the caption "SUMMARY OF PORTIONS OF THE GUARANTY AGREEMENTS" herein.

The Parent was organized in December, 2015, and is the sole member of ACH, ACNW and the Foundation. ACNW was organized in December, 2015, to own and operate a 24 licensed-bed pediatric hospital known as Arkansas Children’s Northwest (the “NW Hospital”) located in the City of Springdale, Arkansas. The Foundation was created in 1985 with the mission of developing and implementing plans to meet fund-raising goals of ACH and its related institutions.

In the Trust Indenture dated as of October 1, 1985, as amended and supplemented (the “Indenture”), by and between the Issuer and Bank OZK (formerly Bank of the Ozarks), Little Rock, Arkansas, as trustee (the “Trustee”), pursuant to which the Series 2023 Bonds are issued and secured, the Issuer has reserved the power, upon the satisfaction of certain conditions, to issue Additional Bonds and ACH has reserved the right to incur Alternative Indebtedness, each on a parity of security with the Series 2023 Bonds and the Issuer’s outstanding Hospital Revenue Refunding Bonds (Arkansas Children’s Hospital), Series 2016 (the “Series 2016 Bonds”), which were issued under the Indenture. See the subcaptions “THE SERIES 2023 BONDS – Additional Bonds” and “– Alternative Indebtedness” herein.

The Series 2023 Bonds are special and limited obligations of the Issuer secured by and payable solely as described herein. The Series 2023 Bonds shall not constitute or give rise to or impose upon the Issuer a general liability or a charge upon its general credit or property other than the Trust Estate (as defined in the Indenture). Neither the Series 2023 Bonds, the Indenture, the Lease Agreement nor any other agreement of the Issuer shall be construed to constitute an indebtedness for which the faith and credit of the Issuer or any of its revenues are pledged. See the captions “SECURITY FOR THE BONDS” and “RISK FACTORS” herein.

Redemption

The Series 2023 Bonds are subject to optional, mandatory and extraordinary redemption prior to maturity as set forth in the Official Statement under the caption “THE SERIES 2023 BONDS” herein.

Special Considerations

Payment of principal of, premium, if any, and interest on the Series 2023 Bonds will be primarily dependent upon revenues derived by ACH from the operation of the LR Hospital. See the captions “ACH” and “RISK FACTORS” herein. See also “APPENDIX A – ACH, ACNW and the Hospitals” for a description of ACH and the LR Hospital and its operations.

Pending Litigation and Other Potential Liability

There is not now pending, nor to the knowledge of the Issuer, ACH or the Affiliate Guarantors, threatened, any litigation restraining or enjoining the validity of the Series 2023 Bonds or the proceedings or authority under which they are to be issued.

The Parent and its Affiliates are parties to various litigation matters described under the heading “Miscellaneous - *Litigation*” in Appendix A attached to this Official Statement.

Neither ACH nor the Affiliate Guarantors have any litigation or proceedings pending, or, to their knowledge, threatened, against them which may not be adequately covered by the reserves and insurance policies of ACH and the Affiliate Guarantors, or which, in the opinion of their management and defense counsel, could have a material adverse effect on ACH’s or the Affiliate Guarantors’ business or financial position. See the caption “LITIGATION” herein.

OFFICIAL STATEMENT

\$128,150,000
PULASKI COUNTY, ARKANSAS
HOSPITAL REVENUE BONDS
(ARKANSAS CHILDREN’S HOSPITAL)
SERIES 2023

INTRODUCTION

The purpose of this Official Statement, including the cover page and the Appendices hereto, is to provide certain information concerning the \$128,150,000 Hospital Revenue Bonds (Arkansas Children’s Hospital), Series 2023 (the “Series 2023 Bonds”), to be issued by Pulaski County, Arkansas (the “Issuer” or the “County”). Definitions of certain capitalized terms used in this Official Statement are set forth in Appendix B to this Official Statement.

The Issuer is a political subdivision organized and existing under the laws of the State of Arkansas (the “State”). Pursuant to the provisions of Amendment 65 to the Constitution of the State and Act 175 of the General Assembly of the State for the year 1961, as amended, codified as Arkansas Code Annotated §§14-265-101 *et seq.* (the “Act”), the Issuer is authorized to acquire, own, construct, reconstruct, extend, equip, improve, maintain, operate, sell, lease or contract concerning facilities that can be used for hospitals, and to issue revenue bonds for such purposes. The Series 2023 Bonds are being issued pursuant to the Act, an Order of the County Court of the Issuer entered on May 24, 2023 (the “Order”), and a Trust Indenture dated as of October 1, 1985, as previously supplemented and amended, and as further supplemented and amended by a 2023 Supplemental Trust Indenture dated as of June 15, 2023 (the “Indenture”), by and between the Issuer and Bank OZK (formerly Bank of the Ozarks), Little Rock, Arkansas, as trustee and paying agent (the “Trustee”). See the captions “THE ISSUER” and “SUMMARY OF PORTIONS OF THE INDENTURE” herein.

Arkansas Children’s Hospital, an Arkansas nonprofit corporation (“ACH” or the “Corporation”), and the Issuer have entered into a Lease Agreement dated as of October 1, 1985, as previously supplemented and amended, and as further supplemented and amended by a 2023 Supplemental Lease Agreement dated as of June 15, 2023 (the “Lease Agreement”), pursuant to which ACH leases and operates a 336 licensed-bed pediatric hospital known Arkansas Children’s Hospital (the “LR Hospital”) located at 1 Children’s Way in the City of Little Rock, Arkansas. ACH is recognized as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, and, together with its predecessors, has operated a children’s care facility in the City of Little Rock since 1912. See the caption “ACH” herein and “APPENDIX A – ACH, ACNW and the Hospitals” hereto.

Pursuant to the Lease Agreement, ACH is obligated to make Lease Payments in such amounts and at such times as sufficient to pay the principal, premium, if any, and interest requirements on the Series 2023 Bonds and on the Issuer’s outstanding Hospital Revenue Refunding Bonds (Arkansas Children’s Hospital), Series 2016 (the “Series 2016 Bonds”). To secure its payment obligations under the Lease Agreement, ACH has pledged and granted a security interest in the Gross Revenues of ACH (as defined herein). See the caption “SUMMARY OF PORTIONS OF THE LEASE AGREEMENT” herein.

The proceeds of the sale of the Series 2023 Bonds, along with other available moneys, will be utilized (i) to acquire, construct and equip betterments and improvements to the LR Hospital (the “Project”), and (ii) to pay the costs of issuing the Series 2023 Bonds. See the captions “SOURCES AND USES OF FUNDS” and “THE PROJECT” herein.

As additional security for the payment of the Series 2023 Bonds, (i) Arkansas Children's, Inc., an Arkansas nonprofit corporation (the "Parent"), (ii) ACH, (iii) Arkansas Children's Northwest, Inc., an Arkansas nonprofit corporation ("ACNW"), and (iv) Arkansas Children's Hospital Foundation, Inc., an Arkansas nonprofit corporation (the "Foundation," and together with the Parent and ACNW, the "Affiliate Guarantors"), will each execute and deliver a Guaranty Agreement dated as of June 15, 2023 (the "Guaranty Agreements"), to the Trustee, pursuant to which each of ACH and the Affiliate Guarantors (collectively, the "Guarantors") will severally and unconditionally guarantee payment of the debt service on the Series 2023 Bonds. ACNW will further guarantee the performance of the obligations of ACH under the Lease Agreement. The obligations of ACNW under its Guaranty Agreement are secured by a pledge of and security interest in the Gross Receipts of ACNW. See the caption "SUMMARY OF PORTIONS OF THE GUARANTY AGREEMENTS" herein.

The Parent was organized in December, 2015, and is the sole member of ACH, ACNW and the Foundation. ACNW was organized in December, 2015, to own and operate a 24 licensed-bed pediatric hospital known as Arkansas Children's Northwest (the "NW Hospital") located in the City of Springdale, Arkansas. The Foundation was created in 1985 with the mission of developing and implementing plans to meet fund-raising goals of ACH and its related institutions.

In the Indenture, the Issuer has reserved the right to issue additional bonds (the "Additional Bonds") upon satisfaction of the terms and conditions set forth in the Indenture. In addition, ACH may, under certain circumstances, issue or incur Alternative Indebtedness under the Lease Agreement. Payment of the Series 2016 Bonds, the Series 2023 Bonds and any Additional Bonds (collectively, the "Bonds") and any Alternative Indebtedness would be secured on a parity basis with respect to the Gross Revenues of ACH in accordance with the provisions of the Lease Agreement and the Indenture. See the subcaptions "THE SERIES 2023 BONDS – Additional Bonds" and " - Alternative Indebtedness" herein.

The Series 2023 Bonds are special and limited obligations of the Issuer secured by and payable solely as described herein. The Series 2023 Bonds shall not constitute or give rise to or impose upon the Issuer a general liability or a charge upon its general credit or property other than the Trust Estate (as defined in the Indenture). Neither the Series 2023 Bonds, the Indenture, the Lease Agreement nor any other agreement of the Issuer shall be construed to constitute an indebtedness for which the faith and credit of the Issuer or any of its revenues are pledged. See the captions "SECURITY FOR THE BONDS" and "RISK FACTORS" herein.

This Official Statement and the Appendices hereto contain brief descriptions of, among other things, the Issuer, ACH, the Affiliate Guarantors, the LR Hospital, the NW Hospital, the Series 2023 Bonds, the Lease Agreement, the Indenture, the Guaranty Agreements and a Continuing Disclosure Agreement to be dated as of the date of delivery of the Series 2023 Bonds (the "Continuing Disclosure Agreement"), by and among ACH, the Affiliate Guarantors and Bank OZK, Little Rock, Arkansas, as dissemination agent. Such descriptions do not purport to be comprehensive or definitive. All references in this Official Statement to documents are qualified in their entirety by reference to such documents, and references to the Series 2023 Bonds herein are qualified in their entirety by reference to the form of Series 2023 Bond contained in the Indenture. Information concerning the Issuer has been supplied by the Issuer, and information concerning ACH, the Affiliate Guarantors, the LR Hospital and the NW Hospital has been supplied by ACH and the Affiliate Guarantors. Until the issuance and delivery of the Series 2023 Bonds, copies of the Lease Agreement, Indenture, Guaranty Agreements and Continuing Disclosure Agreement may be obtained at the offices of Stephens Inc., 111 Center Street, 17th Floor, Little Rock, AR 72201. Copies of these documents may be obtained from the Trustee after delivery of the Series 2023 Bonds at the expense of the requesting party.

THE SERIES 2023 BONDS

Description

The Series 2023 Bonds are being issued as fully registered bonds in minimum denominations of \$5,000 or any integral multiple thereof. The Series 2023 Bonds will bear interest from their date at the rates and mature in the amounts and on the dates as set forth on the inside cover page of this Official Statement. Interest on the Series 2023 Bonds is payable semiannually on March 1 and September 1 of each year, commencing March 1, 2024. Principal of and premium, if any, on the Series 2023 Bonds are payable at the principal corporate trust office of the Trustee in Little Rock, Arkansas, or at the offices of any additional or successor paying agent. All principal, premium and interest payments on the Series 2023 Bonds shall be payable to the persons in whose names such Series 2023 Bonds are registered as of the applicable Record Date on the bond registration books maintained by the Trustee.

As used herein, “Record Date” is for all purposes that date which is the fifteenth day of the month then next preceding that date for payment of principal, premium, if any, or interest, whether by scheduled maturity or by optional or mandatory redemption, on the Series 2023 Bonds held by the Holder to which such Record Date is applicable.

All of the Series 2023 Bonds, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”), to which principal, premium and interest payments on the Series 2023 Bonds will be made so long as DTC or its nominee is the registered owner of the Series 2023 Bonds. See the caption “BOOK-ENTRY ONLY SYSTEM” herein.

Optional Redemption

The Series 2023 Bonds are subject to redemption prior to maturity at the option of the Issuer (which option shall be exercised as directed by ACH), as a whole or in part, on March 1, 2033, or on any date thereafter, at a redemption price equal to 100% of the principal amount to be redeemed, plus accrued interest to the date fixed for redemption. If fewer than all of the Series 2023 Bonds shall be called for optional redemption, the particular maturities to be redeemed shall be selected by the Issuer, as directed by ACH, in its discretion. If fewer than all of the Series 2023 Bonds of any one maturity shall be called for optional redemption, the particular Series 2023 Bonds or portions thereof to be redeemed from such maturity shall be selected by lot by the Trustee.

Extraordinary Redemption

The Bonds are subject to redemption from moneys deposited to the Redemption Account of the Bond Fund established by the Indenture (the “Redemption Account”), in whole on any date or in part on the earliest possible interest payment date, at a redemption price equal to 100% of the principal amount of the Bonds to be redeemed, plus accrued interest to the date fixed for redemption. Moneys will be deposited to the Redemption Account as follows:

- (a) If substantial damage to or destruction of any part of the LR Hospital occurs or any part thereof is taken under the exercise of, or acquired under the threat of, eminent domain, and the Trustee and ACH agree that the property or part thereof so destroyed or taken shall not be repaired or replaced, the proceeds of any insurance or condemnation award shall be deposited to the Redemption Account. In addition, in the event the insurance proceeds or condemnation award, together with all other money legally available for such purpose, are insufficient to complete the replacement, repair or reconstruction of the lost, damaged, destroyed or taken property to a degree which, in the written opinion of a Management Consultant filed with the Trustee, would result in ACH deriving Net Revenues Available for Debt Service equivalent to at least 100% of the Total Principal and Interest Requirements of ACH for each subsequent Fiscal Year, the proceeds or award shall be deposited to the Redemption Account.

(b) If damage to or destruction of any part of the LR Hospital occurs, as to which insurance is not required by the Lease Agreement, ACH shall deposit to the Redemption Account a sum equal to the amount which would be required to be expended for the repair, restoration or replacement of such property, unless ACH (i) elects to make such repair, restoration or replacement or (ii) delivers to the Issuer and the Trustee the written opinion of a Management Consultant to the effect that such damage or destruction will have no material adverse effect on Net Revenues Available for Debt Service.

(c) In the event that payment is made under any title insurance policy covering the LR Hospital, such moneys shall be applied to remedy the defect in title to the property and any remaining moneys shall be deposited to the Redemption Account.

See the subcaption “SUMMARY OF PORTIONS OF THE LEASE AGREEMENT – Insurance” herein.

Mandatory Sinking Fund Redemption

The Series 2023 Bonds maturing on March 1, 2048, are subject to mandatory sinking fund redemption prior to maturity on March 1 in the years and amounts set forth below at a redemption price equal to the principal amount thereof and accrued interest to the date of redemption, and without premium, as follows:

<u>Year</u>	<u>Principal Amount</u>
2044	\$5,205,000
2045	5,430,000
2046	5,660,000
2047	5,900,000
2048 (maturity)	6,150,000

The Series 2023 Bonds maturing on March 1, 2053, are subject to mandatory sinking fund redemption prior to maturity on March 1 in the years and amounts set forth below at a redemption price equal to the principal amount thereof and accrued interest to the date of redemption, and without premium, as follows:

<u>Year</u>	<u>Principal Amount</u>
2049	\$6,410,000
2050	6,750,000
2051	7,100,000
2052	7,475,000
2053 (maturity)	7,865,000

At its option, to be exercised on or before the forty-fifth (45th) day next preceding any mandatory redemption date, the Issuer or ACH may (i) deliver to the Trustee for cancellation any Series 2023 Bonds maturing March 1, 2048 and March 1, 2053 (the “Series 2023 Term Bonds”), or (ii) receive a credit in respect of its mandatory redemption obligation for any Series 2023 Term Bonds which prior to said date have been purchased or redeemed (other than through mandatory sinking fund redemption) and cancelled by the Trustee and theretofore applied as a credit against any mandatory redemption obligation. Each such Series 2023 Term Bond or portion thereof so delivered or previously purchased or redeemed and canceled by the Trustee shall be credited by the Trustee at 100% of the principal amount thereof on the obligation of the Issuer on such mandatory sinking fund redemption date and any excess over such amount shall be credited on future mandatory sinking fund redemption obligations in chronological order.

Selection of Bonds to be Redeemed

Except for optional redemption and mandatory sinking fund redemption of the Series 2023 Bonds as provided above, if fewer than all of the Outstanding Series 2023 Bonds shall be called for redemption, the particular Series 2023 Bonds or portions thereof to be redeemed shall be selected by lot by the Trustee, in inverse order of maturity, in such manner as it shall determine. However, in all cases of partial redemption, so long as DTC or its nominee is the sole registered owner of the Series 2023 Bonds, the particular Series 2023 Bonds or portions thereof to be redeemed within a maturity shall be selected by lot by DTC in such manner as DTC shall determine. See the caption “BOOK-ENTRY ONLY SYSTEM” herein. In case any outstanding Series 2023 Bond is in a denomination greater than \$5,000, each \$5,000 of face value of such Series 2023 Bond shall be treated as a separate Series 2023 Bond in the denomination of \$5,000.

Notice of Redemption

In the event any of the Series 2023 Bonds or portions thereof are called for redemption as aforesaid, notice thereof identifying the Series 2023 Bonds or portions thereof to be redeemed and the date on which they shall be presented for payment shall be given by Trustee by mailing a copy of the redemption notice by first class mail, postage prepaid, or by electronic communication (or, so long as DTC or its nominee is the sole registered owner of the Series 2023 Bonds, by any other means acceptable to DTC), not less than thirty (30) days nor more than sixty (60) days prior to the date fixed for redemption to the Holder of each Series 2023 Bond to be redeemed in whole or in part at the address shown on the registration books. Failure to give any such notice by mailing, or any defect therein, shall not affect the validity of the proceedings for the redemption of any Series 2023 Bond or portion thereof with respect to which no such failure has occurred.

After the date specified in such notice, the Series 2023 Bonds so called for redemption will cease to bear interest, provided funds for their payment have been deposited with the Trustee; and, except for the purpose of such payment, shall no longer be protected by the Indenture and shall not be deemed to be outstanding under the provisions of the Indenture.

Additional Bonds

Pursuant to the terms of the Indenture, so long as there shall be no event of default existing under the Indenture, the Issuer may, upon the request of ACH, authorize the issuance of Additional Bonds to provide funds for any lawful purpose. Any such Additional Bonds would be secured on a parity basis with the Series 2016 Bonds, the Series 2023 Bonds and any other Additional Bonds theretofore issued under the Indenture, and any Alternative Indebtedness incurred by ACH as permitted by the Lease Agreement.

The requirements for the issuance of Additional Bonds are set forth below.

Additional Bonds for General Purposes. In the case of the issuance of Additional Bonds for any purpose other than (a) refunding outstanding Bonds or (b) providing funds for the completion of a project, the Trustee shall receive one of the following:

(i) ACH shall have delivered to the Trustee its certificate stating that the Additional Bonds, when combined with all other Outstanding Additional Bonds incurred in compliance with this paragraph (i) and all Alternative Indebtedness incurred in compliance with the provisions of the Lease Agreement, does not exceed 25% of the Operating Revenues of ACH on a consolidated basis; or

(ii) ACH shall have delivered to the Trustee its certificate stating that the ratio of the Net Revenues Available for Debt Service calculated on a consolidated basis (as of the end of the most recent Fiscal Year for which audited financial statements are available) to the Maximum Total Principal and Interest Requirements immediately after the issuance of the proposed

Additional Bonds, including the Additional Bonds as if they had been issued at the beginning of such Fiscal Year, is at least 1.20 to 1.00; or

(iii) ACH shall have delivered to the Trustee (A) its certificate stating that the ratio of Net Revenues Available for Debt Service calculated on a consolidated basis to Total Principal and Interest Requirements was at least 1.10 to 1.00 for the most recent Fiscal Year for which audited financial statements are available and (B) a report of a Management Consultant stating that the ratio of Net Revenues Available for Debt Service calculated on a consolidated basis to Maximum Total Principal and Interest Requirements is projected to be at least 1.20 to 1.00 during each of the two immediately succeeding Fiscal Years or, if the Additional Bonds are being issued to finance the construction of a project, such ratio shall be projected to be at least 1.20 to 1.00 during each of the two Fiscal Years immediately succeeding the completion of the project.

Additional Bonds for Refunding Outstanding Bonds. In the case of the issuance of Additional Bonds issued for the purpose of refunding Outstanding Bonds, the Trustee shall receive the following:

(i) Such additional documents as shall be required by the Trustee to show that provision has been duly made in accordance with the terms of the Indenture for redemption of all of the Bonds to be redeemed; and

(ii) If the maximum annual Principal and Interest Requirements on Outstanding Bonds shall be increased by more than 10% by such refunding during the life of any Bonds issued prior to such refunding and not refunded, ACH shall have delivered to the Trustee either of the certificates described in clauses (i) or (ii) under the subcaption “THE SERIES 2023 BONDS – Additional Bonds – *Additional Bonds for General Purposes.*”

Additional Bonds for Completion of a Project. If Additional Bonds are issued for the purpose of providing funds for completion of a project, such Additional Bonds may be issued and delivered without meeting the debt service coverage requirements outlined above.

Alternative Indebtedness

ACH may incur, assume or guarantee Alternative Indebtedness for the same purposes and upon the same terms and conditions for which Additional Bonds may be issued, as described above, following the same procedures required for the issuance of Additional Bonds.

Any such Alternative Indebtedness may be secured on a parity basis and be entitled to the same benefit and security as the Issuer, the Trustee and the Holders of the Bonds in the Gross Revenues of ACH, and may be entitled to such other security as ACH may deem necessary or desirable; provided, however, the Issuer, the Trustee and the Holders of the Bonds shall share on a parity with and shall be entitled to the same benefit and security as the security for such Alternative Indebtedness, and the instruments evidencing such Alternative Indebtedness and the security therefor shall reflect the interest of the Issuer, the Trustee and the Holders of the Bonds in such security.

Other Indebtedness

In addition to Alternative Indebtedness, ACH may incur short-term and long-term indebtedness under certain specified conditions. See the caption “SUMMARY OF PORTIONS OF THE LEASE AGREEMENT – Permitted Indebtedness” herein.

SECURITY FOR THE BONDS

General

The Series 2023 Bonds are special and limited obligations of the Issuer, payable from amounts due to the Issuer from ACH under the Lease Agreement, and under certain circumstances, from the proceeds of the Series 2023 Bonds and the proceeds of insurance and condemnation awards with respect

to the LR Hospital. As security for its obligations under the Lease Agreement, ACH will grant a pledge of and security interest in the Gross Revenues of ACH. The payments due from ACH under the Lease Agreement and ACH's Guaranty Agreement are general corporate obligations of ACH, backed by its full faith and credit. The ability of ACH to make such payments is dependent primarily upon the results of operation of the LR Hospital. See the caption "RISK FACTORS" herein and "APPENDIX A – ACH, ACNW and the Hospitals" hereto.

"Gross Revenues of ACH" shall mean all revenues, income, receipts, cash and negotiable instruments received in any period by or on behalf of ACH, including, but without limiting the generality of the foregoing, (a) cash receipts derived from its operations, and (b) proceeds derived from (i) insurance and condemnation awards, except to the extent the use thereof is otherwise required by the Lease Agreement, (ii) accounts receivable, (iii) securities and other investments, (iv) inventory and other tangible and intangible property, (v) medical or hospital expense reimbursement or insurance programs or agreements, (vi) contract rights and other rights and assets now or hereafter owned, held or possessed by or on behalf of ACH, (vii) any hospital maintenance tax levied by the Issuer pursuant to Amendment 32 to the Arkansas Constitution, and (viii) appropriations by the Quorum Court of the Issuer, excluding however (a) the gross revenues from portions of the LR Hospital financed with Permitted Indebtedness described in Section 1001(b) of the Lease Agreement to the extent pledged to such Permitted Indebtedness, (b) the proceeds of borrowings, other than borrowings evidenced by Bonds, and interest earned thereon, (c) revenues, income, receipts and money received by ACH as agent for and on behalf of someone other than ACH, and (d) restricted gifts, grants, bequests, donations and contributions.

The Issuer has entered into the Indenture in order to secure the Series 2016 Bonds and the Series 2023 Bonds. Under the Indenture, the Issuer has assigned to the Trustee all of the Issuer's interests under the Lease Agreement, and all of the property and revenues pledged thereunder, but excluding certain rights of the Issuer to payment of its expenses and indemnification.

Pursuant to the Lease Agreement, ACH, upon the occurrence of an event of default under the Lease Agreement and upon written demand of the Trustee, shall become obligated to deliver to the Trustee on a daily basis, so far as practicable, the Gross Revenues of ACH for deposit to the Revenue Fund. The obligation continues until no event of default is continuing, at which time the obligation is suspended. The security interest in the Gross Revenues of ACH may be subject to limitations or rights of other parties imposed by statute or court order and to the requirement that appropriate filings be made from time to time to maintain the perfection of the security interest.

The Series 2023 Bonds are special and limited obligations of the Issuer secured by and payable solely as described herein. The Series 2023 Bonds shall not constitute or give rise to or impose upon the Issuer a general liability or a charge upon its general credit or property other than the Trust Estate (as defined in the Indenture). Neither the Series 2023 Bonds, the Indenture, the Lease Agreement nor any other agreement of the Issuer shall be construed to constitute an indebtedness for which the faith and credit of the Issuer or any of its revenues are pledged. See the caption "RISK FACTORS" herein.

Rate Covenant

In the Lease Agreement, ACH covenants that during each Fiscal Year it will fix, charge and collect, or cause to be fixed, charged and collected, subject to applicable requirements or restrictions imposed by law, rates, rentals, fees and charges for the use of the LR Hospital and for the services furnished or to be furnished by the LR Hospital as will produce Net Revenues Available for Debt Service in each Fiscal Year in an amount equal to not less than 110% of the Maximum Total Principal and Interest Requirements for such Fiscal Year or any subsequent Fiscal Year (the "Rate Requirement").

ACH further covenants that if, in any Fiscal Year, Net Revenues Available for Debt Service shall not satisfy the Rate Requirement, it will, before the 60th day after receipt of the first available financial statement (audited or unaudited), employ a Management Consultant to make recommendations with

respect to the methods of operation and the rates, rentals, fees and charges necessary to enable ACH to satisfy the Rate Requirement, and ACH shall follow such recommendations to the fullest extent allowed by law. If in the judgment of the Management Consultant it is not possible for ACH to satisfy the Rate Requirement, the report shall so indicate, and shall further indicate the projected ratio of Net Revenues Available for Debt Service to the Maximum Total Principal and Interest Requirements anticipated if the recommendations of the Management Consultant are followed. If ACH complies with the Management Consultant's recommendations, ACH shall be excused from compliance with the Rate Requirement so long as ACH's Net Revenues Available for Debt Service in each Fiscal Year shall be at least equal to 100% of Total Principal and Interest Requirements for such Fiscal Year.

Guaranty Agreements

As additional security for the Series 2023 Bonds, ACH, the Parent, ACNW and the Foundation (collectively, the "Guarantors"), will each execute and deliver separate Guaranty Agreements dated as of June 15, 2023 (the "Guaranty Agreements"), to the Trustee pursuant to which the Guarantors will severally and unconditionally guarantee payment of the debt service on the Series 2023 Bonds. ACNW will further guarantee the performance of the obligations of ACH under the Lease Agreement. The obligations of ACNW under its Guaranty Agreement are secured by a pledge of and security interest in the Gross Receipts of ACNW. See the caption "SUMMARY OF PORTIONS OF THE GUARANTY AGREEMENTS" herein.

In order to establish parity security for the Series 2016 Bonds, the Series 2023 Bonds and \$61,770,000 outstanding principal amount of City of Springdale Public Facilities Board Hospital Revenue Bonds, Series 2016 (Arkansas Children's Northwest Project) (the "2016 Northwest Bonds"), ACH has executed and delivered a Guaranty Agreement dated as of June 1, 2016 (the "2016 Northwest Guaranty Agreement"), to Bank OZK (formerly Bank of the Ozarks), as trustee for the 2016 Northwest Bonds, pursuant to which ACH has unconditionally guaranteed payment of the debt service on the 2016 Northwest Bonds. The obligations of ACH under the 2016 Northwest Guaranty Agreement are secured by a pledge of and security interest in the Gross Revenues of ACH.

It is anticipated that ACH, the Parent and the Foundation will enter into additional guaranty agreements during the second quarter of 2024 with respect to City of Springdale Public Facilities Board Hospital Revenue Bonds, Series 2024 (Arkansas Children's Northwest Project), projected to be issued in the approximate principal amount of \$28,335,000 (the "2024 Northwest Bonds") to finance a portion of the cost of various improvements and betterments to the NW Hospital.

For a description of certain covenants of ACNW, see the caption "SUMMARY OF PORTIONS OF THE GUARANTY AGREEMENTS – ACNW Covenants" herein.

Parity Pledges of ACH and ACNW

The obligations of ACH under the Lease Agreement are secured by a pledge of the Gross Revenues of ACH on a parity basis with the pledge of the Gross Revenues of ACH securing ACH's obligations under the 2016 Northwest Guaranty Agreement relating to the 2016 Northwest Bonds. The anticipated guaranty agreement of ACH described above with respect to the 2024 Northwest Bonds would also be secured by a pledge of the Gross Revenues of ACH.

The obligations of ACNW relating to the Series 2023 Bonds under its Guaranty Agreement are secured by a pledge of the Gross Receipts of ACNW on a parity with the pledge of the Gross Receipts of ACNW in favor of the 2016 Northwest Bonds and the Series 2016 Bonds. Upon issuance of the proposed 2024 Northwest Bonds described above, the Gross Receipts of ACNW would additionally secure said 2024 Northwest Bonds.

BOOK-ENTRY ONLY SYSTEM

The Series 2023 Bonds will be issued only as one fully registered Series 2023 Bond for each maturity, in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York (“DTC”), as registered owner of all the Series 2023 Bonds. The fully registered Series 2023 Bonds will be retained and immobilized in the custody of DTC.

DTC (or any successor securities depository) or its nominee will be considered by the Issuer, ACH and the Trustee to be the owner or holder of the Series 2023 Bonds for all purposes under the Indenture.

Owners of any book entry interests in the Series 2023 Bonds (the “book entry interest owners”) described below, will not receive or have the right to receive physical delivery of the Series 2023 Bonds, and will not be considered by the Issuer, ACH and the Trustee to be, and will not have any rights as, owners or holders of the Series 2023 Bonds under the bond proceedings and the Indenture except to the extent, if any, expressly provided thereunder.

CERTAIN INFORMATION REGARDING DTC AND DIRECT PARTICIPANTS IS SET FORTH BELOW. THIS INFORMATION HAS BEEN PROVIDED BY DTC. THE ISSUER, ACH, THE UNDERWRITER AND BOND COUNSEL ASSUME NO RESPONSIBILITY FOR THE ACCURACY OF SUCH STATEMENTS.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.6 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges among Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, the National Securities Clearing Corporation and the Fixed Income Clearing Corporation, all of which are registered agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). The DTC Rules applicable to its Direct and Indirect Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Series 2023 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2023 Bonds on DTC’s records. The ownership interest of each actual purchaser of each Series 2023 Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2023 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2023 Bonds, except in the event that use of the Book-Entry System for the Series 2023 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2023 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2023 Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2023 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2023 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Redemption notices shall be sent to DTC. If less than all of the Series 2023 Bonds within a maturity are to be redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Series 2023 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the Record Date. The Omnibus Proxy will assign Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2023 Bonds are credited on the Record Date (identified in a listing attached to the Omnibus Proxy).

Payment of debt service and redemption proceeds with respect to the Series 2023 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Issuer, ACH or the Trustee on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, ACH or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and debt service to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer, ACH or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

BENEFICIAL OWNERS SHOULD CONSULT WITH THE DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS FROM WHOM THEY PURCHASE A BOOK ENTRY INTEREST TO OBTAIN INFORMATION CONCERNING THE SYSTEM MAINTAINED BY SUCH DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS TO RECORD SUCH INTERESTS, TO MAKE PAYMENTS, TO FORWARD NOTICES OF REDEMPTION AND OF OTHER INFORMATION.

THE ISSUER, ACH AND THE TRUSTEE HAVE NO RESPONSIBILITY OR LIABILITY FOR ANY ASPECTS OF THE RECORDS OR NOTICES RELATING TO, OR PAYMENTS MADE ON ACCOUNT OF, BOOK ENTRY INTEREST OWNERSHIP, OR FOR MAINTAINING, SUPERVISING OR REVIEWING ANY RECORDS RELATING TO THAT OWNERSHIP.

The Trustee, ACH and the Issuer, so long as a book entry method of recording and transferring interest in the Series 2023 Bonds is used, will send any notice of redemption or of any Indenture amendment or supplement or other notices to Bondholders under the Indenture only to DTC (or any successor securities depository) or its nominee. Any failure of DTC to advise any Direct Participants, or of any Direct Participants or Indirect Participants to notify any Beneficial Owner, of any such notice and its content or effect will not affect the validity of the redemption of the Series 2023 Bonds called for

redemption, the Indenture amendment or supplement, or any other action premised on notice given under the Indenture.

The Issuer, ACH and the Trustee cannot and do not give any assurances that DTC, Direct Participants, Indirect Participants or others will distribute payments of debt service on the Series 2023 Bonds made to DTC or its nominee as the registered owner of the Series 2023 Bonds, or any redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or that DTC will serve and act in a manner described in this Official Statement.

DTC may discontinue providing its services as securities depository with respect to the Series 2023 Bonds at any time by giving reasonable notice to the Issuer or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, bond certificates are required to be printed and delivered.

In addition, the Issuer may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered.

SOURCES AND USES OF FUNDS

The proceeds of the Series 2023 Bonds are expected to be used as follows:

<u>Sources of Funds</u>	
Series 2023 Bonds Par Amount	\$128,150,000.00
Net Reoffering Premium	<u>6,947,050.40</u>
Total:	<u>\$135,097,050.40</u>
<u>Uses of Funds</u>	
Construction Fund Deposit ⁽¹⁾	\$134,000,000.00
Underwriter's Discount and Other Costs of Issuance	1,093,653.00
Contingency	<u>3,397.40</u>
Total:	<u>\$135,097,050.40</u>

(1) It is anticipated that the \$235.2 million estimated cost of the Project will be paid for with approximately \$134 million of proceeds of the Series 2023 Bonds, approximately \$40 million received in connection with a planned capital campaign, and approximately \$61.2 million from current cash flow and cash reserves of ACH.

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DEBT SERVICE REQUIREMENTS

The following table sets forth the amounts required to pay the combined scheduled principal and interest due on the (i) \$641,615 outstanding principal amount of Arkansas Development Finance Authority Revenue Bond (Arkansas Children’s Hospital Project), Series 2013 (the “Series 2013 Bond”), (ii) \$61,770,000 outstanding principal amount of the City of Springdale Public Facilities Board Hospital Revenue Bonds, Series 2016 (Arkansas Children’s Northwest Project) (the “2016 Northwest Bonds”), (iii) \$84,670,000 outstanding principal amount of the Pulaski County, Arkansas Hospital Revenue Refunding Bonds (Arkansas Children’s Hospital), Series 2016 (the “Series 2016 Bonds”), and (iv) the Series 2023 Bonds, during the fiscal years ending June 30 indicated below:

	Series 2013 <u>Debt Service</u> ⁽¹⁾	2016 Northwest <u>Debt Service</u> ⁽²⁾	Series 2016 <u>Debt Service</u>	Series 2023 <u>Principal</u>	Series 2023 <u>Interest</u>	Total Debt <u>Service</u>
2023	\$1,932,611	\$5,168,912	\$4,096,987	\$ --	\$ --	\$11,198,510
2024	483,141	5,169,013	7,355,588	1,275,000	4,241,641	18,524,383
2025	--	5,166,762	7,356,337	2,060,000	6,220,163	20,803,262
2026	--	5,168,263	7,352,838	2,165,000	6,117,162	20,803,263
2027	--	5,167,162	7,358,187	2,270,000	6,008,913	20,804,262
2028	--	5,164,163	7,357,688	2,385,000	5,895,412	20,802,263
2029	--	5,164,162	7,359,687	2,505,000	5,776,163	20,805,012
2030	--	5,165,413	7,353,937	2,630,000	5,650,912	20,800,262
2031	--	5,163,912	7,357,500	2,760,000	5,519,413	20,800,825
2032	--	5,164,413	7,356,250	2,900,000	5,381,412	20,802,075
2033	--	5,166,412	7,357,500	3,045,000	5,236,413	20,805,325
2034	--	5,166,813	7,355,500	3,195,000	5,084,162	20,801,475
2035	--	5,167,312	7,354,750	3,355,000	4,924,413	20,801,475
2036	--	5,164,763	7,354,500	3,525,000	4,756,662	20,800,925
2037	--	5,166,562	7,354,000	3,700,000	4,580,413	20,800,975
2038	--	5,167,900	7,352,100	3,885,000	4,395,412	20,800,412
2039	--	5,164,988	7,354,200	4,080,000	4,201,163	20,800,351
2040	--	5,167,575	--	4,285,000	3,997,162	13,449,737
2041	--	--	--	4,500,000	3,782,913	8,282,913
2042	--	--	--	4,725,000	3,557,912	8,282,912
2043	--	--	--	4,960,000	3,321,663	8,281,663
2044	--	--	--	5,205,000	3,073,662	8,278,662
2045	--	--	--	5,430,000	2,852,450	8,282,450
2046	--	--	--	5,660,000	2,621,675	8,281,675
2047	--	--	--	5,900,000	2,381,125	8,281,125
2048	--	--	--	6,150,000	2,130,375	8,280,375
2049	--	--	--	6,410,000	1,869,000	8,279,000
2050	--	--	--	6,750,000	1,532,475	8,282,475
2051	--	--	--	7,100,000	1,178,100	8,278,100
2052	--	--	--	7,475,000	805,350	8,280,350
2053	--	--	--	7,865,000	412,912	8,277,912
	<u>\$2,415,752</u>	<u>\$92,994,500</u>	<u>\$121,787,549</u>	<u>\$128,150,000</u>	<u>\$117,506,603</u>	<u>\$462,854,404</u>
Total:						

(1) The Series 2013 Bond is secured by loan payments to be made by ACH and by the helicopters financed with the proceeds of the Series 2013 Bond.

(2) The 2016 Northwest Bonds are secured by the Gross Receipts of ACNW and by the guarantees of the Parent, ACH and the Foundation. The guarantee by ACH is secured by the Gross Revenues of ACH.

In addition, it is anticipated that City of Springdale Public Facilities Board Hospital Revenue Bonds, Series 2024 (Arkansas Children’s Northwest Project), will be issued in the second quarter of 2024 in the approximate principal amount of \$28,335,000 (the “2024 Northwest Bonds”) to finance a portion of the cost of various improvements and betterments to the NW Hospital.

ESTIMATED DEBT SERVICE COVERAGE

	<u>Fiscal Year 2021</u>	<u>Fiscal Year 2022</u>
Net Revenues Available for Debt Service ⁽¹⁾	\$136,526,382	\$110,506,838
Maximum Total Principal and Interest Requirements on Series 2013 Bond, 2016 Northwest Bonds, Series 2016 Bonds and Series 2023 Bonds ⁽²⁾	\$20,805,325	\$20,805,325
Estimated Coverage	<u>6.56X</u>	<u>5.31X</u>

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- (1) See “APPENDIX B – Definitions” for the meaning of “Net Revenues Available for Debt Service.”
 - (2) See the fiscal year ending June 30, 2033, under the caption “DEBT SERVICE REQUIREMENTS” herein for the Maximum Total Principal and Interest Requirements on the Series 2013 Bond, 2016 Northwest Bonds, Series 2016 Bonds and Series 2023 Bonds.

In addition, it is anticipated that City of Springdale Public Facilities Board Hospital Revenue Bonds, Series 2024 (Arkansas Children’s Northwest Project), will be issued in the second quarter of 2024 in the approximate principal amount of \$28,335,000 (the “2024 Northwest Bonds”) to finance a portion of the cost of various improvements and betterments to the NW Hospital.

THE ISSUER

Pulaski County, Arkansas (the “Issuer” or the “County”) is a political subdivision of the State of Arkansas (the “State”), organized and existing under the Constitution and laws of the State. The chief executive and administrative officer of the Issuer is the County Judge, and the legislative authority of the Issuer is vested in a Quorum Court.

Under the laws of the State, including Amendment 65 to the Constitution of the State and the Act, the Issuer is authorized to own, acquire, construct, reconstruct, extend, equip, improve, maintain, operate, sell, lease and contract concerning facilities that can be used for hospitals, to issue revenue bonds for such purposes, and to lease such hospital facilities owned by the Issuer to eligible entities, such as ACH.

The County is located in the geographical center of the State and is the most populous of the State’s counties. The county seat, the City of Little Rock (the “City”), serves also as the Capitol of the State. Other incorporated cities in the County are Jacksonville, North Little Rock, Sherwood, Maumelle, Cammack Village, Wrightsville, and Alexander. The City, located on the Arkansas River, is a regional trade and distribution center served by rail and motor transportation facilities, a national airport and several commercial airlines, and a foreign trade zone port.

Located in the City are the University of Arkansas at Little Rock, Pulaski Technical College, the University of Arkansas for Medical Sciences, and two private colleges.

The economy of the County is primarily commercial, governmental and industrial. All but one major department of the State government are located in the City. For additional demographic information concerning the County, see the caption “Demographic Data” in “APPENDIX A—ACH, ACNW and the Hospitals” hereto.

The Series 2023 Bonds are special and limited obligations of the Issuer secured by and payable solely as described herein. The Series 2023 Bonds shall not constitute or give rise to or impose upon the Issuer a general liability or a charge upon its general credit or property other than the Trust Estate (as defined in the Indenture). Neither the Series 2023 Bonds, the Indenture, the Lease Agreement nor any other agreement of the Issuer shall be construed to constitute an indebtedness for which the faith and credit of the Issuer or any of its revenues are pledged. See the captions “SECURITY FOR THE BONDS” and “RISK FACTORS” herein.

ACH

Arkansas Children’s Hospital, an Arkansas nonprofit corporation (“ACH” or the “Corporation”), leases and operates Arkansas Children’s Hospital, a 336 licensed-bed pediatric hospital located at 1 Children’s Way near the State Capitol in the City of Little Rock, Arkansas (the “LR Hospital”). The LR Hospital is the only acute care tertiary healthcare facility operated exclusively for children in the State. See “APPENDIX A – ACH, ACNW and the Hospitals” hereto.

The sole member of ACH is Arkansas Children’s, Inc. (the “Parent”), also an Arkansas nonprofit corporation and one of the Affiliate Guarantors of the Series 2023 Bonds. The other Affiliate Guarantors, Arkansas Children’s Northwest, Inc. (“ACNW”) and Arkansas Children’s Hospital Foundation, Inc. (the “Foundation”), are Affiliates of ACH. By letter of the Internal Revenue Service dated April 16, 1993, ACH has been deemed a tax-exempt organization under Section 501(c)(3) of the Code.

The current organizational chart for the Parent and its Affiliates is set forth under the caption “Governing Body and Organization” in “APPENDIX A—ACH, ACNW and the Hospitals” hereto.

THE PROJECT

The proposed Project will be located on the campus of the LR Hospital, and will include approximately 193,050 square feet of new finished space, approximately 6,150 square feet of new shell space, and approximately 118,500 square feet of renovated space.

Major Project components are expected to include:

1. New Outpatient Building containing approximately 146,700 square feet
 - Level One (45,900 square feet) will contain a lobby with covered entrance and a valet drive, support spaces, an Orthopedic Clinic with 24 exam rooms, and a Sports Medicine Clinical Suite and Sports Lawn.
 - Level Two (50,400 square feet) will contain 33,000 sq. ft. for the relocation and enlargement of the Clinical Laboratory currently in the Sturgis Building and 17,400 sq. ft. of flexible space for future use to support clinical research and/or clinical care.
 - Level Three (50,400 square feet) will contain ten (10) ambulatory outpatient surgery operating rooms (with eight ORs initially equipped for use) and flexible and shell space for future program refinement.
2. Repurposing of Existing Sturgis Building
 - Outpatient clinics located throughout the LR Hospital campus will be consolidated in the Sturgis Building following relocation of the Clinical Laboratory to the new Outpatient Building (see above).
 - The first and second floors will be converted to flexible clinic pods containing 102 exam rooms.

3. New Main Entry and Sturgis Building Gallery

- The main entry to the LR Hospital will be realigned with Maryland Avenue and would serve as a clear wayfinding zone and a central access point for inpatient, surgery, patient services and outpatient clinics.
- A three-story addition to the front of the Sturgis Building will serve as a public and staff concourse connecting the new main entry and the new Outpatient Building. It would also provide shared waiting space outside the renovated Sturgis Building clinics and would create a new, unified exterior façade between the new main entry and the new Outpatient Building.

4. Inpatient Space Renovations

- Once outpatient procedure areas are relocated to the new Outpatient Building, the Department of Surgery will be completely renovated (in phases) for primarily inpatient and trauma cases, and will contain six (6) operating rooms and three (3) procedure rooms. The new design should address existing issues of patient access and flow, storage, and internal operating room workflows, and will provide for family waiting and new patient intake access from the new main entry.
- An Acute Crisis Unit (sized to accommodate 4-8 patients) will be developed as an addition to the existing building and co-located with the Emergency Department. The Acute Crisis Unit will provide behavioral health crisis intervention services, including screening and evaluation, treatment planning and intervention to children ages 4-18.

The architects for the Project are Polk Stanley Wilcox, Little Rock, Arkansas, and Cromwell Architects Engineers, Little Rock, Arkansas, and the general contractor for the Project is Nabholz Construction Corporation, Little Rock, Arkansas. Total Project costs are presently estimated to be approximately \$235.2 million. Approximately \$134 million of such costs are expected to be paid from proceeds of the Series 2023 Bonds and investment earnings thereon. Remaining costs of the Project will be paid from funds raised by the Foundation in connection with a planned capital campaign relating to the Project and from current cash flows and cash reserves of ACH. The fundraising goal of the capital campaign for the Project is \$40 million. See the caption “RISK FACTORS – Construction and Funding Risks Associated with the Project” herein for a discussion of investment considerations associated with the Project.

Groundbreaking on the Project is presently expected to occur in the fourth quarter of 2023. Construction of the new Outpatient Building is expected to be completed in January 2026, with operations to commence in March or April of 2026. Construction of the new main entry and the Sturgis Building Gallery is expected to be completed in February or March of 2027, with occupancy expected in April 2027. Inpatient space renovations will occur in phases and are all expected to be completed and ready for use by August 2028.

RISK FACTORS

THE PURCHASE OF THE SERIES 2023 BONDS IS SUBJECT TO CERTAIN INVESTMENT RISKS AND MAY NOT BE SUITABLE FOR SOME INVESTORS. PROSPECTIVE INVESTORS ARE ENCOURAGED TO READ THIS OFFICIAL STATEMENT IN ITS ENTIRETY, INCLUDING THE APPENDICES HERETO. PARTICULAR ATTENTION SHOULD BE GIVEN TO THE FACTORS DESCRIBED BELOW WHICH, AMONG OTHERS, COULD AFFECT THE PAYMENT OF THE PRINCIPAL OF AND INTEREST ON THE SERIES 2023 BONDS, AND COULD ALSO AFFECT THE MARKET PRICE OF THE SERIES 2023 BONDS TO AN EXTENT THAT CANNOT BE DETERMINED. THE FOLLOWING LIST OF RISK FACTORS IS NOT INTENDED TO PROVIDE AN EXHAUSTIVE LIST OF THE GENERAL OR SPECIFIC RISKS RELATING TO THE PURCHASE OF THE SERIES 2023 BONDS. ADDITIONAL RISK FACTORS RELATING TO AN

INVESTMENT IN THE SERIES 2023 BONDS ARE DESCRIBED THROUGHOUT THIS OFFICIAL STATEMENT, INCLUDING THE APPENDICES HERETO, WHETHER OR NOT SPECIFICALLY DESIGNATED AS RISK FACTORS.

General

The Series 2023 Bonds and the interest thereon are special and limited obligations of the Issuer secured by and payable solely as described herein. The Series 2023 Bonds shall not constitute or give rise to or impose upon the Issuer a general liability or a charge upon its general credit or property other than the Trust Estate (as defined in the Indenture). Neither the Series 2023 Bonds, the Indenture, the Lease Agreement nor any other agreement of the Issuer shall be construed to constitute an indebtedness for which the faith and credit of the Issuer or any of its revenues are pledged. See the caption “SECURITY FOR THE BONDS” herein.

Except as otherwise noted herein, the Series 2023 Bonds are payable from the Lease Payments to be made by ACH under the Lease Agreement or by the Guarantors under the Guaranty Agreements. No representation can be made or assurance given that revenues will be realized by ACH and the Affiliate Guarantors in amounts sufficient to pay maturing principal of and interest on the Series 2023 Bonds. The payments due under the Lease Agreement are general corporate obligations of ACH, and any payments due under the Guaranty Agreements are general corporate obligations of the Guarantors. The ability of ACH and the Affiliate Guarantors to make such payments is dependent upon their general financial condition and upon many other factors and conditions which may change in the future to an extent and with effects that cannot be determined at this time. Such factors include, in addition to those mentioned below, the capabilities of the management of ACH and the Affiliate Guarantors, the confidence of physicians in ACH and ACNW, the relationship between and among ACH, ACNW and other health care providers, changes in the economic conditions of ACH’s and ACNW’s service areas, the demand for medical services, levels and methods of federal reimbursement under Medicare, federal and state reimbursement under Medicaid, reimbursement from other third-party payors, competition, rates, demographic changes, malpractice claims, natural disasters, governmental legislation, regulation and licensing requirements, and future economic and other conditions (including the impact of inflation) which may change in the future and which are not quantified or determinable at this time.

ACH and ACNW are health care providers which derive a significant portion of their revenues from Medicaid, Blue Cross and Blue Shield of Arkansas and other third-party payor programs. See the caption “Historical Financial Performance” in Appendix A to this Official Statement. The receipt of future revenues by ACH and ACNW is therefore subject to, among other factors, federal and State policy changes affecting the health care industry and other conditions which are impossible to predict. Such conditions may include difficulties in collecting governmental reimbursement for services provided and other fees charged by ACH and ACNW in amounts sufficient to maintain the scope and quality of health services and changes in reimbursement or prospective payment policies. The effect on ACH and the Affiliate Guarantors of recently enacted laws and regulations and of changes in federal and State laws and policies cannot be fully or accurately determined at this time.

Discussions regarding an increase in the U.S. national debt ceiling are currently underway between leadership of the U.S. House of Representatives and President Biden. Failure to increase the debt ceiling in a timely matter could result in a disruption in the transfer of Medicare and Medicaid payments to health care providers such as ACH and ACNW. Further, negotiations regarding the debt ceiling may result in changes to the Medicare and Medicaid programs that cannot be predicted at this time.

This caption should be read in conjunction with the information concerning ACH, ACNW, the Parent and their related entities contained in Appendix A hereto, and with the consolidated financial statements attached hereto as Appendix C.

The following factors should be considered by prospective purchasers of the Series 2023 Bonds in evaluating the ability of ACH and the Affiliate Guarantors to meet their respective obligations under the Lease Agreement and the Guaranty Agreements with respect to the Series 2023 Bonds. The discussion of risk factors is not, and is not intended to be, exhaustive.

Matters Relating to the Security for the Series 2023 Bonds

The payment obligations of ACH under the Lease Agreement with respect to the Series 2023 Bonds are secured by a security interest in the Gross Revenues of ACH. The payment obligations of ACNW under its Guaranty Agreement are secured by a security interest in the Gross Receipts of ACNW. See the caption “SECURITY FOR THE BONDS” herein.

The realization of any rights upon a default will depend upon the exercise of various remedies specified in the Indenture. These remedies, in certain respects, may require judicial action which is often subject to discretion and delay. Under existing law, certain of the remedies specified in the Indenture may not be readily available or may be limited. A court may decide not to order the specific performance of the covenants contained in the Indenture. The effectiveness of the Lease Agreement and the Guaranty Agreement of ACNW, including the pledge of the Gross Revenues of ACH and the Gross Receipts of ACNW, respectively, described therein, may be limited by a number of factors, including: (a) the absence of an express provision permitting assignment of payments due under the Medicare or Medicaid programs or under the contracts between ACH or ACNW and third party payors, and present or future prohibitions against assignment contained in any federal statutes or regulations; (b) statutory liens; (c) rights arising in favor of the United States of America or any agency thereof; (d) constructive trusts, equitable liens or other rights impressed or conferred by a federal or State court in the exercise of its equitable jurisdiction; (e) federal bankruptcy laws that may affect the enforceability of the Indenture or certain federal statutes and judicial decisions that have cast doubt upon the right of a trustee, in the event of a default, to collect and retain accounts receivable from Medicare, Medicaid and other governmental programs; and (f) rights of third parties in ACH’s or ACNW’s revenues converted to cash and not in the possession of the Trustee.

The state of insolvency, fraudulent conveyance and bankruptcy laws relating to the enforceability of guaranties or obligations issued by one corporation in favor of the creditors of another is unsettled. In particular, such obligations may be voidable under the Federal Bankruptcy Code or applicable state fraudulent conveyance statutes if the obligation is incurred without “fair” consideration and/or “substantially equivalent” value to the obligor and if the incurrence of the obligation thereby renders the corporation insolvent. The standards for determining fairness of consideration and the manner of determining insolvency are not clear and may vary under the Federal Bankruptcy Code, state fraudulent conveyance statutes and applicable cases.

COVID-19 Pandemic

The World Health Organization declared a pandemic on March 11, 2020 following the global outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus. On March 13, 2020, President Donald Trump declared a national emergency to unlock federal funds and assistance to help states and local governments fight the pandemic. Arkansas Governor Asa Hutchinson (the “Governor”) declared a state of emergency on March 11, 2020 due to the outbreak of COVID-19, which had spread to the State and to all of its counties, and, in connection therewith, ordered that certain actions be taken such as the suspension or closing of primary and secondary schools, limitations on mass gatherings, and mandating quarantine and isolation of persons who had contracted COVID-19 and associated close contacts. The Governor’s emergency declaration has expired, and there are currently no government-mandated suspensions or closings of primary and secondary schools, limitations on mass gatherings or quarantine and isolation mandates for people who have contracted COVID-19 or their associated close contacts.

COVID-19 and associated governmental measures, which altered the behavior of businesses and people, have had negative impacts on regional, state and local economies. Financial markets in the United

States and around the world saw significant volatility attributed to concerns about the duration of the pandemic and its continued economic impact. The federal government approved multiple relief, aid and stimulus packages, including the Coronavirus Aid, Relief and Economic Security Act (the “CARES Act”), the Paycheck Protection Program and the Health Care Enhancement Act, which were intended to address the financial impact of the pandemic on the United States economy and financial markets.

The COVID-19 pandemic affected the ability of the Parent and its Affiliates (collectively, the “System”) to conduct normal operations and, as a result, the financial performance and financial condition of the Parent and its Affiliates were adversely affected. See the captions “Impact of COVID-19 Pandemic” and “Historical Financial Performance - *Management’s Discussion of Operating Results*” in “APPENDIX A – ACH, ACNW and the Hospitals.”

Risks of Repeal or Amendment of Affordable Care Act or Arkansas Health and Opportunity for Me (ARHOME) Medicaid Expansion

The Patient Protection and Affordable Care Act of 2010 and the Health Care and Education Reconciliation Act of 2010 (collectively referred to as the “Health Reform Law” and commonly referred to as “Obamacare”) were designed to overhaul the United States health care system and regulate many aspects of the health care industry, including individuals, employers and health insurers. The Health Reform Law addresses almost all aspects of hospital and provider operations and health care delivery and changes how health care services are covered, delivered and reimbursed. These changes have resulted in lower reimbursement from Medicare, utilization changes, increased government enforcement efforts, and the necessity for health care providers to assess and potentially alter their business strategy and practices. The reimbursement reductions associated with the Health Reform Law are intended to be offset in part by the expansion of access to Medicaid to millions of previously uninsured Americans. The provisions of the Health Reform Law are described in greater detail below under the subcaption “Nonprofit Health Care Environment – *Health Care Reform*.”

The content and implementation of the Health Reform Law have been, and remain, highly controversial. Accordingly, the Health Reform Law has continually faced multi-front challenges, including repeal efforts, since its enactment. On June 28, 2012, the U.S. Supreme Court upheld most provisions of the Health Reform Law, including the requirement that individuals purchase and maintain health insurance coverage, while also substantially limiting the law’s expansion of Medicaid, allowing states to choose between participating in the expansion while receiving additional federal payments or foregoing the expansion and retaining existing payments (*National Federation of Independent Business v. Sebelius*). As further discussed below, the Health Reform Law has continued to be the subject of ongoing legal, executive branch and legislative challenges.

The financial impact of any major modification or repeal of the Health Reform Law, or of any replacement health care reform legislation, cannot be predicted, although the effect could be material. In particular, any legal, legislative or executive action that reduces federal health care program spending, increases the number of individuals without health insurance, reduces the number of people seeking health care, or otherwise significantly alters the health care delivery system or insurance markets could have an adverse effect on the revenues of ACH and the Affiliate Guarantors. Reductions in funding levels of the Medicare or Medicaid programs, changes in payment methods under the Medicare and Medicaid programs, reductions in State funding, or other legislative or regulatory changes could materially reduce the patient service revenue of ACH and the Affiliate Guarantors.

In the U.S. Supreme Court decision of *National Federation of Independent Business v. Sebelius*, the Supreme Court ruled that the federal government could not compel states to comply with the Health Reform Law’s requirement to expand Medicaid by eliminating all federal funds a state receives for its existing Medicaid program. Under the relevant provisions of the Health Reform Law, Medicaid was expected to cover all individuals with incomes of less than 133% of the federal poverty level, expanding eligibility to approximately 16 million people. Beginning in 2014, states were also permitted to expand Medicaid eligibility to non-elderly, non-pregnant individuals who were not otherwise eligible for

Medicare, if such individuals have incomes of less than 133% of the federal poverty level. To assist states with the cost of covering such newly eligible individuals, the federal government committed to pay 100% of the additional cost to the states for a limited number of years. Thereafter, the cost share decreases to 90%. However, as stated above, the Supreme Court's decision made the decision to expand Medicaid optional to the states.

In response to the ruling in *National Federation of Independent Business v. Sebelius* described above allowing states to choose between participating in the expansion while receiving additional federal payments or foregoing the expansion and retaining existing payments, instead of fully expanding the Arkansas Medicaid program as envisioned by the Affordable Care Act, the State of Arkansas (the "State") sought and obtained a waiver from the federal government to instead institute a hybrid approach commonly referred to as the "private option." Under the current version of the private option, individuals in Arkansas earning less than 138% of the federal poverty level income amount are eligible to receive a government subsidy to purchase private insurance through an insurance exchange. The adoption of the State's private option program by the Arkansas General Assembly, effective June 1, 2014, has resulted in insurance coverage to an estimated 285,000 previously uninsured persons and a corresponding decrease in the costs of uncompensated care to Arkansas hospitals. Any repeal or revision of the Affordable Care Act could potentially invalidate the Arkansas private option program, which, in turn, could have a material negative impact on patient revenues of ACH and the Affiliate Guarantors and their ability to satisfy their respective payment obligations with respect to the Series 2023 Bonds and their other indebtedness.

Under State law, the private option program requires annual reauthorization and appropriation by a vote of at least 75% of the senators and representatives in each chamber of the Arkansas General Assembly. Approval in 2018 was accomplished with 27 votes (27 required) in the Senate and 79 votes (75 required) in the House. Reauthorization was obtained in 2016, 2017 and 2018 only after a number of amendments to the program such as (i) requiring the payment of small premiums by persons earning between 100% and 138% of the federal poverty level income amount, (ii) the requirement for able-bodied recipients to work, be engaged in work or education training, or volunteer with a charitable organization (the "Work Requirement"), (iii) reducing the retroactive eligibility standard for Medicare coverage from 90 days before enrollment to 30 days prior to enrollment, and (iv) rebranding of the program as "Arkansas Works." The amendments were approved through a waiver process with the Centers for Medicare and Medicaid Services ("CMS").

The Work Requirement, the first of its kind in the nation, became effective in June of 2018, and required non-exempt beneficiaries to report 80 hours each month of work, work training, education, or community service. The reporting process, which required the submission of hours through an online portal, proved controversial. In August 2018, Arkansas Works had 265,223 total enrollees. By December 2018, 18,000 beneficiaries had been removed from the program. In March of 2019, the Work Requirement was struck down by a federal judge in the United States District Court for the District of Columbia (*Gresham v. Azar*). In February of 2020, a federal appeals court panel for the United States Court of Appeals for the District of Columbia Circuit unanimously upheld the lower court's ruling striking down the Work Requirement. The Trump Administration petitioned the United States Supreme Court to hear an appeal of the decision, but the petition was not granted. Accordingly, the Work Requirement is not currently in effect and individuals who lost eligibility for Arkansas Works coverage were eligible to reapply. Reauthorization and appropriation of the program for 2019 was impacted as a result; although the bill to fund Arkansas Works passed the Senate, it failed in the House of Representatives, achieving only 58 votes (75 required). Brought before the chamber again, the bill received the 75 votes needed to fund the program for 2019. The program, now known as Arkansas Health and Opportunity for Me (ARHOME), was extended without controversy in 2020, 2021, 2022 and 2023. At the end of December 2022, approximately 345,000 persons were enrolled in the ARHOME program.

On February 15, 2023, the State again announced that it would be seeking a waiver from CMS to allow the State to impose a requirement that individuals work or engage in work training, education or community service in order to be eligible to participate in the ARHOME program. Unlike the previously

invalidated Work Requirement described in the preceding paragraph, failure to qualify would not result in the loss of Medicaid benefits. Rather, non-qualifying persons would be transferred from the ARHOME private insurance expansion program to traditional Medicaid fee-for-service status.

Given the annual appropriation requirement for the ARHOME program (which is also subject to a lengthy review and approval process by CMS with respect to any changes or waivers with respect to the program), as well as the political environment, the long-term status of ARHOME cannot be assured. If the ARHOME program is revised resulting in an increase of uninsured individuals, or if the Arkansas General Assembly fails to reauthorize, continue or approve funding for the ARHOME program, there may be an adverse impact on the results of System operations.

ACH and ACNW are participants in the State Children's Health Insurance Program (SCHIP), known in Arkansas as ARKids. SCHIP is designed to provide insurance coverage for children whose families earn too much to qualify for Medicaid, but who cannot afford private coverage.

As part of the COVID-19 public health emergency, the federal government increased Medicaid match funds to states. As one of the conditions to accepting such increased match funds, states were not permitted to redetermine Medicaid eligibility or to terminate the eligibility of Medicaid beneficiaries. Arkansas and other states halted Medicaid eligibility verification under such national public health emergency declaration.

The Biden administration has announced that the national public health emergency officially ended at the end of the day on May 11, 2023. As part of the unwinding process of policies that were effective during the emergency, automatic renewals for Medicaid and SCHIP coverage ceased on March 31, 2023. On April 1, 2023, the Arkansas Department of Human Services ("DHS") began reassessing the eligibility of beneficiaries who throughout the COVID-19 pandemic were guaranteed a place in the federal-state Medicaid and SCHIP health care insurance programs for low-income residents. The System is working with DHS to assist in proactively reaching out to patients who may be at risk of losing Medicaid or SCHIP coverage to ensure that such patients get reenrolled or are able to get health insurance coverage on the healthcare exchange.

DHS estimates that 420,000 of the State's 1.15 million total Medicaid beneficiaries had their coverage extended because of the national public health emergency, and that 15% to 30% of said individuals will not qualify for beneficiary status upon redetermination. Management believes that the redetermination process may result in some increase in uncompensated care for the System, which would be tempered somewhat by the participation of ACH and ACNW in the State's SCHIP program.

Construction and Funding Risks Associated with the Project

With respect to the design, acquisition, construction and equipping of the various improvements (collectively, the "Project") described under the caption "THE PROJECT" herein, to be located in the City of Little Rock, Arkansas, on the campus of the LR Hospital, Polk Stanley Wilcox, Little Rock, Arkansas, and Cromwell Architects Engineers, Little Rock, Arkansas, have been engaged as architects and Nabholz Construction Corporation, Little Rock, Arkansas, has been hired as the general contractor. It is intended that the projected \$235.2 million cost of the Project will be funded with approximately \$134 million of proceeds of the Series 2023 Bonds, and investment earnings thereon, \$40 million raised in a planned capital campaign, with the remaining \$61.2 million of the cost to be funded from current cash flows and cash reserves. Although management believes that the capital campaign goal is achievable, if the actual amounts needed and collected are less than the stated \$40 million target, ACH would be required to contribute additional money to complete the Project or reduce its scope accordingly. In order to mitigate the risks of cost overruns with respect to the Project, ACH will enter into a guaranteed maximum price construction contract. Groundbreaking on the Project is expected to occur in the fourth quarter of 2023.

There can be no assurances that the design, acquisition, construction and equipping of the Project will be completed on schedule. A variety of factors could result in the delay of the completion of the

Project, including delays in obtaining the necessary permits, licenses and other government approvals, site difficulties, labor disputes, delays in delivery and shortages of materials, adverse weather conditions, fire and other casualties, contractor and subcontractor defaults, and unknown contingencies. If completion of the Project is delayed beyond the date projected, the receipt of revenues with respect to operations of components of the Project will likewise be delayed.

Fluctuations in Market Value of Investments

Investments provide ACH and ACNW with important sources of funds to support their programs and services. Over the past several years, the market for such investments has been unstable and the value of ACH's and ACNW's investment securities has fluctuated and, in some instances, the fluctuations have been significant. Negative investment returns in Fiscal Year 2022 and through the first nine months of Fiscal Year 2023 were approximately \$72.16 million and \$4.36 million, respectively, resulting in a reduction in the consolidated System's Fiscal Year 2022 excess of revenues over expenses of \$5.90 million, and the consolidated System's excess of revenues over expenses of \$53.13 million for the first nine months of Fiscal Year 2023. No assurances can be given that the market value of ACH's and ACNW's investments will not decline in the future. Any such decline could adversely affect the financial condition of ACH and ACNW and their ability to satisfy their respective payment obligations with respect to the Series 2023 Bonds.

In addition to risks of decline in the value of ACH's and ACNW's investments associated with fluctuations in market returns, it should be noted that ACH intends to fund approximately \$61.2 million of the cost of the design, acquisition, construction and equipping of the Project with its current cash flows and cash reserves. The total present estimated cost of designing, acquiring, constructing and equipping the Project is approximately \$235.2 million. Such expenditures will result in a material reduction in the principal amount of ACH's investment securities.

Admissions

A significant portion of ACH's and ACNW's revenues are derived from reimbursements by the Arkansas Medicaid program for charges to patients (or reimbursement from other third-party intermediaries on behalf of patients) for medically necessary treatment delivered to patients admitted to the LR Hospital and the NW Hospital by members of ACH's and ACNW's medical staffs. If patients typically admitted to the LR Hospital and the NW Hospital were to be admitted to other hospitals, or the criteria for Medicaid eligibility were amended to limit the current Medicaid population, the revenues of ACH and ACNW would decrease. See "Significant Health Care Risk Areas Summarized – *Proliferation of Competition*" below.

Possible Increases in Competition

The LR Hospital and the NW Hospital could face increased competition in the future from other hospitals and from other forms of health care delivery that offer health care services to the populations which the LR Hospital and the NW Hospital presently serve, which increased competition could affect the ability of ACH and ACNW to attract physicians or other staff and patients. The development of health maintenance organizations and preferred provider organizations which do not utilize the LR Hospital or the NW Hospital or which are able to offer lower priced services could also result in decreased utilization of the services provided at the LR Hospital and the NW Hospital and other medical facilities operated by the System. In addition, the State does not currently have a certificate of need program that directly limits the service areas of hospitals or similar provider categories. Consequently, entry of additional providers of similar health care services in ACH's and ACNW's service areas is not limited by any State requirement of need determination. See the captions "LR Hospital Market Share," "Little Hospital Service Area," "NW Hospital Market Share" and "NW Hospital Service Area" in Appendix A hereto.

Significant Health Care Risk Areas Summarized

Certain of the primary risks associated with the operations of ACH, ACNW and their Affiliates are summarized in general terms below and are explained in greater detail in subsequent sections.

General Economic Conditions: Bad Debt and Indigent Care. Health care providers are economically influenced by the environment in which they are located. Economic downturns, increases in unemployment and lower funding of state Medicaid and other state health care programs may increase the number of patients treated by hospitals who are uninsured or otherwise unable to pay for some or all of their care. These conditions may cause increases in bad debt and higher indigent care utilization. Although most regions of the United States, including the State of Arkansas, have been impacted by general United States economic conditions, there can be times when specific economic conditions affecting separate sectors of the economy can affect a particular hospital. Specific economic conditions affecting certain local industries or businesses could have a material impact upon the operations of ACH and ACNW.

Although ACH and ACNW have and will continue to maximize payment or reimbursement for the care they provide, they also recognize their obligation to provide uncompensated care to the medically indigent. Obligations to provide uncompensated care can be derived from anti-dumping, emergency care, tax, continuity of care and other laws that might apply to ACH and ACNW. Many nonprofit hospitals have been and are subject to litigation attempting to establish obligations to provide uncompensated care based on the tax-exempt status of the hospital under federal or state law.

Rate Pressure from Insurers and Major Purchasers. Certain hospital markets, including ACH's and ACNW's service areas, are impacted by large health insurers and in some cases by major purchasers of health services. These stakeholders may have significant influence on ACH's and ACNW's rates, utilization and competition. Rate pressures imposed by health insurers and large employers as major purchasers may have a material economic impact on ACH's and ACNW's ability to increase rates, through payment shortfalls or delays, or the imposition of continuing obligations to care for managed care patients without additional payment.

Capital Needs vs. Capital Capacity. Hospital operations are capital intensive. Regulation, technological advances, and physician and patient expectations and demands require ongoing and often significant capital investment. Total capital needs may be greater than the availability of funds.

Costs and Restrictions from Government Regulation. Nearly every aspect of hospital operations is regulated, in some cases by multiple agencies of federal and State government as discussed in "Government Regulation of the Health Care Industry" below. The level and complexity of regulation is increasing and subject to frequent change, bringing operational limitations, enforcement and liability risks, and significant and most often unanticipated and unfunded requirements that materially increase the cost of doing business.

Government Enforcement. To ensure the integrity of federal health care programs, CMS, the U.S. Department of Health and Human Services ("HHS"), the Office of Inspector General ("OIG") and the Department of Justice ("DOJ") have paid close attention in recent years to the business practices and conduct of health care providers. Federal and state government impose a wide variety of extraordinarily complex and technical requirements intended to prevent over-utilization based on economic inducements, misallocation of expenses, overcharging and other potential acts of fraud and abuse against the Medicare and Medicaid programs, as well as other state and federally funded health care programs. See "Government Regulation of the Health Care Industry" below. This body of law and regulation impact a broad spectrum of hospital operations and activity, including billing, accounting, recordkeeping, medical staff oversight, physician contracting and recruiting, cost allocation, clinical trials and discounts, among other functions and transactions. Enforcement actions may pertain not only to deliberate violations, but also frequently occur in circumstances in which management is unaware of the conduct in question as a result of mistake, or where the individual participants do not know that their conduct is a violation of law.

Enforcement actions can extend to conduct for the past six years or more. Various government entities and government contractors conduct widespread investigations and audits, frequently based on “data mining” of electronic billing records of providers. Based on the findings, such entities may demand immediate repayment of erroneously paid amounts and/or pursue extensive investigations which may last several months or years and which may be costly to defend. In some cases, providers are placed on payment hold pending the outcome of an investigation.

Violations and alleged violations carry significant sanctions, which may be aggressively pursued by the government. The government may seek a wide array of criminal, civil and administrative penalties (including withholding reimbursement), which in serious cases could result in criminal penalties (incarceration and fines), civil monetary penalties and/or possible exclusion from the Medicare and Medicaid programs, which would have an extreme adverse effect on ACH and ACNW by eliminating their ability to collect reimbursement from such programs. Such enforcement actions may result in negative publicity, large settlements or adverse results of litigation including prospective sanctions and requirements such as corporate integrity agreements. Any of these possible outcomes of government enforcement actions may have an adverse impact on ACH’s or ACNW’s operations, financial condition and reputation and generally are not covered by insurance.

Impact of Federal and State Immigration Policy. Significant increases in the population of immigrants in Arkansas communities have put pressure on the health care system to treat increasing volumes of non- English speaking and often indigent or underinsured patients at a financial loss. Except for very limited exceptions, federal and state health care program benefits are not available to undocumented immigrants. Nonetheless, the population of undocumented immigrants has increased with the effect that ACH and ACNW, as federally funded hospitals with emergency departments and tax-exempt organizations with a charitable mission, are in the position of providing increasing amounts of uncompensated care for such individuals. To date, such uncompensated care has not been material.

In addition, Title VI of the Civil Rights Act of 1964 requires recipients of federal funds to provide meaningful access to services by persons with limited English proficiency. While providers have leeway to conduct an assessment of the accommodations that are needed, one of the most significant requirements is to provide translated patient forms and materials and, in some cases, interpretation services to non-English-speaking patients. It is very likely that health care benefits to undocumented immigrants will continue to be limited by law.

Health Professional Shortages. Over the last several years, the COVID-19 Pandemic exacerbated shortages of nurses and other health care professionals. Various studies predict that the shortage of nurses and certain other health care professionals, including physicians, will continue and may intensify in the future. Hospital operations, patient and physician satisfaction, financial condition, and future growth could be negatively affected by nursing and other professional shortages, resulting in a future material adverse impact for hospitals. Such shortages could significantly increase payroll and operating costs if temporary staffing or *locum tenens* physicians must be engaged to provide sufficient levels of staffing to meet program and patient care needs. ACH and ACNW cannot control the prevailing wage rates in their service areas, and any increase in such rates will directly affect their costs of operations and may inhibit the ability of ACH and ACNW to provide services at the level necessary to meet the demands of ACH’s and ACNW’s service areas.

Technical and Clinical Developments. New clinical techniques, products and technologies may alter the course of medical diagnosis and treatment in ways that are currently unanticipated and may dramatically change hospital and medical care in the future. Such developments could result in higher hospital costs, and increased relocation of complex technologies and treatments from hospitals to freestanding, competing medical and diagnostic facilities and physician offices. Such possibilities could have a materially adverse impact on hospital revenues and patient volumes and give rise to new sources of competition for ACH and ACNW. In addition, new discoveries may add greatly to ACH’s and ACNW’s cost of providing services with no or little offsetting increase in federal reimbursement.

Proliferation of Competition. Hospitals increasingly face competition from specialty and niche providers of care, including retail walk-in or “urgent care” clinics. This development may cause ACH or ACNW to lose essential inpatient or outpatient market share in the future. Competition may be focused on services or payor classifications from which ACH or ACNW realize their highest margins, thus negatively affecting programs that are economically important to ACH and ACNW. Specialty facilities may attract medical specialists as investors and may seek to treat only profitable classifications of patients, leaving full-service hospitals with higher acuity and/or lower paying patient populations or services. These new sources of competition may have a material adverse impact on ACH and ACNW, particularly in cases where a group of ACH’s or ACNW’s principal admitting practitioners curtail use of ACH’s or ACNW’s facilities in favor of competing facilities. In addition to the impact on revenue from operations and market share, these developments could result in ACH or ACNW losing the value of their investment in capital-intensive facilities, technologies and services.

Labor Costs and Disruption. Hospitals are labor intensive. Labor costs, including salary, benefits and other liabilities associated with the workforce, will have a significant impact on ACH’s and ACNW’s operations and financial condition. Although labor unions have not had a material impact on hospital personnel in Arkansas and surrounding areas, across the country, hospital employees are increasingly organized in collective bargaining units. Proposed federal legislation making union organizing activities easier could facilitate increased organizational efforts relating to hospitals. Further, administrative actions in the absence of legislation may encourage and facilitate labor organizing efforts. If ACH’s or ACNW’s workforce or any part of their workforce were to be successfully organized, the already high costs of recruiting, training, managing and retaining needed personnel members would materially increase, and ACH and ACNW would be subject to possible disruptions in operations which would be likely to increase costs and reduce revenue.

Employee Benefit Funds. As large employers, hospitals may incur significant expenses to fund benefit plans for employees and former employees and to fund required workers’ compensation benefits. Funding obligations in some cases may be erratic or unanticipated and may require significant commitments of available cash needed or designated for other purposes. See “Note 10 – Insurance and Legal” and “Note 11 – Employee Benefit Plans” to the consolidated financial statements in Appendix C hereto and the caption “Miscellaneous – Insurance and Employees Benefits” in Appendix A hereto for certain information regarding the System’s health insurance benefits and employee benefit plans.

State Budgets. Many states, including Arkansas, often face financial challenges, including erosion of general fund tax revenues. These factors have often resulted in a shortfall between revenue and spending demands. The financial challenges facing states may negatively affect hospitals in a number of ways, including, but not limited to, a decrease in the percentage of patients who have private insurance, a greater number of indigent patients who are unable to pay for their care and a greater number of individuals who qualify for Medicaid and/or reductions in Medicaid reimbursement rates. Some states have looked to the health care industry to contribute to any revenue shortfalls by reducing levels of reimbursement through the Medicaid program and other state reimbursement programs, and there can be no assurance that the State of Arkansas would not do likewise in a time of financial crisis. Any future reduction in reimbursements could have a material adverse impact on the economic condition of ACH and ACNW.

Nonprofit Health Care Environment

General. As nonprofit tax-exempt corporations, ACH and ACNW are subject to federal, state and local laws, regulations, rulings and court decisions relating to their organization and operation, including their operation for charitable purposes. In recent years, an increasing number of the operations or practices of nonprofit health care providers have been challenged or questioned to determine if they are consistent with the regulatory requirements of nonprofit tax-exempt organizations. Areas which have come under examination have included pricing practices, billing and collection practices, charitable care, executive compensation, exemption of property from real property taxation, sales and use taxes, and

others. Such challenges have come from a variety of sources, including state attorneys general, the Internal Revenue Service (the “IRS”), labor unions, Congress, state legislatures and patients.

Budget Control Act. The Budget Control Act of 2011 (the “Budget Control Act”) limited the federal government’s discretionary spending caps at levels necessary to reduce expenditures by \$917 billion from the current federal budget baseline between federal fiscal years 2012 and 2021. The Budget Control Act also created a Joint Select Committee on Deficit Reduction (the “Supercommittee”) that was tasked with making recommendations to further reduce the federal deficit by \$1.5 trillion. Due to the Supercommittee’s failure to act within the time specified in the Budget Control Act, the debt ceiling was automatically raised and sequestration (across the board cuts) was triggered in an amount necessary to achieve \$1.2 trillion in savings through the fiscal year 2021. A wide range of spending is exempted from sequestration, including Social Security, Medicaid, Veteran’s benefits and pensions, federal retirement funds, civil and military pay, child nutrition and other programs. However, Medicare is not exempted from sequestration.

As a part of sequestration, Medicare payments were generally reduced by 2% of total program costs, though there were no reductions made in payments to ACH or ACNW. These automatic spending cuts have become permanent and have been extended through 2024 to pay for the Sustained Growth Rate (SGR) fix and other budgetary items. Because Congress may make changes to the budget in the future, it is impossible to predict the future level of any spending cuts. Similarly, it is impossible to predict whether any automatic reductions to Medicare may be triggered in lieu of other spending cuts that may be proposed by Congress. Although ACH and ACNW have not historically derived a significant portion of their patient revenues under the Medicare program, if and to the extent Medicare spending is reduced under either scenario, this may have some adverse effect upon the financial condition of ACH and ACNW.

Health Care Reform. The Health Reform Law was designed to overhaul the United States health care system and regulate many participants in the health care industry including individuals, employers and health insurers. The Health Reform Law addressed almost all aspects of hospital and provider operations and health care delivery and changed how health care services are covered, delivered and reimbursed. These changes have resulted in lower reimbursement from Medicare, utilization changes, increased government enforcement, and the necessity for health care providers to assess and potentially alter their business strategy and practices. The reimbursement reductions associated with the Health Reform Law were intended to be offset in part by the expansion of access to Medicaid to millions of previously uninsured Americans.

The Health Reform Law contains more than thirty-two sections related to health care fraud and abuse and program integrity as well as significant amendments to existing criminal, civil and administrative anti-fraud statutes. Increased compliance and regulatory requirements, disclosure and transparency obligations, quality of care expectations, and extraordinary enforcement provisions that could greatly increase ACH’s and ACNW’s potential legal exposure are all aspects of the Health Reform Law that could increase operating expenses of ACH and ACNW and have a material impact on their finances.

The Health Reform Law contains many features from previous proposals seeking to reform the tax-exempt healthcare industry, including a set of sweeping changes applicable to charitable hospitals exempt under Section 501(c)(3) of the Internal Revenue Code. The Health Reform Law: (a) imposes new eligibility requirements for 501(c)(3) hospitals, coupled with an excise tax for failures to meet certain of those requirements; (b) requires mandatory IRS review of hospitals’ entitlement to exemption; (c) sets forth new reporting requirements, including information related to community health needs assessments and audited financial statements; and (d) imposes further reporting requirements on the Secretary of the Treasury regarding charity care levels.

Certain other provisions of the Health Reform Law encourage the creation of new health care delivery programs, such as accountable care organizations in which a group of providers is held jointly

responsible for improving the quality and cost of health care of a certain population, with the opportunity to share in financial benefits that result, or combinations of provider organizations that voluntarily meet quality thresholds being able to share in the cost savings they achieve for the Medicare program. The outcomes of these projects and programs, including their effect on payments to providers and financial performance, cannot be predicted.

The foregoing are some examples of the challenges facing nonprofit health care organizations due to the Health Reform Law. The challenges and any resulting legislation, regulations, judgments or penalties could have a material adverse impact on the financial condition of ACH and ACNW.

Tax Exemption. ACH and ACNW are organizations described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the “Code”), exempt from the payment of federal income taxes under Section 501(a) of the Code, and ACH and ACNW have received letters from the Internal Revenue Service confirming such status.

The tax-exempt status of interest on the Series 2016 Bonds and the Series 2023 Bonds depends upon maintenance by ACH and any other entity receiving or benefitting from proceeds of the Series 2016 Bonds or Series 2023 Bonds of its status as an organization described in Section 501(c)(3) of the Code. In order to maintain that status, ACH is required to comply with current and future IRS regulations and rulings governing tax-exempt health care facilities. ACH has covenanted under the Lease Agreement and tax certificates not to perform any acts or enter into any agreements which would adversely affect such 501(c)(3) status.

In order to maintain its tax-exempt status under federal law, ACH must not be operated to any substantial degree for the benefit of private individuals and may not allow its earnings to inure to the benefit of any individuals having a personal or private interest in their organizations or operations. These proscriptions, in practice, regulate business dealings between health care providers and physicians. Tax-exempt health care providers generally are required to demonstrate that their business dealings with physicians benefit the community served by the provider independently from any direct benefit received by the provider itself. ACH is not presently being challenged or investigated by the IRS with respect to these matters.

The IRS has reaffirmed, in the context of federal Medicare and Medicaid anti-kickback laws, the principle that violation of criminal statutes is inconsistent with continued recognition of an organization’s tax-exempt status. Thus, the tax-exempt status of a nonprofit health care provider could be subject to revocation if the entity were determined to have violated federal or state anti-kickback laws by providing illegal remuneration to physicians in exchange for the referral of Medicaid or Medicare patients or to have otherwise violated state anti-kickback laws or federal laws restricting referrals.

The Affordable Care Act has imposed certain additional requirements for 501(c)(3) nonprofit hospitals (such as ACH and ACNW). Such nonprofit entities must conduct periodic community health needs assessments and must include an implementation report with their annual Form 990 information returns. They must also adopt formal financial assistance and emergency treatment policies; may not charge more for care to those who qualify for financial assistance and may not pursue certain collection actions without making a determination as to financial assistance eligibility; and must include audited financial statements with their Form 990 annual information returns. Failure of a nonprofit hospital to complete the required community health needs assessment may result in imposition of a \$50,000 excise tax or revocation of its tax-exempt status. Form 990 information is to be reviewed by the Department of the Treasury at least once every three years, and the Department of the Treasury is also required to provide related reports to Congress. ACH’s community health needs assessment was conducted and implementation strategy was adopted in October 2022. ACNW’s community health needs assessment was conducted and implementation strategy was adopted in August 2022.

On December 29, 2014, the Secretary of the Treasury issued final regulations under Section 501(r) of the Code that provide detailed and comprehensive guidance relating to requirements for community health needs assessments, financial assistance policies, emergency medical care policies,

limitations on charges and billing and collection practices, and also provide guidance on consequences of failure to satisfy Section 501(r) requirements. Among the required financial assistance policies is a limitation on the amount charged for emergency or other medically necessary care provided to individuals eligible for assistance under the hospital's financial assistance policy to not more than the amounts generally billed to individuals who have insurance covering such care and to make reasonable efforts to determine whether an individual is eligible for financial assistance before engaging in extraordinary collection actions. These final regulations are complex and are administratively burdensome to implement. Generally, the regulations apply to tax years beginning after December 29, 2015, and provide that a hospital organization may rely on a reasonable, good faith interpretation of the Section 501(r) requirements for tax years beginning on or before December 29, 2015, which may include compliance with certain prior proposed regulations under Section 501(r).

Taxing authorities in certain state and local jurisdictions have sought to impose or increase property taxes, sales and use taxes, and other taxes related to the property and operations of nonprofit organizations, including health care providers, particularly where such authorities are dissatisfied with the amount of service provided to indigent patients. At the federal level, however, the IRS has ruled that the tax-exempt status of nonprofit hospitals is based on a variety of factors but is not dependent upon their acceptance of patients who cannot pay. It is possible that future administrative or judicial proceedings or legislation could have the effect of requiring nonprofit institutions to increase their services to indigent patients to retain their tax-exempt status. In the recent past, legislation was introduced in Congress that would make a hospital's tax-exempt status hinge on the extent of its care to indigents, but the bills have not been enacted into law.

The IRS has audit guidelines which implement a policy to scrutinize more closely the activities of health care providers to ensure that they satisfy the requirements for tax-exempt status. Given these audit guidelines and other related pronouncements by the IRS, it may be more difficult for such entities to maintain their tax-exempt status. Health care providers may be forced to forgo otherwise favorable opportunities for certain joint ventures, recruitment and other arrangements to maintain their tax-exempt status or to avoid other sanctions.

Management believes that ACH and ACNW are in compliance with the requirements of sections 501(c)(3) and 501(r) and the regulations applicable thereto. However, ACH and ACNW may be audited as part of the IRS's ongoing enforcement activities. The result of any such audit could potentially impact the tax-exempt status of ACH or ACNW.

Real Property Tax Exemption. In recent years, a number of states have challenged the real property tax exemptions afforded to certain nonprofit health care providers by state and local taxing authorities on the grounds that the health care providers were not engaged in sufficient charitable activities. These challenges have been based on a variety of grounds, including allegations of aggressive billing and collection practices and excessive financial margins. Management is not aware of any current challenges to the tax-exempt status of the real property of ACH or ACNW that ACH or ACNW claim as being exempt from *ad valorem* taxation under the laws of the State.

Litigation Relating to Billing and Collection Practices. Lawsuits have been filed in both federal and state courts alleging, among other things, that hospitals have failed to fulfill their obligations to provide charity care to uninsured patients and have overcharged uninsured patients. Likewise, national publications have highlighted inconsistent billing practices as to the uninsured. Cases are proceeding in various courts around the country with inconsistent results. While it is not possible to make general predictions, some hospitals and health systems have incurred substantial costs in defending such lawsuits and in some cases have entered into substantial settlements. Neither ACH nor ACNW is currently a defendant in litigation relating to general billing and collection practices.

Physician Medical Staff. The primary relationship between a hospital and physicians who practice in it is through the hospital's organized medical staff. Medical staff bylaws, rules and policies establish the criteria and procedures by which a physician may have his or her privileges or membership

curtailed, denied or revoked. Physicians who are denied medical staff membership or certain clinical privileges or who have such membership or privileges curtailed or revoked often file legal actions against hospitals and medical staffs. Such actions may include a wide variety of claims, including antitrust claims, some of which could result in substantial uninsured damages to a hospital. Furthermore, from time to time, actions or decisions of hospital management may cause unrest among certain physician groups or members of the medical staff, which could result in legal or other actions, such as resignation from the medical staff. In addition, failure of the hospital governing body to adequately oversee the conduct of its medical staff may result in hospital liability to third parties. Management is unaware of any such actions at the present time.

Government Regulation of the Health Care Industry

State Regulation. Arkansas has established statutory and regulatory requirements for health care facilities. Failure to comply with laws and rules governing licensure and standards of care could result in the revocation of a hospital's license and operating privileges, including licensure of inpatient facilities and outpatient programs, including hospitals, home health agencies, skilled nursing facilities, hospice programs and basic care facilities. Management believes it is in substantial compliance with all State statutory and regulatory requirements imposed upon it.

Anti-Kickback Law. The federal Medicare/Medicaid Anti-Fraud and Abuse Amendments to the Social Security Act (the "Anti-Kickback Law") make it a criminal felony offense (subject to certain exceptions) to knowingly and willfully offer, pay, solicit or receive remuneration, directly or indirectly, overtly or covertly, in cash or in kind, in order to induce referrals for business that is reimbursable under the Medicare or Medicaid programs or other "federal health care program," or in return for the purchasing, leasing, ordering or arranging for, or recommending the purchasing, leasing, or ordering of, any good, facility, service or item for which payment is made in whole or in part under a federal health care program. For purposes of the Anti-Kickback Law, a "federal health care program" includes the Medicare and Medicaid programs, as well as any other health plan or program funded directly, in whole or in part, by the United States government. The Affordable Care Act contains provisions relaxing the intent requirements for criminal liability under the Anti-Kickback Law, so that actual knowledge of statutory requirements or specific intent to violate them is not required for a criminal prosecution. The Affordable Care Act also provides that Anti-Kickback Law violations may constitute a basis for False Claims Act liability.

In addition to criminal penalties, violations of the Anti-Kickback Law can lead to civil monetary penalties and suspension or exclusion from participation in Medicare, Medicaid and other federal health care programs. A person who violates the Anti-Kickback Law is subject to damages of up to three times the total amount of remuneration offered, paid, solicited or received. The government may exclude from a federal health care program any individual who has a direct or indirect ownership or control interest in a sanctioned entity and has acted in deliberate ignorance, or is an officer or managing employee of the sanctioned entity, irrespective of whether the individual participated in the wrongdoing. Exclusion from the Medicare or Medicaid programs would have a material adverse impact on the operations and financial condition of ACH and ACNW.

The scope of prohibited payments in the Anti-Kickback Law is broad and has been broadly interpreted by courts in many jurisdictions. Read literally, the statute places at risk many otherwise legitimate business arrangements, potentially subjecting such arrangements to lengthy, expensive investigations and prosecutions initiated by federal and state governmental officials. In particular, the Office of the Inspector General of HHS has expressed concern that the acquisition of physician practices by entities in a position to receive referrals of business reimbursable by Medicare from such practices could violate the Anti-Kickback Law. In addition, the Anti-Kickback Law covers certain economic arrangements involving hospitals, physicians and other health care providers, including joint ventures, space and equipment rentals, management and personal services contracts and physician employment contracts. HHS has adopted regulations establishing certain payment practices and arrangements as "safe

harbors” which are deemed not to violate the Anti-Kickback Law. The safe harbors are, however, narrow, and do not cover a wide range of economic relationships which many hospitals, physicians and other health care providers have historically considered to be legitimate business arrangements not prohibited by the Anti-Kickback Law. Because the safe harbor regulations do not purport to describe comprehensively all lawful or unlawful economic arrangements or other relationships between health care providers and referral sources, it is uncertain whether hospitals and other health care providers that have these arrangements or relationships may need to alter them in order to ensure compliance with the Anti-Kickback Law.

Management of ACH and ACNW believes that ACH and ACNW are in compliance with the Anti-Kickback Law. However, because of the breadth of such law and the narrowness of the safe harbor regulations, there can be no assurance that regulatory authorities will not take a contrary position or that the ACH or ACNW will not be found to have violated the Anti-Kickback Law. At the present time, management of ACH and ACNW is not aware of any pending or threatened claim, investigation or enforcement action regarding the Anti-Kickback Statute which, if determined adversely to ACH or ACNW, would have a material adverse effect on ACH’s or ACNW’s financial condition.

Stark Law. The Ethics in Patient Referrals Act (the “Stark Law”) prohibits a physician who has a financial relationship, or whose immediate family has a financial relationship, with entities (including hospitals) providing “designated health services” from referring Medicare patients to these entities for the furnishing of “designated health services” unless the relationship satisfies an exception. The Stark Law defines "designated health services" to include: physical therapy services, occupational therapy services, radiology or other diagnostic services (including MRIs, CT scans and ultrasound procedures), durable medical equipment, radiation therapy services, parenteral and enteral nutrients, equipment and supplies, prosthetics, orthotics and prosthetic devices, home health services, outpatient prescription drugs, inpatient and outpatient hospital services, and clinical laboratory services. The Stark Law also prohibits the entity receiving the referral from filing a claim or billing for the services arising out of the prohibited referral. The prohibition applies regardless of the reasons for the financial relationship and the referral; no finding of intent to violate the Stark Law is required.

Sanctions for violation of the Stark Law include denial of payment for the services provided in violation of the prohibition, refunds of amounts improperly collected, a civil penalty of up to \$15,000 for each service arising out of the prohibited referral, exclusion from participation in the federal health care programs, and a civil penalty of up to \$100,000 against parties that enter into a scheme to circumvent the Stark Law’s prohibition. Case law also potentially extends repayment obligations to Medicaid claims.

The failure to repay amounts billed to the Medicare program as a result of a Stark Law violation in a timely manner is also regarded as a violation under the False Claims Act (FCA) and may lead to civil monetary penalties, treble damages and permissive exclusion. The types of financial arrangements between a physician (or a physician’s immediate family member) and an entity that trigger the self-referral prohibitions of the Stark Law are broad and include ownership and investment interests and monetary and non-monetary compensation arrangements. Regulations promulgated under the Stark Law are subject to amendment. Depending upon whether any such amendments contain grandfathering provisions, any such amendment may require ACH and ACNW to amend or terminate certain arrangements with physicians to comply with new regulatory requirements.

The Health Reform Law instructed CMS to create a voluntary Self-Referral Disclosure Protocol (“SRDP”) under which providers could disclose the facts and circumstances surrounding an actual or potential Stark Law violation with the intention of negotiating settlements of a violation for less than what was impermissibly billed to the Medicare program. While many thought the SRDP would give some certainty to the industry as to the resolution of actual or potential Stark Law violations, the SRDP process has been more cumbersome than originally anticipated. It is unclear what impact, if any, the Stark Law SRDP will have on the settlement of actual or potential Stark Law violations in the future. Any

submission pursuant to the SRDP does not waive or limit the ability of the OIG or DOJ to seek or prosecute violations of the Anti-Kickback Statute or impose civil monetary penalties.

Although management of ACH and ACNW believes that the arrangements of ACH and ACNW with physicians are in compliance with the Stark Law, as currently interpreted, there can be no assurance that regulatory authorities will not take a contrary position or that ACH or ACNW will not be found to have violated the Stark Law in the future. Sanctions under the Stark Law, including repayment of overpayments (both Medicare and potentially Medicaid), civil monetary penalties, FCA prosecutions, and exclusion from the Medicare and Medicaid programs, could have a material adverse effect on the financial condition and results of operations of ACH and ACNW.

False Claims Laws. There are principally three federal statutes addressing the issue of “false claims.” First, the False Claims Act (FCA) imposes civil liability (including substantial monetary penalties and damages) on any person or corporation that (1) knowingly presents or causes to be presented a false or fraudulent claim for payment to the United States government; (2) knowingly makes, uses or causes to be made or used a false record or statement to obtain payment; or (3) engages in a conspiracy to defraud the federal government by getting a false or fraudulent claim allowed or paid. A showing of specific intent to defraud the federal government is not required to establish the requisite knowledge. “Knowingly” is broadly defined to include not only actual knowledge but also deliberate ignorance or reckless disregard of the facts. This statute authorizes private persons to file *qui tam* actions on behalf of the United States. Because *qui tam* lawsuits are kept under seal while the federal government evaluates whether the United States will join the lawsuit, it is impossible to determine at this time whether any such actions are pending against ACH or ACNW and no assurances can be made that such actions will not be filed in the future. A violation of the FCA could lead to treble damages being assessed against the violating party.

The Fraud and Enforcement and Recovery Act (“FERA”), signed into law on May 20, 2009, expands exposure under the civil FCA for a wide range of business transactions involving federal government funds. Pursuant to FERA amendments, the civil FCA may impose liability for false claims with more remote connections to the federal government. FERA has the effect of expanding liability for the retention of money owed to the government, including overpayments by Medicare. The Health Reform Law also requires that providers return identified overpayments within 60 days of identification or the overpayment becomes an “obligation” under the FCA and creates the potential for FCA liability. An overpayment is “identified” when a person has, or should have, through the exercise of reasonable diligence, determined that an overpayment was paid and is quantified.

In addition, the Health Reform Law, among other changes to the civil FCA, eliminated the “public disclosure bar” (which previously required dismissal of a *qui tam* suit where the allegations were publicly disclosed in (i) a criminal, civil or administrative proceeding, (ii) a congressional, administrative or U.S. Government Accountability Office report, hearing, audit or investigation, or (iii) news media) as a jurisdictional defense to *qui tam* suits.

In addition to the civil FCA, the Civil Monetary Penalties Law authorizes the imposition of substantial civil money penalties against an entity that engages in activities including, but not limited to, (1) knowingly presenting or causing to be presented, a claim for services not provided as claimed or which is otherwise false or fraudulent in any way; (2) knowingly giving or causing to be given false or misleading information reasonably expected to influence the decision to discharge a patient; (3) offering or giving remuneration to any beneficiary of a federal health care program likely to influence the receipt of reimbursable items or services; (4) arranging for reimbursable services with an entity which is excluded from participation from a federal health care program; (5) knowingly or willfully soliciting or receiving remuneration for a referral of a federal health care program beneficiary; (6) using a payment intended for a federal health care program beneficiary for another use; or (7) knowingly making or causing to be made a false statement, omission or misrepresentation of material fact in any application, bid or contract to participate in a federal health care program. The Secretary of HHS, acting through the

OIG, also has both mandatory and permissive authority to exclude individuals and entities from participation in federal health care programs pursuant to this statute.

Aggressive investigation tactics, negative publicity, and threatened penalties, such as treble damages, can be, and often are, used to force settlements of alleged FCA violations, even when the provider believes there is no merit to the allegation. Likewise, a common prosecutorial position is to threaten exclusion from the Medicare and Medicaid programs unless the hospital agrees to a voluntary settlement, which is often very costly and imposes significant ongoing compliance and monitoring obligations. Because the exclusion from Medicare would have such a material adverse effect, hospitals often times find it necessary to enter into costly settlement agreements, even if they believe they have a meritorious position. As such, multi-million dollar fines and settlements are common with alleged FCA violations and violations of other fraud and abuse laws, and losses resulting from these settlements are generally uninsured. Given the increase in federal Medicare fraud funding, government enforcement programs, and private whistleblower suits, enforcement actions are likely to increase in the future.

Finally, it is a criminal federal health care fraud offense to (1) knowingly and willfully execute or attempt to execute any scheme to defraud any health care benefit program or (2) to obtain, by means of false or fraudulent pretenses, representations or promises any money or property owned or controlled by any health care benefit program. Penalties for a violation of this federal law include fines and/or imprisonment and a forfeiture of any property derived from proceeds traceable to the offense.

At the present time, management of ACH and ACNW is not aware of any pending or threatened claims, investigations or enforcement actions regarding the FCA, the Civil Monetary Penalties Law, or criminal federal health care fraud offenses which, if determined adversely to ACH or ACNW, taking into account current reserves, would have a material adverse effect on their financial condition.

Exclusions from Medicare or Medicaid Participation. As partially discussed above in connection with the Anti-Kickback Statute, the Stark Law and the FCA, the federal government has authority to exclude hospitals from Medicare/Medicaid program participation upon conviction of a criminal offense relating to the delivery of any item or service reimbursed under Medicare or a state health care program, an FCA violation, any criminal offense relating to patient neglect or abuse in connection with the delivery of health care, fraud against any federal, state or locally financed health care program, or an offense relating to the illegal manufacture, distribution, prescription or dispensing of a controlled substance. The government also has permissive exclusion authority under certain other circumstances, such as an unrelated conviction of fraud or other financial misconduct relating either to the delivery of health care in general or to participation in a federal, state or local government program. Exclusion from the Medicare/Medicaid program means that a hospital would be decertified and no program payments for services rendered to beneficiaries could be made to the hospital. An exclusion of ACH or ACNW on any basis would be a materially adverse event.

HIPAA; Electronic Transmission of Health Information; Privacy and Security Regulations. The Health Insurance Portability and Accountability Act of 1996, as amended (“HIPAA”), added two prohibited practices the commission of which may lead to civil monetary penalties: (i) the practice or pattern of presenting a claim for an item or service on a reimbursement code that the person knows or should know will result in greater payment than appropriate (i.e., upcoding); and (ii) the practice of submitting claims for payment for medically unnecessary services. Violation of such prohibited practices due to civil neglect could amount to civil monetary penalties ranging from \$50,000 to \$1.5 million for all identical violations in a calendar year and/or imprisonment. Management is not aware of any violations of the prohibited practices provisions of HIPAA.

HIPAA also includes administrative simplification provisions intended to facilitate the processing of health care payments by encouraging the electronic exchange of information and the use of standardized formats for health care information. Congress recognized, however, that standardization of information formats and greater use of electronic technology presents additional privacy and security risks due to the increased likelihood that databases of personally identifiable health care information will

be created and the ease with which vast amounts of such data can be transmitted. Therefore, HIPAA requires the establishment of distinct privacy and security protections for individually identifiable health information (“Protected Health Information” or “PHI”).

HHS promulgated privacy regulations under HIPAA (the “Privacy Rule”) that protect the privacy of PHI maintained by health care providers (including hospitals), health plans, and health care clearinghouses (collectively, “Covered Entities”) and provide individuals with certain rights regarding their PHI (including, for example, access to PHI, amending PHI, and receiving an accounting of disclosures of PHI). Security regulations have also been promulgated under HIPAA (the “Security Rule”). The Security Rule requires Covered Entities to have certain administrative, technical and physical safeguards in place to ensure the confidentiality, integrity and availability of all electronic PHI they create, receive, maintain or transmit. Additionally, HHS promulgated regulations to standardize the electronic transfer of information pursuant to certain enumerated transactions (the “Transactions and Code Sets Rule”).

In September of 2015, the HHS Office of the Inspector General released two reports that reviewed the Office of Civil Rights’ (“OCR”) enforcement of HIPAA. The first report (the Privacy Report) suggests that OCR strengthen its oversight of covered entities’ compliance with the Privacy Rule. The second report (the “Breach Enforcement Report”) suggests that OCR strengthen its follow-up of reported HIPAA breaches. In response to the reports, there has been a dramatic increase in the number of HIPAA enforcement actions and settlements, and OCR is empowered to conduct random audits of covered entities and business associates. OCR has stated that the audits will primarily consist of a review of policies and procedures, but if serious compliance issues are identified OCR may initiate a separate compliance review to further investigate which may result in settlements and fines. Despite the implementation of network security measures by the System, its information technology systems may be vulnerable to breaches, ransom malware, hacker attacks, computer viruses, physical or electronic break-ins and other similar events or issues. Such events or issues could lead to the inadvertent disclosure of protected health information or other confidential information, could have an adverse effect on the ability of the System to provide health care services, or could result in government civil, criminal or monetary penalties.

The 2009 Health Information Technology for Economic and Clinical Health (“HITECH”) Act significantly changed the landscape of federal privacy and security laws regarding PHI. The HITECH Act (i) extended the reach of HIPAA, certain provisions of the Privacy Rule, and the Security Rule; (ii) imposed a breach notification requirement on HIPAA covered entities and their business associates; (iii) limited certain uses and disclosures of PHI; (iv) increased individuals’ rights with respect to PHI; and (v) increased enforcement of, and penalties for, violations of the privacy and security of PHI.

The HITECH Act also created a federal breach notification requirement that mirrors protections that many states have passed in recent years. This requirement provides that ACH and ACNW must notify patients of any unauthorized access, acquisition or disclosure of their unsecured PHI that poses significant risk of financial, reputational or other harm to a patient. In addition, a new breach notification requirement was established requiring reporting to the Secretary of HHS and, in some cases, local media outlets, of certain unauthorized access, acquisition or disclosure of unsecured PHI that poses significant risk of financial, reputational or other harm to a patient.

In January of 2013 HHS issued an omnibus final rule interpreting and implementing various provisions of the HITECH Act, including a final breach notification rule. In addition, the facilities of ACH and ACNW are also subject to any state law that is related to the reporting of data breaches and more restrictive than the regulations and/or requirements issued under HIPAA and the HITECH Act.

Any violation of HIPAA, the HITECH Act or other regulations promulgated thereunder is subject to HIPAA civil and criminal penalties, including monetary penalties and/or imprisonment. Management believes it is in substantial compliance with HIPAA, the HITECH Act, and the rules promulgated thereunder, but there can be no assurance that ACH or ACNW will not experience a HIPAA privacy or

security breach. ACH and ACNW conduct annual security risk assessments and develop corrective action plans to address remediation of any identified risks, threats or vulnerabilities to electronic protected health information or gaps in applicable requirements. In addition, both ACH and ACNW have policies and procedures in place to investigate potential breaches and to comply with the breach notification requirements of HIPPA and the HITECH Act.

The Emergency Medical Treatment and Active Labor Act (“EMTALA”). In response to concerns regarding inappropriate hospital transfers of emergency room patients based on the patient’s ability to pay for the services provided, Congress enacted EMTALA, known as the “anti-dumping” statute. This law imposes certain requirements on hospitals prior to discharging an emergency patient or transferring such a patient to another facility. Failure to comply with EMTALA can result in exclusion from the Medicare and/or Medicaid programs as well as civil and criminal penalties. Failure of ACH or ACNW to meet their responsibilities under EMTALA could adversely affect the financial condition of ACH or ACNW. EMTALA and its implementing regulations are complex, and ACH’s and ACNW’s compliance is dependent, in part, upon the volition of medical staff members. However, neither ACH nor ACNW utilize community independent physicians in their respective emergency departments. At the LR Hospital, the emergency department is staffed by University of Arkansas for Medical Sciences (UAMS) physicians pursuant to a contract with UAMS. At the NW Hospital, the emergency department is staffed by ACNW employed physicians. EMTALA regulations are subject to ongoing revision and interpretive guidance. Management has adopted policies that it believes achieve material compliance with the requirements of EMTALA. There is no assurance that no violation of EMTALA will be found or, if found, that any sanction imposed would not have a material adverse effect on the operations or financial condition of ACH or ACNW.

Joint Ventures. The OIG has expressed its concern in various advisory bulletins that many types of joint venture arrangements involving hospitals may implicate the Anti-Kickback Statute, since the parties to joint ventures are typically in a position to refer patients of federal health care programs. In addition, under the federal tax laws governing Section 501(c)(3) organizations, a tax-exempt hospital’s participation in a joint venture with for-profit entities must further the hospital’s exempt purposes and the joint venture arrangement must permit the hospital to act exclusively in the furtherance of its exempt purposes, with only incidental benefit to any for-profit partners. If the joint venture does not satisfy these criteria, the hospital’s tax exemption may be revoked, the hospital’s income from the joint venture may be subject to tax or the parties may be subject to some other sanction. Finally, many hospital joint ventures with physicians may also implicate the Stark Law.

Any evaluation of compliance with the Anti-Kickback Statute or tax laws governing Section 501(c)(3) organizations depends on the totality of the facts and circumstances, while the Stark Law requires strict compliance with an exception if the prohibition is triggered. While management believes that the joint venture arrangements to which it is a party, if any, are in compliance with the Anti-Kickback Statute, the tax laws governing Section 501(c)(3) organizations, and the Stark Law, there can be no assurance that regulatory authorities will not take a contrary position or that such transactions will not be found to have violated these laws and related regulations. Any determination that ACH or ACNW is not in compliance with these laws and related regulations could have a material adverse effect on ACH’s or ACNW’s future financial condition.

Antitrust. Enforcement of the antitrust laws against health care providers is becoming more common and antitrust liability may arise in a wide variety of circumstances, including medical staff privilege disputes, third-party contracting, physician relations, joint ventures, and merger, affiliation and acquisition activities. In some respects, the application of federal and state antitrust laws to health care is still evolving and enforcement activity by federal and state agencies appears to be increasing. In particular, the Federal Trade Commission (the “FTC”) has publicly acknowledged increasing enforcement action in the area of physician joint contracting. Likewise, increased enforcement action exists relating to a retrospective review of completed hospital mergers. Violation of the antitrust laws could subject a hospital to criminal and civil enforcement by federal and state agencies, as well as treble damage liability

by private litigants. At various times, ACH or ACNW may be subject to an investigation by a governmental agency charged with the enforcement of the antitrust laws or may be subject to administrative or judicial action by a federal or state agency or a private party.

The most common areas of potential liability are joint activities among providers with respect to payor contracting, medical staff credentialing, hospital mergers and acquisitions and use of a hospital's local market power for entry into related health care businesses. From time to time, ACH or ACNW may be involved in joint contracting activity with other hospitals or providers. The precise degree to which this or similar joint contracting activities may expose ACH or ACNW to antitrust risk from governmental or private sources is dependent on specific facts which may change from time to time. Physicians who are subject to adverse peer review proceedings may file federal antitrust actions against hospitals, although the Health Care Quality and Improvement Act may provide immunity from such claims if certain requirements are met. Hospitals regularly have disputes regarding credentialing and peer review and therefore may be subject to liability in this area.

In addition, hospitals occasionally indemnify medical staff members who are involved in such credentialing or peer review activities and may also be liable with respect to such indemnity. Recent court decisions have also established private causes of action against hospitals which use their local market power to promote ancillary health care business in which they have an interest. Such activities may result in monetary liability for the participating hospitals under certain circumstances where a competitor suffers business damage. Government or private parties are entitled to challenge joint ventures that may injure competition. Liability in any of these or other antitrust areas of liability may be substantial, depending on the facts and circumstances of each case and may have a material adverse impact on ACH or ACNW.

Medicare and Medicaid Programs; General

Medicare and Medicaid are the commonly used names for hospital reimbursement or payment programs governed by certain provisions of the Social Security Act. Medicare is an exclusively federal program and Medicaid is jointly funded by federal and state government and governed by both federal and state laws. Health care providers have been and will continue to be significantly impacted by changes in federal health care laws and regulations, particularly those pertaining to Medicare and Medicaid. The purpose of much of the recent statutory and regulatory activity has been to reduce the rate of increase in health care costs, particularly costs paid under the Medicare and Medicaid programs. Diverse and complex mechanisms to limit the amount of money paid to health care providers under both the Medicare and Medicaid programs have been enacted, and have caused severe reductions in reimbursement from the Medicare program.

The following is a summary of the Medicare and Medicaid programs, as currently applicable to ACH and ACNW, and certain risk factors related thereto.

The Medicare Program

Medicare is the federal health insurance system under which hospitals are paid for services provided to eligible elderly and disabled persons. Medicare is administered by CMS, which delegates to the states the process for certifying hospitals to which CMS will make payment. In order to achieve and maintain Medicare certification, hospitals must meet CMS's "Conditions of Participation" on an ongoing basis, as determined by the state and/or The Joint Commission. The requirements for Medicare certification are subject to change, and therefore, it may be necessary for hospitals to effect changes from time to time in their facilities, equipment, personnel, billing, policies and services.

ACH and ACNW receive a small portion of their net patient service revenue from reimbursement under Medicare (approximately 1.3% and 0.2%, respectively, for the fiscal year ended June 30, 2022). See the caption "Historical Financial Performance" in Appendix A attached hereto.

Alternative Health Delivery Models. Various proposals have been advanced to require or promote alternate methods of health care delivery, to establish health care cost containment measures, to provide alternatives for payment of healthcare costs under Medicare, Medicaid and private reimbursement programs, and to institute other changes in health care payment and reimbursement.

Annual Cost Reporting. ACH's and ACNW's annual cost reports, which are required under the Medicare and Medicaid programs, are subject to audit, which ultimately may result in adjustments to previously-reimbursed amounts.

Physician Payments. Physicians may elect to "participate" or enroll in the Medicare program. Medicare Part B provides reimbursement for certain physician services, including employed and provider-based physicians, based upon a national payment schedule referred to as the Medicare Physician Fee Schedule ("MPFS"). To calculate the payment for each service, the MPFS takes into account the service(s) performed, practice expenses, and malpractice expenses, which are adjusted by geographic region to reflect the variations in the costs of furnishing services throughout the United States. This relative value is then multiplied by a conversion factor, which is established by CMS's Office of the Actuary on an annual basis pursuant to statute. Pursuant to the Medicare Access and CHIP Reauthorization Act of 2015, the conversion factor was adjusted to avoid forecasted compensation cuts to physicians who provide care to Medicare beneficiaries.

Federal Audit Contractors. In recent years, the federal government has initiated a series of audit contractors operating within the federal Medicare and Medicaid programs to combat fraud and abuse. Combined, these programs involve both pre-payment and retrospective review of payments from both Medicare and Medicaid. Private contractors are awarded contracts in designated regions or zones, depending upon the program, and are paid differently depending on the program. The goal of audit contractors generally is to find waste, abuse, and fraud in the programs and return those dollars to the federal government. It is predicted that audit contractors will save the Medicare and Medicaid programs millions of dollars through their audit efforts.

Recovery Audit Contractors ("RACs"). The Medicare Recovery Audit Contractor program was established by the Medicare Prescription Drug Improvement and Modernization Act of 2003 (MPDIMA). The program was established as a three year demonstration project in three states as a means to identify Medicare overpayments and underpayments to providers. The Tax Relief and Health Care Act of 2006 made the RAC program permanent and required CMS to expand the program nationwide by 2010. RAC contractors are paid on a contingency fee basis by receiving a percentage of the improper overpayments they collect from providers, thus increasing the incentive to find improper payments. RAC audits can be automated (claims selection solely based on data from CMS without human review of the medical record) or complex (human review of the medical record required to identify discrepancies between the medical record at the claim). Beginning January 1, 2012, state Medicaid agencies were also required to implement a recovery audit program to identify underpayments and overpayments.

Zone Program Integrity Contractors ("ZPICs"). Section 202 of HIPAA authorized CMS to contract with entities to fulfill Medicare integrity functions. ZPICs specifically identify cases of fraud and abuse and are authorized to take immediate action to ensure that Medicare Trust Fund monies are not inappropriately paid out and that any mistaken payments are recouped. Consequences of a ZPIC review include payment denials, recoupment of overpayments, referral to other law enforcement agencies and termination of participation in the Medicare program. While ACH's and ACNW's facilities are not located in a "hot zone" where the majority of ZPIC activity is presently focused, ACH or ACNW could be subject to a ZPIC review at any time.

Management does not anticipate that Medicare audits or cost report settlements for the Medicare program will materially adversely affect the financial condition or results of operations of ACH or ACNW, nor does it believe that ACH or ACNW has improperly submitted claims; however, in light of the complexity of the regulations relating to the Medicare program, and the threat of ongoing investigations as described above, there can be no assurance that a significant adverse impact will not

occur in the future. While management believes its claims to the Medicare and Medicaid programs are in accordance with program requirements, ACH or ACNW may be subject to challenge by one or more audit contractors at any time. If ever subject to audit, the result could have a material adverse effect on ACH and ACNW as a result of any required repayment by ACH or ACNW of funds received under Medicare and Medicaid.

The Medicaid Program

Medicaid is a program of medical assistance, funded jointly by the federal government and the states, for certain needy individuals and their dependents. Under Medicaid, the federal government provides limited funding to states that have medical assistance programs that meet federal standards. Within broad guidelines established by federal statutes, regulations and policies, each state (1) establishes its own eligibility standards; (2) determines the type, amount, duration and scope of services; (3) sets the rate of payment for services; and (4) administers its own program. State legislatures are permitted to change Medicaid eligibility, services and/or reimbursement at any time. Medicaid does not provide medical assistance for all poor persons: only those who fall into specific categories are eligible. In order to receive federal funds, states are required to provide Medicaid assistance to certain individuals who receive federally-assisted income maintenance payments, e.g., Supplemental Security Income (SSI).

The federal government pays a share of the medical assistance expenditures under each state's Medicaid program. That share, known as the Federal Medical Assistance Percentage ("FMAP"), is determined annually by a formula that compares the state's average *per capita* income level with the national income average. The higher the *per capita* income, the lower the federal share. In Arkansas, the federal government's share is approximately seventy percent (70%) of the program's costs and is adjusted on an annual basis. Reimbursement for hospital and long-term care services by the Arkansas Department of Human Services, which administers the Medicaid program, is determined in accordance with procedures and standards established by State law under federal guidelines and is based on the methods used for reimbursement under the Medicare program using statewide cost data. Inpatient hospital services are reimbursed to ACH and ACNW on a per diem basis with a year-end cost settlement.

The Balanced Budget Act of 1997 required that provider payment issues are to be determined exclusively by the states with no federal right of action for providers. States must provide public notice of proposed payment rates and the methods used to establish those rates. Further, states will be allowed to use Medicaid rates as payment in full for Qualified Medicare Beneficiaries and persons eligible both for Medicaid and Medicare, thus preventing physicians from claiming Medicare cost sharing. Under the Act, states can mandate Medicaid managed care without a waiver.

Medicaid funding may continue to be affected by further health care reform legislation and general governmental budgetary concerns. It is impossible to predict the effect such changes might have on ACH or ACNW. Such changes may reduce payments made to ACH and ACNW under Medicaid, and future Medicaid payment rates may not be sufficient to cover increases in providing services to Medicaid patients.

Approximately 66.3% of ACH's net patient service revenue and approximately 58.6% of ACNW's net patient service revenue came from Medicaid for the fiscal year ended June 30, 2022. See the caption "Historical Financial Performance" in Appendix A attached hereto.

Medicaid Integrity Program ("MIP"). The federal Medicaid Integrity Program was created by the Deficit Reduction Act ("DRA") in 2005. The MIP is the first federal program established to combat fraud and abuse in state Medicaid programs. Congress determined a federal program was necessary due to the wild variations in state Medicaid enforcement efforts. The MIPs' enforcement efforts supplant existing state Medicaid Fraud Control Units. Federal Medicaid Integrity Contractors ("MICs") are classified into Review MICs, Audit MICs and Educational MICs. Review MICs perform review audits generally to determine trends and patterns of aberrant Medicaid billing practices through data mining. Audit MICs perform post-payment reviews of individual providers through desk or field audits. The

Educational MICs are responsible for developing and carrying out a variety of education activities to increase and improve Medicaid enforcement efforts by state government. Once a Medicaid overpayment is identified, the state has either 60 days, or one year if there is fraud, to repay the state's share of federal financial participation to CMS. The state is then required to collect from the provider. If the provider wins on an appeal of the identified overpayment, the state is not permitted to reclaim its federal portion, so there is very little incentive for the states to settle such cases with the provider.

Office of the Medicaid Inspector General. On April 23, 2013, Arkansas Act 1499 was signed into law creating the Arkansas Medicaid Inspector General's Office ("OMIG"), with a starting date for the new state agency of July 1, 2013. The legislative purpose of the law was to: create a new state agency in order to consolidate staff and other Medicaid fraud detection prevention and recovery functions into a single office; create a more efficient and accountable structure; reorganize and streamline the State's process for detecting and combating Medicaid fraud and abuse; and to maximize the recovery of improper Medicaid payments. With the creation of the OMIG, the Program Integrity Unit of the Arkansas Department of Human Services and its staff was transferred under the supervision and direction of the Arkansas Medicaid Inspector General. The Program Integrity Unit was formally a function of the Arkansas Department of Human Services as required by the Center for Medicaid Services ("CMS"). All states that participate in the federal Medicaid program and receive funding are required to have a program integrity division that conducts Medicaid fraud investigations and audits and the OMIG fulfills that federal requirement.

Medicare/Medicaid Compliance and Reimbursement

Hospitals must comply with standards called "Conditions of Participation" in order to be eligible for Medicare and Medicaid reimbursement. CMS is responsible for ensuring that hospitals meet these regulatory conditions of participation. ACH and ACNW are surveyed by the Arkansas Department of Human Services to determine whether it is in compliance with the Conditions of Participation. A significant failure to comply with the Conditions of Participation could result in loss of Medicare provider status which would materially affect the revenues of ACH and ACNW.

The Medicare and Medicaid programs are subject to judicial interpretations, administrative rulings, governmental funding restrictions and requirements for utilization review (such as second opinions for surgery and preadmission criteria). Such matters, as well as more general governmental budgetary concerns, may reduce payments made to ACH and ACNW, and future payment rates may not be sufficient to cover increases in the cost of providing services to Medicare and Medicaid beneficiaries. At this time, management cannot predict the full impact that any future legislation or regulation will have on ACH's or ACNW's revenues, but it is possible that any Medicare and Medicaid program changes of the future will have a material adverse effect on ACH and ACNW.

Private Third Party Reimbursement

Apart from reimbursement by the federal government under Medicare and the federal and state governments under Medicaid (Medical Assistance), a substantial portion of ACH's and ACNW's revenue is provided by private third-party payors, such as commercial insurers and various types of "managed care" programs such as preferred provider organizations ("PPOs"). Generally, reimbursement received from PPOs is lower than rates charged to patients covered by commercial insurance. Future contract negotiations between such third-party payors and ACH or ACNW, and other efforts of these third-party payors and of employers to limit hospitalization and health care costs, could adversely affect the level of utilization of ACH's and ACNW's services, or reimbursement to ACH and ACNW, or both. In addition, it is possible that competitive pricing of plan premiums could cause a PPO to operate at a loss and expose ACH and ACNW to delays in payment or nonpayment of claims for services to plan participants.

Changes in sources of revenue and case mix intensity may also adversely affect ACH's and ACNW's operating revenue. For example, if patients formerly covered by commercial insurance programs that pay full hospital and physician charges shift to PPOs or other third-party payors that pay

lower negotiated rates, the discounts reflected in ACH's and ACNW's financial statements as contractual allowances will proportionately increase and income will proportionately decrease.

In addition, private insurers or managed care programs might enter into contracts with physicians, hospitals or other health care providers whereby the providers are the sole or preferred providers of care for participants in the program. If significant numbers of persons living in ACH's or ACNW's service areas participated in exclusive or preferred provider programs not involving ACH or ACNW, ACH's or ACNW's revenues and cash flow could be adversely impacted.

Malpractice and General Liability Claims

In recent years, the number of malpractice and general liability suits and the dollar amounts of damage awards have increased nationwide, resulting in substantial increases in insurance premiums, which may have an adverse financial impact on ACH and ACNW. Litigation may also arise against ACH and ACNW from their corporate and business activities, such as their status as employers. While ACH and ACNW maintain malpractice and general liability insurance coverage which management and its independent consultants consider adequate, management is unable to predict the availability or cost of such insurance in the future. In addition, it is possible that certain types of liability awards may not be covered by insurance as in effect at the relevant times. See the captions "LITIGATION - ACH and the Affiliate Guarantors" herein and "Miscellaneous – *Insurance and Employee Benefits*" and "– *Litigation*" in Appendix A hereto.

Additional Bonds and Alternative Indebtedness

The Indenture permits the issuance of Additional Bonds secured by and payable from the Gross Revenues of ACH and guaranteed by ACNW under a guaranty agreement secured by the Gross Receipts of ACNW on a parity basis with the security for the Series 2016 Bonds and Series 2023 Bonds. The trust indenture securing the 2016 Northwest Bonds permits the issuance of additional bonds thereunder secured by and payable from the Gross Receipts of ACNW and guaranteed by ACH under a guaranty agreement secured by the Gross Revenues of ACH on a parity basis with the Series 2016 Bonds and Series 2023 Bonds. Under certain conditions, the Indenture and Lease Agreement also permit ACH (and the indenture and loan agreement relating to the 2016 Northwest Bonds permit ACNW) to incur Alternative Indebtedness secured on a parity basis with the Series 2016 Bonds, Series 2023 Bonds and 2016 Northwest Bonds and other outstanding Alternative Indebtedness. See the subcaptions "THE SERIES 2023 BONDS - Additional Bonds" and "- Alternative Indebtedness" and "SUMMARY OF PORTIONS OF THE LEASE AGREEMENT – Permitted Indebtedness" herein for a description of the limitations on the issuance of such Additional Bonds and the incurrence of such Alternative Indebtedness. The issuance of Additional Bonds and the incurrence of Alternative Indebtedness which does not result in a comparable increase in the Gross Revenues of ACH or the Gross Receipts of ACNW would result in a dilution of the security for the Series 2023 Bonds.

It is anticipated that City of Springdale Public Facilities Board Hospital Revenue Bonds, Series 2024 (Arkansas Children's Northwest Project), will be issued in the second quarter of 2024 in the approximate principal amount of \$28,335,000 (the "2024 Northwest Bonds") to finance a portion of the cost of various improvements and betterments to the NW Hospital.

Damage or Destruction

Although ACH and ACNW are required to obtain certain kinds of insurance, there can be no assurance that ACH or ACNW will not suffer uninsured losses in the event of damage to or destruction of ACH's or ACNW's facilities due to fire or other calamity or in the event of other unforeseen calamities.

Covenant to Maintain Tax-Exempt Status of the Series 2023 Bonds

The tax-exempt status of the Series 2023 Bonds is based on the continued compliance by the Issuer and ACH with certain covenants contained in the Lease Agreement and the Indenture. These covenants relate generally to arbitrage limitations, rebate of certain excess investment earnings to the federal government, restrictions on the amount of issuance costs financed with proceeds of the Series 2023 Bonds, and maintenance of ACH's tax-exempt status. Failure to comply with any of these covenants may cause interest on the Series 2023 Bonds to be includable in gross income retroactive to their date of issuance.

Event of Taxability

If ACH fails to comply with certain covenants set forth in the Lease Agreement, or if certain representations or warranties made by ACH in the Lease Agreement, or certain certifications of ACH are false and misleading, the interest payable on the Series 2023 Bonds may become subject to federal income taxation retroactive to the date of issuance of the Series 2023 Bonds, regardless of the date on which noncompliance or misrepresentation is ascertained. In the event that interest on the Series 2023 Bonds should become subject to federal income taxation, the Indenture does not provide for the redemption of the Series 2023 Bonds, the acceleration of the payment of debt service on the Series 2023 Bonds, or for the payment of any additional interest on the Series 2023 Bonds. Notwithstanding the foregoing, ACH's failure to comply with any of such covenants may constitute an event of default under the Lease Agreement with the effect of causing an acceleration of payments due with respect to the Series 2023 Bonds.

Risk of Redemption

The Series 2023 Bonds are subject to redemption or acceleration prior to maturity in certain circumstances. See the caption "THE SERIES 2023 BONDS – Extraordinary Redemption" herein. Bondholders may not realize their anticipated yield on investment to maturity because the Series 2023 Bonds may be redeemed or accelerated prior to maturity at par or at a redemption price that results in the realization of less than the anticipated yield to maturity.

Bond Ratings

There is no assurance that the ratings assigned to the Series 2023 Bonds at the time of issuance (see the caption "RATINGS" herein) will not be lowered or withdrawn at any time, the effect of which could adversely affect the market price for, and marketability of, the Series 2023 Bonds.

Secondary Market

Subject to prevailing market conditions and applicable securities laws, the Underwriter presently intends, but are not obligated, to make a market in the Series 2023 Bonds. Consequently, investors may not be able to resell the Series 2023 Bonds purchased should they wish to do so for emergency purposes or otherwise.

Environmental Risks

Health care facilities are subject to a wide variety of federal, state and local environmental and occupational and safety laws and regulations that address, among other things, health care operations or facilities and properties owned or operated by health care providers with respect to air and water quality control requirements; waste management requirements; specific regulatory requirements applicable to asbestos, polychlorinated biphenyls and radioactive substances; requirements for providing notice to employees and members of the public about hazardous materials handled by or located at health care facilities and requirements for training employees in the proper handling and management of hazardous materials and wastes. In their role as owners and operators of properties or facilities, health care

providers may be subject to liability for investigating and remediating any hazardous substances that have come to be located on the property, including any such substances that may have migrated off of the property. Typical health care operations include, in various combinations, the handling, use, storage, transportation, disposal and discharge of hazardous, infectious, toxic, radioactive, flammable and other hazardous materials, wastes, pollutants or contaminants. For this reason, health care operations are particularly susceptible to the practical, financial and legal risks associated with compliance with such laws and regulations. Such risks may result in damage to individuals, property or the environment; may interrupt operations or increase their cost, or both; may result in legal liability, damages, injunctions or fines; or may trigger investigations, administrative proceedings, penalties or other government agency actions. There can be no assurance that ACH or ACNW will not encounter such risks in the future, and such risks may result in material adverse consequences to the operations or financial condition of ACH and ACNW.

Other Factors Generally Affecting ACH and ACNW

In the future, the following factors, among others, may affect the operations and financial performance of ACH and ACNW to an extent that cannot be determined at this time:

1. Future medical and scientific advances, preventive medicine, improved occupational health and safety, and improved outpatient care could result in decreased usage of inpatient hospital facilities.
2. Difficulties in increasing charges and fees, while at the same time maintaining scope and quality of health services, may affect the ability of ACH and ACNW to maintain sufficient operating margins.
3. A shortage of qualified professional personnel, including registered nurses, could significantly increase payroll costs. ACH and ACNW cannot control the prevailing wage rates in their respective service areas, and any increase in such rates will directly affect their costs of operations.
4. ACH and ACNW has been successful in recent years in maintaining the desired complement of physicians on their medical staffs; however, no assurance can be given that such physician staffing will be continuously maintained by ACH or ACNW in the future. Changes in the number, composition or admitting practices of the medical staffs could affect ACH's or ACNW's reputation or services and thus their operations and revenues.
5. ACH and ACNW could be adversely affected by economic trends and changes in the demographics of their service areas, such as decreases in population or birth rates.
6. Nonprofit hospitals and their employees are under the jurisdiction of the National Labor Relations Board, which has adopted rules permitting collective bargaining units among a hospital's employees. There are presently no ACH or ACNW employees represented by a union. Any future unionization of employees could cause an increase in payroll costs. Moreover, work stoppages, slowdowns or lockouts could reduce, interrupt or otherwise adversely affect operations of ACH and ACNW.
7. ACH and ACNW could be adversely affected by changes in law or rulings expanding indigent care requirements as a condition of maintaining state or federal tax-exempt status, or by other efforts of taxing authorities to impose taxes related to the property or operations of nonprofit organizations.
8. Substantial liabilities under federal and state antitrust laws and other trade regulations may arise in connection with a wide variety of activities, including joint ventures; merger, acquisition and affiliation activities; payer contracting; certain pricing and salary setting activities; and relationships with physicians, including medical staff credentialing. The application of antitrust laws to health care is still evolving, and enforcement activity appears to be increasing. Antitrust

violations may be subject to criminal and/or civil enforcement actions by government agencies as well as by private litigants.

9. The inability of, or the cost to, ACH and ACNW to continue to insure costs in excess of the coverage provided by Sacova, the System's insurance captive, or to otherwise protect themselves against malpractice and general liability claims. See the caption "Miscellaneous – *Insurance and Employee Benefits*" in "APPENDIX A – ACH, ACNW and the Hospitals" attached hereto.
10. Increased unemployment or other adverse economic conditions, natural disasters and acts of war and terrorism, including bioterrorism, could result in ACH and ACNW providing significant unreimbursed services.

SUMMARY OF PORTIONS OF THE LEASE AGREEMENT

The following is a summary of certain portions of the Lease Agreement. The summary does not purport to be complete and reference is made to the full text of the Lease Agreement for a complete description of its terms.

Lease Payments

ACH is obligated to pay Lease Payments to the Trustee for the account of the Issuer in amounts sufficient to pay in full the principal of and premium, if any, and interest on the Bonds from time to time Outstanding under the Indenture, less the amount of other funds available for such payment as provided in the Indenture. Lease Payments shall be due and payable in the following amounts, less the amount of credit to which ACH may be entitled, and at the following times:

(a) Into the Interest Account, on the 28th day of each month, until there is on deposit in the Interest Account the amount necessary to pay the interest on the Bonds on the next interest payment date, an amount equal to one-sixth (1/6) of such interest.

(b) Into the Principal Account, on the 28th day of each month, until there is on deposit in the Principal Account an amount equal to the principal amount of Bonds due on the next principal payment date by reason of either the maturity or Redemption Requirements of Bonds, an amount equal to one-twelfth (1/12) of the principal amount due during the then next twelve (12) months.

(c) Into the Bond Reserve Fund, if any, commencing with the 28th day of the month following the month in which the amount in the Bond Reserve Fund, if any, is less than the Bond Reserve Fund Requirement, an amount equal to the required monthly deposit. The required monthly deposit shall be the amount necessary to restore in twenty-four (24) equal monthly deposits the amount in the Bond Reserve Fund, if any, to the Bond Reserve Fund Requirement. There is no Bond Reserve or Bond Reserve Fund Requirement for the Series 2016 Bonds or the Series 2023 Bonds.

(d) Into the Redemption Account, an amount equal to the amount necessary, together with other moneys in the Redemption Account, to pay the principal of and interest and redemption premium, if any, on Bonds as and when called for redemption other than pursuant to the Redemption Requirements.

In order further to secure the timely making of the Lease Payments, ACH covenants and agrees that upon the occurrence of an event of default under the Lease Agreement, it shall thereafter, upon written demand from the Trustee, deliver daily, so far as practicable, commencing on such day, all of the Gross Revenues of ACH to the Trustee for deposit to the credit of the Revenue Fund, until such event of default is no longer continuing, at which time ACH may suspend the further delivery of the Gross Revenues of ACH (for so long as there shall not be continuing an event of default).

Prepayment of Lease Payments; Credit for Bonds Surrendered

ACH shall have the right from time to time to make Lease Payments in advance which shall be deposited with the Trustee for deposit in the appropriate funds and accounts established under the Indenture and shall, as directed by ACH, be applied as credits upon future Lease Payments or, upon payment by ACH of the amount required to pay the redemption premium (if any), be used to redeem Bonds prior to maturity. ACH shall also have the right to surrender Bonds acquired by it to the Trustee. Bonds so redeemed or surrendered shall be forthwith cancelled and the principal amount thereof shall be applied as credits, in the case of serial Bonds, upon the Lease Payments due and payable with respect to the respective maturity dates of such serial Bonds, and, in the case of term Bonds, upon the Lease Payments due and payable with respect to the date or dates upon which any term Bonds of the same series and maturity become due and payable either at maturity or pursuant to the Redemption Requirements applicable thereto.

Negative Pledge

Except for the Lease Agreement and the Indenture and except for encumbrances to secure certain Permitted Indebtedness as expressly authorized by the Lease Agreement (see the caption "SUMMARY OF PORTIONS OF THE LEASE AGREEMENT — Permitted Indebtedness" herein), ACH covenants that it will not create or suffer to be created any lien, encumbrance, or charge upon the LR Hospital or any part thereof, or on the Gross Revenues of ACH.

Taxes and Other Charges

ACH agrees to pay, promptly as and when the same shall become due and payable, each lawful cost, expense, and obligation of every kind and nature for the payment of which ACH is or shall become liable by reason of its estate or interest in the LR Hospital or by reason of or in any manner connected with or arising out of the possession, operation, maintenance, alteration, repair, rebuilding, use, or occupancy of the LR Hospital.

Insurance

ACH shall, during the Term of the Lease Agreement, keep and maintain the LR Hospital at all times insured in such amounts and against such risks as are customarily insured against in connection with the ownership or operation of facilities of comparable type and size, and ACH shall carry and maintain, or cause to be carried and maintained, and shall timely pay or cause to be paid the premiums for, or make deposits to funds for self-insurance against professional liability for, at least the insurance coverages that were in effect on November 13, 1985; provided, however, that (i) such insurance shall be subject to the annual review and approval of an Insurance Consultant and (ii) ACH shall not reduce such insurance below the levels that were in effect on November 13, 1985 unless ACH shall comply with the requirements set forth in the following paragraph.

In the event the insurance described in the preceding paragraph is not commercially available, or if ACH deems such coverage to be available only at an unreasonable cost, ACH shall confer with an Insurance Consultant acceptable to the Trustee for the purpose of reviewing the insurance coverage of, and insurance required for, ACH and the LR Hospital and making recommendations respecting the types, amounts and provisions of insurance that should be carried by ACH. A signed copy of the report of the Insurance Consultant shall be filed with the Trustee and ACH, and the insurance requirements specified in the preceding paragraph shall be modified to conform with the recommendations contained in the report.

In case any substantial damage to or destruction of any part of the LR Hospital occurs or any part thereof is taken by eminent domain, unless the Trustee and ACH agree that the property or part thereof shall not be repaired or replaced, ACH shall cause to be prepared and filed with the Trustee plans and specifications for repairing, replacing or reconstructing the damaged or destroyed property (either in accordance with the original or a different design) and an estimate of the cost thereof. The proceeds in

any Fiscal Year of insurance resulting from loss, damage, or destruction to the LR Hospital (except the proceeds of the liability portion, if any, of such insurance) or condemnation awards, in excess of one percent (1%) of the Operating Revenues, shall be paid immediately upon receipt by ACH or other named insured to the Trustee and shall be disbursed by the Trustee in accordance with the provisions of the Lease Agreement to pay the cost of repair, replacement and reconstruction, with excess proceeds to be paid to ACH. If such proceeds shall be insufficient for such purposes, the deficiency shall be supplied by ACH. However, if ACH and the Trustee agree that the damaged or condemned property shall not be repaired or replaced, the proceeds of the insurance or the condemnation award shall be deposited by the Trustee in the Redemption Account. In the event insurance proceeds or condemnation awards, together with all other money legally available for that purpose, are insufficient to complete the replacement, repair, or reconstruction of the damaged, destroyed, or taken property to a degree which, in the opinion of the Management Consultant, would result in ACH deriving Net Revenues Available for Debt Service equivalent to at least 100% of the Total Principal and Interest Requirements of ACH for each subsequent Fiscal Year, then the proceeds or awards shall be deposited by the Trustee in the Redemption Account.

Notwithstanding the foregoing, the Issuer and ACH may direct the Trustee to apply the insurance proceeds or condemnation award for the payment of, and ACH shall provide such additional money as may be required to pay in full, principal of and interest and redemption premium, if any, on all Outstanding Bonds and all other obligations incurred by the Issuer pursuant to the Indenture and the Lease Agreement.

Removals from the LR Hospital; Gifts

ACH may not dispose of its cash or demolish, remove or dispose of any real property, structures, furnishings, machinery, equipment or other improvements now or hereafter existing as part of the LR Hospital, except as set forth under the caption “SUMMARY OF PORTIONS OF THE LEASE AGREEMENT—Maintenance of Corporate Existence” and except as stated below:

(a) ACH, free of any obligation to make any replacement thereof, may demolish, remove, or dispose of any real property, structure, furnishing, machinery, equipment or other improvement now or hereafter existing as part of the LR Hospital, and may make any donation, gift or transfer of its cash without fair and adequate consideration or compensation to any individual, partnership, corporation or other entity, provided the aggregate net book value of all such demolitions and removals plus the donations, gifts or transfers of cash made pursuant to this provision during any Fiscal Year shall not exceed fifteen percent (15%) of the total assets of ACH (calculated on a consolidated basis) as shown on its books as of the beginning of such Fiscal Year. The net proceeds, if any, arising from any such actions may be used by ACH as it shall in its sole discretion determine.

(b) Except as provided in (a) above, if ACH, in its sole discretion, determines that (i) any real property, structure, furnishing, machinery, equipment or other improvement now or hereafter constituting a part of the LR Hospital has become inadequate, obsolete, worn out, unsuitable, undesirable or unnecessary, or its disposal, as hereinafter provided, is in the best interests of ACH's operation of the LR Hospital, or (ii) a donation, gift or transfer of its cash to another entity is desirable, ACH may give written notice thereof to the Trustee, and then demolish or remove such property from the LR Hospital, and may, to the extent permitted by law, sell, trade-in, exchange or otherwise dispose of same, in whole or in part, or may donate, give away or transfer such cash, provided that either:

(1) ACH shall, at its own cost and expense, acquire, construct or install replacement or substitute real property, structures, furnishings, machinery, equipment or other improvements having a usefulness, as determined by ACH, to the operations of the LR Hospital (but not necessarily the same function) at least equal to the usefulness, prior to demolition, removal or disposal of the property demolished, removed or disposed of;
or

(2) ACH shall demolish, remove or dispose of any such property from time to time at its own cost and expense, without any obligation on the part of ACH to provide any property in replacement of or substitution for that demolished, removed or disposed of or may donate, give away or transfer such cash upon the following terms and conditions:

(i) prior to such demolition, removal, disposal, donation, gift or transfer, ACH must give to the Trustee written notice thereof, setting forth a brief description of the property to be demolished, removed or disposed of and the net book value thereof as shown on the books of ACH or the amount of cash to be donated, given away or transferred; and

(ii) ACH must submit to the Trustee a copy of a report by a Management Consultant acceptable to the Trustee determining that the property to be demolished, removed or disposed of has become obsolete, inadequate, worn out, unsuitable, undesirable or unnecessary or its disposal is in the best interests of ACH's operation of the LR Hospital and that its demolition, removal or disposal will not impair the structural soundness, efficiency or economic value of the LR Hospital, and to the effect that the demolition, removal or disposal of the property to be demolished, removed, or disposed of or the donation, gift or transfer of cash, will not cause the Net Revenues Available for Debt Service (calculated on a consolidated basis) in the Fiscal Year following the Fiscal Year in which the demolition, removal or disposal of such property occurs to be less than 1.10 times the Maximum Total Principal and Interest Requirements for any subsequent Fiscal Year.

(c) ACH may transfer cash, real property, structures, furnishings, machinery, equipment or other improvements to the Parent or to an Affiliate without complying with any of the provisions of (a) or (b) above.

The Trustee, for itself and on behalf of the Issuer, shall execute any documents reasonably requested by ACH in connection with any action taken by ACH pursuant to this caption.

Leasing

ACH may lease or sublease any part of the LR Hospital or contract for the performance by others of operations or services of or in connection with the LR Hospital, or any part thereof, for any lawful purpose which is consistent with the requirements of the Act, provided that (a) each such lease, sublease or contract shall not be inconsistent with the provisions of the Lease Agreement or the Indenture and (b) ACH shall remain fully obligated and responsible under the provisions of the Lease Agreement to the same extent as if such lease, sublease or contract had not been executed. In addition, each such lease, sublease or contract shall be expressly conditioned upon an opinion of counsel acceptable to the Trustee that ACH's tax-exempt status under Section 501(c)(3) of the Code shall not be adversely affected by any such lease, sublease or contract and an opinion of Bond Counsel that the exemption from federal income tax of the interest on the Bonds shall not be adversely affected by any such lease, sublease or contract; provided, however, that ACH may contract for the performance of services or enter into leases or subleases related to the performance of LR Hospital-based patient care services with physicians on the medical staff of ACH without delivery of such opinions, but such operating contracts, leases or subleases may not and ACH covenants that such contracts, leases or subleases will not adversely affect the tax-exempt status of the Bonds.

Permitted Indebtedness

ACH covenants that during the Term of the Lease Agreement, it will not incur any indebtedness (which term shall include, without limitation, obligations for borrowed money, guarantees, leases of real

or personal property, installment purchase agreements for real or personal property, obligations under any agreement or agreements substantially similar in effect to a lease of real or personal property, and all liabilities which would appear on a balance sheet, including any of the foregoing entered into by any joint venture in which ACH may participate or by any partnership of which it may be a general partner), secured or unsecured, except the following:

- (a) Unsecured indebtedness, for other than borrowed money, incurred in the ordinary course of business;
- (b) Liabilities incurred by endorsement for collection or deposit of checks or drafts received by ACH in the ordinary course of its business and liabilities under leases used in the ordinary course of business, having a term (including any renewal period) of not more than five years and which are true operating leases and not financing leases;
- (c) Obligations pursuant to the Lease Agreement and the Indenture, as amended or supplemented pursuant to the Indenture;
- (d) Short-Term Indebtedness, provided that the total of Short-Term Indebtedness outstanding at any one time shall never exceed an amount equal to ten percent (10%) of Operating Revenues, and provided further that for one period of thirty (30) consecutive days during each Fiscal Year there shall be no unrepaid Short-Term Indebtedness in excess of an amount equal to six percent (6%) of Operating Revenues;
- (e) Other Obligations;
- (f) Indebtedness incurred for any purpose, which indebtedness may not be secured by a lien on the LR Hospital facilities or on the Gross Revenues of ACH. Such indebtedness may be unsecured, or secured by other security as may be available, including a pledge of the gross revenues of any LR Hospital facilities which may be financed with the proceeds of such indebtedness;
- (g) Alternative Indebtedness (see the caption “THE SERIES 2023 BONDS — Alternative Indebtedness” herein);
- (h) Interim Indebtedness in anticipation of long-term indebtedness and maturing within five years if one of the conditions under (A), (B), and (C) under the caption “THE SERIES 2023 BONDS — Additional Bonds” above is met and assuming that such Interim Indebtedness was being issued as Alternative Indebtedness with a term of twenty-five (25) years, level annual debt service payments, and an interest rate equal to the average prime rate charged by the Trustee for the past twelve (12) months or at a rate available to ACH as confirmed in writing by a financial institution;
- (i) Existing indebtedness of ACH on the date of issuance of the Series 2016 Bonds;
- (j) Secured Indebtedness, provided that the total of Secured Indebtedness outstanding at any one time shall never exceed twenty-five percent (25%) of Operating Revenues calculated on a consolidated basis.

Indemnity

ACH agrees, at its expense, to indemnify and save the Issuer, the Trustee and their directors, officers, employees and agents harmless from and against any and all claims, damages, demands, expenses, liabilities and taxes of any character or nature whatsoever regardless of by whom imposed, and losses of every conceivable kind, character and nature whatsoever, including, but not limited to, claims for loss or damage to any property or injury to or death of any person asserted by or on behalf of any person, firm, corporation or governmental authority and arising out of, resulting from, or in any way connected with (i) the LR Hospital, or the conditions, occupancy, use, possession, conduct or management of or any work done in or about the LR Hospital, and (ii) any untrue statement or alleged

untrue statement of any material fact or the omission or alleged omission to state a material fact necessary to make the statements made not misleading in any statement, information or material furnished to the Issuer, including, but not limited to, any feasibility study for use in any official statement utilized by the Issuer in connection with the sale of the Bonds.

Default by ACH

The following are events of default under the Lease Agreement: failure to pay when due any Lease Payment, with a grace period of twenty-four (24) hours after notice to ACH; failure by ACH to comply with any other of the covenants, conditions or agreements on its part to be observed or performed, other than the timely payment of Lease Payments, with a grace period of thirty (30) days after written notice to ACH (or in the case of any such default which cannot with due diligence be cured within such 30-day period, if ACH shall fail to proceed promptly to cure the same and thereafter prosecute the curing of such default with due diligence, it being intended in connection with any such default not susceptible of being cured with due diligence within the thirty (30) days that the time of ACH within which to cure the same shall be extended for such period as may be necessary to complete the curing of the same with all due diligence); various events of bankruptcy or insolvency; and any event of default by ACH under any instrument evidencing Alternative Indebtedness.

Upon the occurrence of an event of default under the Lease Agreement, the Issuer, or the Trustee on behalf of the Issuer, at any time thereafter and while such event of default shall continue, may declare all unpaid Lease Payments to be immediately due and payable and may take any action at law or in equity to collect amounts then due and thereafter to come due, or to enforce performance and observance of any obligation or covenant of ACH under the Lease Agreement or the Indenture.

Tax and Corporate Status of ACH

ACH represents that it is an organization described in Section 501(c)(3) of the Code and is exempt from federal income taxes under Section 501(a) of the Code, and covenants (i) that it will not perform any acts or enter into any agreements or omit to perform any act or fulfill any requirement that shall have the effect of prejudicing ACH's tax-exempt status under such provisions of the Code or its eligibility for grants, loans, subsidies or payments from the United States of America, the State or any instrumentality of either or the tax-exempt status of the Bonds and (ii) except as otherwise provided in the Lease Agreement, that it will maintain, extend and renew its corporate existence under the laws of the State and all franchises, rights and privileges to it granted and upon it conferred, will remain qualified to transact business in the State, and will not do, suffer or permit any act or thing to be done, whereby its right to transact its functions might or could be terminated or its operations and activities restricted or whereby the payment of Lease Payments might or could be hindered, delayed or otherwise impeded.

Maintenance of Corporate Existence

During the Term of the Lease Agreement, ACH covenants to maintain its corporate existence and not to dissolve or otherwise dispose of all or the major portion of its assets except as otherwise permitted in the Lease Agreement (see the caption "SUMMARY OF PORTIONS OF THE LEASE AGREEMENT—Removals from the LR Hospital; Gifts" herein) and not to consolidate with or merge into another corporation or permit one or more other corporations to consolidate with or merge into it; except that ACH may, without violating the foregoing, consolidate with or merge into another nonprofit corporation qualified to do business in the State which is an organization described in Section 501(c)(3) of the Code and exempt from federal income taxes under Section 501(a) of the Code, or permit one or more other such corporations to consolidate with or merge into it, or transfer all or the major portion of its assets to another such corporation or corporations (and thereafter dissolve or not dissolve as ACH may elect) if the following requirements are complied with and there has been delivered to the Issuer and the Trustee an opinion of counsel acceptable to the Trustee stating that there has been said compliance:

(a) The corporation surviving such merger or resulting from such consolidation or sale of assets (the “Surviving Corporation”) which will own (or lease from the Issuer) and operate the LR Hospital has expressly assumed in writing all of the obligations of ACH contained in the Lease Agreement, and

(1) The Trustee shall have received a report of a certified public accountant or firm of certified public accountants determining that such Surviving Corporation will have a fund balance (excluding restricted fund balances), as determined in accordance with GAAP, of not less than 90% of the fund balances (excluding restricted fund balances), as determined in accordance with GAAP, of ACH prior to the consolidation, merger or sale of assets (calculated on a consolidated basis), and

(2) The Trustee shall have received a certificate of the Chief Executive Officer of ACH which indicates that the Surviving Corporation will be able to meet its obligations under the Lease Agreement and would meet the conditions required for the incurrence of one dollar in principal amount of Additional Bonds. See the caption “THE SERIES 2023 BONDS — Additional Bonds” herein.

(b) The pledge of Gross Revenues of ACH contemplated by the Lease Agreement will not in any manner be affected thereby.

(c) The Surviving Corporation operating the LR Hospital has met all hospital licensing requirements.

(d) Immediately after giving effect to such transaction, no event of default under the Lease Agreement shall have occurred and be continuing.

Upon compliance with the foregoing conditions and delivery to the Issuer of the opinion of counsel required as described above, the Issuer shall deliver to the predecessor corporation an instrument releasing the predecessor corporation from its obligations under the Lease Agreement.

No Liabilities of Individual Officers or Trustees

No recourse under or upon any obligation, covenant or agreement contained in the Lease Agreement shall be had against any director or officer, as such, past, present or future, of the Issuer, either directly or through the Issuer, or against any officer or member of the Board of Directors of ACH, past, present or future, as an individual.

SUMMARY OF PORTIONS OF THE INDENTURE

The Indenture is a contract between the Issuer and the Trustee for the benefit of Holders of any Bonds issued pursuant to the Indenture. Under the Indenture, the Issuer has assigned to the Trustee all of the Issuer’s right, title and interest in the Lease Agreement (except for certain rights to payment of expenses and indemnification). Set forth below is a summary of certain provisions of the Indenture which does not purport to be comprehensive. Reference is made to the full text of the Indenture for a complete description of its terms.

Establishment of Funds

The Indenture creates a Revenue Fund, Bond Fund and therein an Interest Account, a Principal Account, and a Redemption Account, and Costs of Issuance Fund, all of which are held by the Trustee. The Revenue Fund will be established only if there is an event of default under the Indenture. A Construction Fund will be established only if a series of Bonds are issued for the purpose of financing a project.

Subject to the terms and conditions set forth in the Indenture, moneys deposited in the Interest Account and Principal Account will be disbursed by the Trustee for the purpose of paying the interest on

the Bonds as it shall become due and payable and for the purpose of paying the principal of the Bonds as it shall become due and payable by reason of the maturity or the Redemption Requirements of the Bonds; and moneys in the Redemption Account shall be applied by the Trustee to the payment of the principal of and premium, if any, and interest on the Bonds as it shall become due and payable by reason of call for redemption other than pursuant to the Redemption Requirements.

Investment of Funds

Substantially all moneys in the funds and accounts established under the Indenture and any insurance and condemnation proceeds received by the Trustee shall be invested and reinvested by the Trustee in Qualified Investments but only if and to the extent specified in and by the written request of ACH and only if the Trustee shall not have actual knowledge of a default by ACH under the Lease Agreement.

Any interest or profit on investments in the Principal Account, Interest Account, or Redemption Account shall be transferred to the Construction Fund during the construction period for any project, and thereafter shall be retained within such fund or account and shall constitute a credit to ACH on the next succeeding Lease Payments due or to become due under the Lease Agreement.

The Trustee shall sell or present for redemption any investment whenever it shall be necessary in order to provide money to meet any payment required under the Indenture, and the Trustee shall not be liable or responsible for any loss resulting from such sale. Any loss on investments in any account or fund created under the Indenture shall be charged to the account or fund in which such investment was held.

For the purpose of determining the amount on deposit to the credit of any fund or account, Qualified Investments in which money in such fund or account is invested shall be valued at market.

Defaults and Remedies

The occurrence of any one of more of the following events constitutes an “event of default” under the Indenture:

- (a) default in the due and punctual payment of any principal of or premium, if any, or interest on any Bond when and as the same shall become due and payable, whether by acceleration or otherwise;
- (b) default by the Issuer in the performance or observance of any other covenant, condition or agreement on its part contained in the Indenture or the Bonds, continued for a period of sixty (60) days after written notice given to the Issuer by the Trustee, or to the Issuer and the Trustee by the holders of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds at the time Outstanding; or
- (c) an event of default under the Lease Agreement shall have happened and be continuing.

In each and every case during the continuance of such event of default, unless cured by the Issuer within thirty (30) days after written notice that an event of default has occurred (except for an event of default specified in subsection (a) above, in which case immediately), and, unless the principal of all the Bonds shall have already become due and payable, the Trustee, by notice in writing to the Issuer, may, and upon the written request of the owners of not less than twenty-five percent (25%) in principal amount of the Bonds at the time then Outstanding shall, declare the principal of the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Indenture or in the Bonds contained to the contrary notwithstanding. This provision, however, is subject to the condition that at any time after the principal of the Bonds shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered as provided in the Indenture, the Issuer or ACH shall pay to or shall deposit with the Trustee a sum sufficient to pay all

principal on the Bonds matured prior to such declaration and all matured installments of interest (if any) upon all the Bonds and the reasonable expenses of the Trustee, and any and all other defaults known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured or provisions adequate shall have been made therefor, then, and in every such case, the holders of at least fifty-one percent (51%) in aggregate principal amount of the Bonds then Outstanding, by written notice to the Issuer and the Trustee, may, on behalf of the owners of all the Bonds, rescind and annul such declaration and its consequences, but no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

Notwithstanding any provision in the Indenture to the contrary or the occurrence and continuance of any event of default by the Issuer under the Indenture, so long as ACH is not in default under the Lease Agreement, neither the Trustee nor any Bondholder(s) shall have any right to accelerate or otherwise declare due and payable the remaining unpaid installments under the Lease Agreement.

No Bondholder shall have any right to institute or prosecute any suit or proceeding at law or in equity for the enforcement of any of the provisions of the Indenture or of any remedies thereunder unless the holders of at least twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding shall have in writing requested the Trustee to take such action and shall have offered the Trustee such reasonable indemnity as it may require against costs, expenses, and liabilities to be incurred therein and thereby, and the Trustee shall have neglected for sixty (60) days to take such action; provided, however, that the right of any owner of any Bond to receive payment of the principal thereof and/or interest thereon when due or to institute suit for the enforcement of any such payment shall not be impaired or affected without the consent of such owner.

Supplemental Indentures

The Indenture may not be modified or amended without the approval of the owners of fifty-one percent (51%) in principal amount of the Outstanding Bonds except:

- (a) to add to the covenants and agreements of the Issuer contained in the Indenture, such other covenants and agreements thereafter to be observed, or to surrender any right or power reserved or conferred upon the Issuer in the Indenture;
- (b) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective or inconsistent provision contained in the Indenture, or in regard to matters or questions arising under the Indenture, as the Issuer may deem necessary or desirable and not inconsistent with the Indenture and which shall not adversely affect the interests of the holders of the Bonds;
- (c) to subject, describe or re-describe any property subjected or to be subjected to the lien of the Indenture;
- (d) to modify, amend or supplement the Indenture or any indenture supplemental thereto in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939 or any similar federal statute hereafter in effect, and, if so determined, to add to the Indenture or any supplemental indenture such other terms, conditions and provisions as may be permitted by the Trust Indenture Act of 1939 or similar federal statute;
- (e) to provide for Alternative Indebtedness in accordance with the Lease Agreement; and
- (f) to accomplish any other action authorized or required by the Lease Agreement or the Indenture.

In any event, no modification or amendment of the Indenture shall be made which will (i) extend the fixed maturity of the principal of the Bonds, reduce the rate of interest thereon, or extend the time of

payment of interest, reduce the amount of the principal thereof, or reduce any premium payable on the redemption thereof, without the consent of the holder of each Bond so affected, or (ii) reduce the percentage of holders of Bonds required to approve any such supplemental indenture, or (iii) permit the creation of any lien on the properties assigned and conveyed under the Indenture prior to or on a parity with the lien of the Indenture except as permitted by the Indenture to secure Alternative Indebtedness (see the caption “THE SERIES 2023 BONDS — Alternative Indebtedness” herein), or deprive the holders of the Bonds of the lien created by the Indenture upon said properties, without the consent of the holders of all the Bonds then Outstanding.

Payment of Trustee's Compensation

If the Issuer shall fail to make any required payment to the Trustee for its compensation and expenses, the Trustee may make such payment from any moneys in its possession under the Indenture and shall be entitled to preference thereof over any of the Bonds.

No Personal Liability

No recourse under or upon any obligation, covenant or agreement contained in the Indenture, or in any Bond or under any judgment obtained against the Issuer, or by the enforcement of any assessment or by any legal or equitable proceeding by virtue of any constitution or statute or otherwise, or under any circumstances under or independent of the Indenture, shall be had against any officer or employee as such, past, present or future, of the Issuer, either directly or through the Issuer or otherwise, for the payment for or to the Issuer or any receiver thereof, or for or to the holder of any Bond or otherwise of any sum that may be due and unpaid by the Issuer upon any such Bond.

Defeasance

Upon the deposit with the Trustee, in trust, at or before maturity, of money or Government Obligations or obligations the payment of the principal of and interest on which is fully payable from anticipated receipts from money or Government Obligations held in trust for such purpose (“Escrowed Money and Obligations”) in the necessary amount to pay or redeem Outstanding Bonds (whether upon or prior to their maturity or the redemption date of such Bonds), and to pay interest thereon until the maturity or redemption date, provided that if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as in the Indenture provided or provisions satisfactory to the Trustee shall have been made of the giving of such notice, all liability of the Issuer in respect of such Bonds shall cease, determine and be completely discharged and the holders thereof shall thereafter be entitled only to payment out of the Escrowed Money and Obligations deposited with the Trustee as aforesaid for their payment, subject, however, to the provisions of the Indenture with respect to returning unclaimed moneys to the Issuer.

SUMMARY OF PORTIONS OF THE GUARANTY AGREEMENTS

As additional security for the Series 2023 Bonds, the Parent, ACH, ACNW and the Foundation (collectively, the “Guarantors”) will each execute and deliver separate Guaranty Agreements dated as of June 15, 2023 (the “Guaranty Agreements”), to the Trustee pursuant to which the Guarantors will severally and unconditionally guarantee payment of the debt service on the Series 2023 Bonds. ACNW will further guarantee the performance of the obligations of ACH under the Lease Agreement. The obligations of ACNW under its Guaranty Agreement are secured by a pledge of and security interest in the Gross Receipts of ACNW. Similar guaranty agreements were entered into by the Parent, ACH, ACNW and the Foundation with respect to the Series 2016 Bonds and the Series 2016 Northwest Bonds. It is anticipated that ACH, the Parent and the Foundation will enter into additional guaranty agreements during the second quarter of 2024 with respect to City of Springdale Public Facilities Board Hospital Revenue Bonds, Series 2024 (Arkansas Children’s Northwest Project), projected to be issued in the

approximate principal amount of \$28,335,000 (the “2024 Northwest Bonds”) to finance a portion of the cost of various improvements and betterments to the NW Hospital.

The following is a summary of certain provisions of the Guaranty Agreements. The summary does not purport to be complete and reference is made to the full text of each Guaranty Agreement for a complete description of its terms.

Guarantee of Payment and Performance

Each Guarantor unconditionally guarantees to the Trustee for the benefit of the registered owners from time to time of the Series 2023 Bonds (i) the full and prompt payment of the principal of and premium, if any, on each of the Series 2023 Bonds when and as the same shall become due, whether at the stated maturity thereof, by acceleration, call for redemption or otherwise, and (ii) the full and prompt payment of the interest on each of the Series 2023 Bonds when and as the same shall become due. In each and every case, the Guarantor agrees, in the event of the failure of the Issuer to make such payments of principal, premium, if any, or interest, to make or cause to be made such payments to the Trustee. All such payments shall be paid in lawful money of the United States of America. Each and every default in payment of the principal of, premium, if any, or interest on any Series 2023 Bond shall give rise to a separate cause of action under the Guaranty Agreement, and separate suits may be brought as each cause of action arises.

Each Guaranty Agreement is a guarantee of payment, as opposed to collection, of principal of and interest on the Series 2023 Bonds, and it shall not be necessary that any proceedings be instituted against ACH or any other Guarantor of the Series 2023 Bonds prior to the institution of proceedings against a particular Guarantor.

ACNW (but not the other Guarantors) additionally unconditionally guarantees the prompt and complete performance by ACH (and any assignee that assumes the obligations of ACH pursuant to the provisions of the Lease Agreement) of all the covenants and obligations of ACH under the Lease Agreement, as it may be supplemented and amended at any time. If ACH should at any time default in the making of any Lease Payments when due, ACNW (but not the other Guarantors) has agreed to make such payments within two (2) Business Days after receipt by ACNW of written notice of such default from either the Issuer or the Trustee. If an event of default shall at any time occur in the performance of any other obligation of ACH contained in the Lease Agreement, ACNW (but not the other Guarantors) has agreed to perform, or will cause ACH to perform, such obligation, and will pay all additional costs that may arise in consequence of any such event of default, within thirty (30) Business Days after receipt of written notice of such event of default from either the Issuer or the Trustee.

The obligations of each Guarantor under its Guaranty Agreement shall be absolute and unconditional and shall remain in full effect until the entire principal of, premium, if any, and interest on the Series 2023 Bonds shall have been paid or provided for under the Indenture, and such obligations shall not be affected, modified or impaired upon the happening from time to time of any event, including without limitation any of the following, whether or not with notice to, or the consent of, the Guarantor:

- (a) the compromise, settlement, release or termination of any or all of the obligations, covenants or agreements of the Issuer under the Indenture or the Lease Agreement;
- (b) the failure to give notice to the Guarantor of the occurrence of an event of default under the terms and provisions of the Guaranty Agreement, the Indenture or the Lease Agreement;
- (c) the assignment or mortgaging or the purported assignment or mortgaging of all or any part of the Issuer’s interest in the health care facilities leased to ACH or any failure of the Issuer’s title;
- (d) the waiver by the Trustee or the Issuer of the payment, performance or observance by the Issuer, ACH or the Guarantor of any of the obligations, covenants or

agreements of any of them contained in the Lease Agreement, the Indenture or the Guaranty Agreement;

(e) the extension of the time for payment of any principal of, premium, if any, or interest on any Series 2023 Bond or of the time for performance of any obligation, covenant or agreement under or arising out of the Lease Agreement, the Indenture or the Guaranty Agreement or the extension or the renewal of any thereof;

(f) the modification or amendment (whether material or otherwise) of any obligation, covenant or agreement set forth in the Indenture or the Lease Agreement, as authorized by the respective terms thereof;

(g) the taking or the omission of any of the actions under or referred to in the Indenture or the Guaranty Agreement;

(h) any failure, omission, delay or lack on the part of the Issuer or the Trustee to enforce, assert or exercise any right, power or remedy conferred on the Trustee in the Guaranty Agreement or the Indenture, or any other act or acts on the part of the Issuer, the Trustee or any of the owners from time to time of the Series 2023 Bonds;

(i) the voluntary or involuntary liquidation, dissolution, sale or other disposition of all or substantially all the assets, marshalling of assets and liabilities, receivership, insolvency, bankruptcy, assignment for the benefit of creditors, reorganization, arrangement, composition with creditors or readjustment of, or other similar proceeding affecting ACH, the Guarantor or the Issuer or any of the assets of any of them, or any allegation or contest of the validity of the Guaranty Agreement in any such proceeding;

(j) to the extent permitted by law, the release or discharge of the Guarantor from the performance or observance of any obligation, covenant or agreement contained in the Guaranty Agreement by operation of law;

(k) the issuance by the Issuer of any additional indebtedness pursuant to the Indenture;

(l) the default or failure of the Guarantor fully to perform any of its obligations set forth in the Guaranty Agreement; or

(m) the invalidity or unenforceability of the Lease Agreement or the Series 2023 Bonds or any part thereof;

provided that the specific enumeration of the above-mentioned acts, failures or omissions shall not be deemed to exclude any other acts, failures or omissions, though not specifically mentioned above, it being the purpose and intent of this paragraph that the obligation of the Guarantor shall be absolute and unconditional and shall not be discharged, impaired or varied except by the payment of the principal, of premium, if any, and interest on the Series 2023 Bonds in accordance with the terms of the Indenture, and then only to the extent of such payments. Without limiting any of the other terms or provisions of the Guaranty Agreement, it is understood and agreed that, in order to hold the Guarantor liable thereunder, there shall be no obligation on the part of the Trustee or any holder of any Series 2023 Bond to resort in any manner or form for payment to the Issuer, ACH or to any other person, firm or corporation or to their properties or estates.

No set-off, counterclaim, reduction or diminution of any obligation, or any defense of any kind or nature which the Guarantor has or may come to have against the Issuer, the Trustee, ACH or any other Guarantor shall be available to the Guarantor against the Trustee. The Guarantor waives subrogation with regard to any payment made by the Guarantor under its Guaranty Agreement.

In the event of a default in the payment of principal of or premium, if any, on any Series 2023 Bond when and as the same shall become due, whether at the stated maturity thereof, by acceleration, call

for redemption or otherwise, or in the event of a default in the payment of any interest on any Series 2023 Bond when and as the same shall become due, the Trustee may, and if requested so to do by the holders of not less than 25% in aggregate principal amount of the Series 2023 Bonds then Outstanding, and upon indemnification as provided below shall, proceed under a Guaranty Agreement, and the Trustee, in its sole discretion, shall have the right to proceed first and directly against any Guarantor under its Guaranty without proceeding against or exhausting any other remedies which it may have and without resorting to any other security held by the Issuer or the Trustee.

Before taking any action under a Guaranty Agreement, the Trustee may require that satisfactory indemnity be furnished by the owners of the Series 2023 Bonds for the reimbursement of all expenses and to protect the Trustee from all liability, except liability which is adjudicated to have resulted from its negligence or willful misconduct. The duties, obligations and rights of the Trustee under each Guaranty shall be governed by Article VIII of the Indenture and any moneys received by the Trustee under a Guaranty Agreement shall be held and applied subject to Article VII of the Indenture.

Corporate Existence

The Parent and the Foundation each covenants and agrees that it will maintain its corporate existence and will not dispose of all or substantially all of its assets nor consolidate with or merge into another corporation, except (a) if such merger or consolidation, or transferee is with ACH or an Affiliate of the Guarantor or (b) if such disposal of all or substantially all of its assets is to ACH or an Affiliate of the Guarantor, and in each case the successor resulting entity or transferee assumes the obligations of the Guarantor under its Guaranty Agreement.

ACH agrees that it will maintain its corporate existence and will not dispose of all or substantially all of its assets nor consolidate with or merge into another corporation, except in accordance with the provisions of the Lease Agreement, and, in any case, not unless the transferee of such assets or the resulting or surviving corporation shall assume in writing all of the obligations of ACH under its Guaranty Agreement. See the caption “SUMMARY OF PORTIONS OF THE LEASE AGREEMENT – Maintenance of Corporate Existence” herein.

During the term of its Guaranty Agreement, ACNW will maintain its corporate existence and will not dissolve or otherwise dispose of all or the major portion of its assets (except as described below under the subcaption “ – ACNW Covenants – *Disposal of Property*”) and will not consolidate with or merge into another corporation or permit one or more other corporations to consolidate with or merge into it; except, that ACNW may, without violating the foregoing, consolidate with or merge into another non-profit corporation qualified to do business in the State of Arkansas, which is an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, and exempt from federal income taxes under Section 501(a) of such Code, or permit one or more other such corporations to consolidate with or merge into it, or transfer all or the major portion of the NW Hospital or its assets to another such corporation or corporations (and thereafter dissolve or not dissolve as ACNW may elect) if the following requirements are complied with and there has been delivered to the Issuer and the Trustee an opinion of counsel acceptable to the Trustee stating that there has been said compliance and:

(i) A corporation (the “Surviving Corporation”) surviving such merger or resulting from such consolidation or sale of assets will own (or lease from ACNW) and operate the NW Hospital, has expressly assumed in writing all of the obligations of ACNW contained in its Guaranty Agreement, including but not limited to its covenants and obligations with respect to incurring indebtedness, and

(A) The Trustee shall have received a report by a certified public accountant or firm of certified public accountants determining that such Surviving Corporation will have a fund balance (excluding restricted fund balances), as determined in accordance with GAAP, of not less than ninety percent (90%) of the fund balances (excluding

restricted fund balances), as determined in accordance with GAAP, of ACNW prior to the consolidation, merger, or sale of assets, all calculated on a consolidated basis, and

(B) The Trustee shall have received a certificate of the chief executive officer of ACNW which indicates that the Surviving Corporation will be able to meet its obligations under its Guaranty Agreement and under the Loan Agreement and Security Agreement dated as of June 1, 2016, as amended (the “Northwest Loan Agreement”), by and between ACNW and the issuer of the 2016 Northwest Bonds.

(ii) The pledge of Gross Receipts of ACNW contemplated by its Guaranty Agreement will not in any manner be affected thereby;

(iii) The Surviving Corporation operating the NW Hospital has met all hospital licensing requirements; and

(iv) Immediately after giving effect to such transaction, no default under the Guaranty Agreement of ACNW shall have occurred and be continuing.

ACNW Covenants

Set forth below are covenants of ACNW contained only in its Guaranty Agreement.

NW Hospital. ACNW shall, at its sole cost and expense, keep and maintain the NW Hospital, both inside and outside, in a good state of repair and preservation, ordinary wear and tear, obsolescence in spite of repair and acts of God excepted. ACNW covenants that it will not use or permit the use of the NW Hospital or any part thereof for any unlawful purpose or permit any nuisance to exist thereon. ACNW further covenants and agrees that it will at all times use its best efforts to maintain and operate the NW Hospital in compliance with all laws, ordinances, orders, rules, regulations and requirements of duly constituted public authorities which may be applicable to the NW Hospital or to the repair and alteration thereof, or to the use or manner of use of the NW Hospital, and to meet standards and requirements and provide health care of such quality and in such manner as shall enable ACNW to participate in, and provide services in connection with, recognized health and hospital insurance programs. ACNW represents that it presently complies therewith and agrees that, so long as it shall remain a participating hospital under the Medicare, Medicaid, or other programs, it will use its best efforts to comply with the standards and requirements for remaining a participating hospital thereunder.

Rate Covenant. ACNW covenants that during each Fiscal Year, it will fix, charge and collect, or cause to be fixed, charged and collected, subject to applicable requirements or restrictions imposed by law, rates, rentals, fees and charges for the use of the NW Hospital and for the services furnished or to be furnished by ACNW which will be sufficient in each Fiscal Year to produce Net Revenues Available for Debt Service equal to at least one hundred ten percent (110%) of Maximum Total Principal and Interest Requirements. It is understood and agreed that Net Revenues Available for Debt Service, as used in this paragraph and the following two paragraphs, are to be calculated on a consolidated basis, and ACNW does not have to produce all revenues included in the Net Revenues Available for Debt Service calculation.

ACNW covenants that, from time to time and as often as shall be necessary, it will revise, or cause to be revised, subject to applicable requirements or restrictions imposed by law, the rates, rentals, fees and charges as may be necessary or proper so that the Net Revenues Available for Debt Service in each Fiscal Year shall be equal to at least one hundred ten percent (110%) of Maximum Total Principal and Interest Requirements. ACNW further covenants that if in any Fiscal Year the ratio of Net Revenues Available for Debt Service to Maximum Total Principal and Interest Requirements is less than 1.10:1.00, ACNW will, before the 60th day after receipt of the first available financial statement (audited or unaudited), employ a Management Consultant to report the rates, rentals, fees and charges, together with any recommendations regarding methods of operation and other factors affecting financial condition, the Management Consultant believes are necessary to enable ACNW to produce Net Revenues Available for

Debt Service in such following Fiscal Year equal to at least one hundred ten percent (110%) of Maximum Total Principal and Interest Requirements. The recommendations of the Management Consultant shall be filed with the Trustee. ACNW covenants and agrees that promptly upon the receipt of such recommendations, subject to applicable requirements or restrictions imposed by law, it shall revise its rates, rentals, fees and charges or its method of operation and shall take such other action as shall be in conformity with such recommendations. If in the judgment of the Management Consultant it is not possible for ACNW to produce the required ratio of Net Revenues Available for Debt Service to Maximum Total Principal and Interest Requirements of 1.10:1.00, the report of the Management Consultant shall so indicate and shall further indicate the ratio anticipated if the recommendations of the Management Consultant are followed.

If ACNW employs a Management Consultant as required by preceding paragraph, ACNW's first default of failing to maintain the required 1.10:1.00 ratio of Net Revenues Available for Debt Service to Maximum Total Principal and Interest Requirements shall be cured. If ACNW employs a Management Consultant from time to time as required by the preceding paragraph and follows the Management Consultant's recommendations, it shall for each Fiscal Year in which the Management Consultant is employed, and in each subsequent Fiscal Year in which it is not required to again employ a Management Consultant, be excused from maintaining the 1.10:1.00 ratio of Net Revenues Available for Debt Service to Maximum Total Principal and Interest Requirements, provided, however, that failure of ACNW for any Fiscal Year to produce Net Revenues Available for Debt Service equal to at least one hundred percent (100%) of Maximum Total Principal and Interest Requirements for such Fiscal Year shall constitute an event of default under its Guaranty Agreement. Failure of ACNW to appoint a Management Consultant or to follow the recommendations of an appointed consultant shall constitute an event of default under its Guaranty Agreement. The Trustee agrees that the rendering of service by, or the use of, the NW Hospital free of charge or at discounted or reduced rates may be permitted by ACNW to the extent it will not prevent ACNW from complying with the terms and provisions of its Guaranty Agreement.

Disposal of Property. Except as described below, ACNW shall not dispose of its cash or demolish, remove or dispose of any real property, structure, furnishings, machinery, equipment or other improvement now or hereafter existing as part of the NW Hospital.

ACNW, free of any obligation to make any replacement thereof, may demolish, remove or dispose of any real property, structure, furnishings, machinery, equipment or other improvement now or hereafter existing as part of the NW Hospital, and may make any donation, gift or transfer of its cash without fair and adequate consideration or compensation to any individual, partnership, corporation or other entity, provided the aggregate net book value as shown on the books of ACNW of all such demolitions and removals plus the donations, gifts or transfers of cash made pursuant to this provision during any Fiscal Year shall not exceed an amount equal to fifteen percent (15%) of the total assets of ACNW, on a consolidated basis, as shown on its books as of the beginning of such Fiscal Year. The net proceeds, if any, arising from any such actions may be used by ACNW as it shall in its sole discretion determine.

Except as provided in the preceding paragraph, if ACNW in its sole discretion determines that (a) any real property, structure, furnishings, machinery, equipment or other improvement now or hereafter constituting a part of the NW Hospital has become inadequate, obsolete, worn out, unsuitable, undesirable or unnecessary, or its disposal, as hereinafter provided, is in the best interests of ACNW's operation of the NW Hospital, or (b) a donation, gift or transfer of its cash to another entity is desirable, ACNW may give written notice thereof to the Trustee, and then demolish or remove such property from the NW Hospital, and may, to the extent permitted by law, sell, trade-in, exchange or otherwise dispose of same, in whole or in part, or may donate, gift or transfer such cash provided that either:

- (i) ACNW shall, at its own cost and expense, acquire, construct or install replacement or substitute real property, structures, furnishings, machinery, equipment or other improvements having a usefulness, as determined by ACNW, to the operations of ACNW (but not necessarily

the same functions) at least equal to the usefulness, prior to demolition, removal or disposal of the property demolished, removed or disposed of; or

(ii) ACNW shall demolish, remove or dispose of any such property from time to time at its own cost and expense, without any obligation on the part of ACNW to provide any property in replacement of or substitution for that demolished, removed or disposed of, or may donate, gift or transfer such cash upon the following terms and conditions:

(1) prior to such demolition, removal or disposal, or donation, gift or transfer, ACNW must give to the Trustee written notice thereof, setting forth a brief description of the property to be demolished, removed or disposed of and the net book value thereof as shown on the books of ACNW, or the amount of cash to be donated, gifted or transferred; and

(2) ACNW must submit to the Trustee a copy of a report by a Management Consultant and acceptable to the Trustee determining that the property to be demolished, removed or disposed of has become obsolete, inadequate, worn out, unsuitable, undesirable or unnecessary or its disposal is in the best interests of ACNW's operation of the NW Hospital and that its demolition, removal or disposal will not impair the structural soundness, efficiency or the economic value of the NW Hospital and to the effect that the demolition, removal or disposal of the property to be demolished, removed or disposed of, or the donation, gift or transfer of cash will not cause the Net Revenues Available for Debt Service, on a consolidated basis, in the Fiscal Year following the Fiscal Year in which the demolition, removal or disposal of such property occurs to be less than 1.10 times the Maximum Total Principal and Interest Requirements for any subsequent Fiscal Year.

ACNW may transfer cash, real property, structures, furnishings, machinery, equipment or other improvements to the Parent, ACH or to any other Affiliate without complying with any of the provisions above.

Incurrence of Indebtedness. ACNW covenants and agrees that during the term of its Guaranty Agreement, it will not thereafter incur any indebtedness (which term shall include, without limitation, obligations for borrowed money, guarantees, leases of real or personal property, installment purchase agreements for real or personal property, obligations under any agreement or agreements substantially similar in effect to a lease of real or personal property, and all liabilities which would appear on a balance sheet, including any of the foregoing entered into by any joint venture in which ACNW may participate or by any partnership in which it may be general partner), secured or unsecured, except the following:

(1) Unsecured indebtedness, for other than borrowed money, incurred in the ordinary course of business.

(2) Liabilities incurred by endorsement for collection or deposit of checks or drafts received by ACNW in the ordinary course of its business and liabilities under leases used in the ordinary course of business, having a term including any renewal period of not more than five (5) years and which are true operating leases and not financing leases.

(3) Obligations pursuant to the Northwest Loan Agreement and the Northwest Indenture, as amended or supplemented pursuant to the Northwest Indenture.

(4) Short-Term Indebtedness, provided that the total of Short-Term Indebtedness outstanding at any one time shall never exceed an amount equal to 10% of Operating Revenues on a consolidated basis, and provided further that for one period of thirty (30) consecutive days during each Fiscal Year there shall be no unrepaid Short-Term Indebtedness in excess of an amount equal to 6% of Operating Revenues.

(5) Other Obligations.

(6) Indebtedness incurred for any purpose, which indebtedness may not be secured by a lien on the NW Hospital or the Gross Receipts of ACNW. Such indebtedness may be unsecured, or secured by other security as may be available.

(7) Alternative Indebtedness incurred for any purpose, which Alternative Indebtedness may share on a parity with and be entitled to the same benefit and security as the Issuer, the Trustee and the holders of the Series 2016 Bonds and Series 2023 Bonds in the Gross Receipts of ACNW, and be entitled to such other security as ACNW may deem necessary or desirable; provided, however, the Issuer, the Trustee, and the holders of the Series 2016 Bonds and Series 2023 Bonds shall share on a parity with and shall be entitled to the same benefit and security as the security for such Alternative Indebtedness, and the instruments evidencing such Alternative Indebtedness and the security therefor shall reflect the interest of the Issuer, the Trustee and the holders of the Series 2016 Bonds and the Series 2023 Bonds in such security; provided, however, ACNW covenants and agrees that it will not incur any Alternative Indebtedness unless in the case of any Alternative Indebtedness incurred for any purpose other than refunding Outstanding Bonds or refinancing Alternative Indebtedness:

(a) The additional Alternative Indebtedness when combined with all other Alternative Indebtedness issued and outstanding (and not incurred in compliance with the provision of (b) or (c) below) and Additional Bonds issued in accordance with Article IV of the Northwest Indenture does not exceed twenty-five percent (25%) of Operating Revenues on a consolidated basis; or

(b) ACNW shall have delivered to the Trustee a certificate of ACNW stating that the ratio of Net Revenues Available for Debt Service, on a consolidated basis, as of the end of the most recent Fiscal Year for which audited financial statements are available to Maximum Total Principal and Interest Requirements immediately after the issuance of the proposed Alternative Indebtedness, including the proposed Alternative Indebtedness as if it had been incurred at the beginning of such Fiscal Year, is at least 1.20:1.00; or

(c) ACNW shall have delivered to the Trustee a certificate of ACNW stating that the ratio of Net Revenues Available for Debt Service, on a consolidated basis, to Total Principal and Interest Requirements was at least 1.10:1.00 for the most recent Fiscal Year for which audited financial statements are available; and a report of a Management Consultant stating that the ratio of Income Available for Debt Service, on a consolidated basis, to Maximum Total Principal and Interest Requirements, is projected to be at least 1.20:1.00 during each of the immediately succeeding two Fiscal Years or, if the Permitted Indebtedness is incurred to finance the construction of a project, such ratio shall be projected to be at least 1.20:1.00 during each of the two Fiscal Years immediately succeeding the completion of the project;

and in the case of Alternative Indebtedness incurred for the purpose of refunding Outstanding 2016 Northwest Bonds or refinancing Alternative Indebtedness:

(d) Provision is made for the redemption or retirement of the Outstanding 2016 Northwest Bonds being refunded or the Alternative Indebtedness being refinanced; and

(e) If the Maximum Total Principal and Interest Requirements shall be increased by more than 10% by such refunding or refinancing during the life of any 2016 Northwest Bonds issued prior to such refunding or refinancing and not refunded, ACNW complies with either subparagraph (a), (b) or (c) of this paragraph (7).

Included within the term "Alternative Indebtedness" is the indebtedness represented by the Northwest Loan Agreement which guarantees payment of the 2016 Northwest Bonds and which pledges the Gross Receipts of ACNW to secure the ACNW's obligations thereunder.

(8) Interim Indebtedness in anticipation of long term indebtedness and maturing within five years if one of the conditions under (7)(a), (b) and (c) above is met assuming that such Interim Indebtedness was being issued as Alternative Indebtedness with a term of twenty-five (25) years, level annual debt service payments, and an interest rate equal to the average prime rate charged by the Trustee for the past twelve months or at a rate available to ACNW as confirmed in writing by a financial institution.

(9) Existing indebtedness of ACNW on the date of issuance of the 2016 Northwest Bonds.

(10) Secured Indebtedness, provided that the total of Secured Indebtedness outstanding at any one time shall never exceed an amount equal to 25% of Operating Revenues on a consolidated basis.

Pledge of Gross Receipts of ACNW

In order to secure its obligations under its Guaranty Agreement, ACNW pledges and grants a security interest in all Gross Receipts of ACNW. Such pledge is on a parity of security with the pledge of Gross Receipts of ACNW in favor of the 2016 Northwest Bonds and the Series 2016 Bonds. ACNW has not heretofore made a pledge of or granted a security interest in the Gross Receipts of ACNW that ranks on a parity with or prior to the pledge granted by its Guaranty Agreement, except for the pledge and security interest securing the 2016 Northwest Bonds and the Series 2016 Bonds. ACNW shall not hereafter make or suffer to exist any pledge or security interest in the Gross Receipts of ACNW, except as permitted by its Guaranty Agreement.

Upon the occurrence of an event of default under the Guaranty Agreement of ACNW, ACNW shall pay over to the Trustee the Gross Receipts of ACNW. ACNW shall assist the Trustee in the collection of checks, drafts, cash and other remittances to ACNW with respect to the Gross Receipts of ACNW and shall deposit daily with the Trustee, either at an office of the Trustee or at another bank designated by the Trustee, all checks, drafts, cash and other remittances with respect to the Gross Receipts of ACNW.

If the Gross Receipts of ACNW are insufficient, along with other available funds, at any time to make both the payments due under the Northwest Loan Agreement with respect to the 2016 Northwest Bonds and the payments due with respect to its guaranty obligations relating to the Series 2016 Bonds and the Series 2023 Bonds, the Gross Receipts of ACNW shall be shared between the owners of the 2016 Northwest Bonds and the trustee for the 2016 Northwest Bonds, and the owners of the Series 2016 Bonds and the Series 2023 Bonds and the Trustee, in a *pari passu* manner. Upon the occurrence of an event of default under either the Northwest Loan Agreement or the Lease Agreement, all realizations or proceeds derived from the Gross Receipts of ACNW shall be shared pro rata between the owners of the 2016 Northwest Bonds and the trustee for the 2016 Northwest Bonds, and the owners of the Series 2016 Bonds and the Series 2023 Bonds and the Trustee, in accordance with the principal amounts of the respective indebtedness outstanding represented by the 2016 Northwest Bonds, the Series 2016 Bonds and the Series 2023 Bonds.

Defaults and Remedies under ACNW's Guaranty Agreement

The following shall constitute an event of default under ACNW's Guaranty Agreement:

(a) Any failure of ACNW to make payment of the principal of or interest on the Series 2023 Bonds as and when required by its Guaranty Agreement;

(b) The dissolution or liquidation of ACNW or the filing by ACNW of a voluntary petition in bankruptcy, or failure by ACNW promptly to lift any execution, garnishment or attachment of such consequence as will impair its ability to carry out its obligation under its Guaranty Agreement, or the commission by ACNW of any act of bankruptcy, or adjudication of

ACNW as a bankrupt, or assignment by ACNW for the benefit of its creditors, or the entry by ACNW into an agreement of composition with its creditors, or the approval by a court of competent jurisdiction of a petition applicable to ACNW in any proceeding for its reorganization instituted under the provisions of the bankruptcy laws of the United States. The term “dissolution or liquidation of ACNW,” as used in this subsection, shall not be construed to include the cessation of the corporate existence of ACNW resulting either from a merger or consolidation of ACNW into or with another corporation or dissolution or liquidation of ACNW following a transfer of all or substantially all of its assets as an entirety, under the conditions permitting such actions contained in its Guaranty Agreement;

(c) The default by ACNW in the performance or observance of any of the other covenants, agreements or conditions on its part in its Guaranty Agreement and the continuance thereof for a period of ninety (90) days after written notice to ACNW by the Trustee, the Issuer or the holders of not less than 10% in aggregate principal amount of Series 2023 Bonds Outstanding under the Indenture; provided, however, that if such default be such that it cannot be corrected within ninety (90) days, it shall not constitute an event of default if corrective action is instituted within said ninety (90) day period and diligently pursued until the default is corrected; and

(d) The occurrence of an event of default under the Northwest Loan Agreement.

If an event of default shall occur and be continuing, then the Trustee may take whatever action at law or in equity may appear necessary or desirable to collect the amounts then due and thereafter to become due under the Guaranty Agreements or any related instrument and enforce any obligation, agreement or covenant of a Guarantor under the Guaranty Agreements. Such remedies shall not be considered exclusive of any other remedies available, but such remedies shall be cumulative and shall be in addition to any other remedies given under the Guaranty Agreements or now or hereafter existing at law or in equity or by statute. No delay or omission to exercise any right or power shall be construed to be a waiver thereof, but any such right or power may be exercised from time to time and as often as may be deemed expedient.

The Trustee may in its discretion waive any event of default under a Guaranty Agreement and its consequences and rescind any declaration of maturity of principal and shall do so upon the written request of the holders of fifty percent (50%) in principal amount of all Series 2016 Bonds and Series 2023 Bonds Outstanding under the Indenture; provided, however, that there shall not be waived any event of default in the failure of a Guarantor to make payment of the principal of or interest on the Series 2023 Bonds as and when required by its Guaranty Agreement; but no such waiver shall extend to any subsequent or other default, or impair any right consequent thereon.

SUMMARY OF PORTIONS OF THE CONTINUING DISCLOSURE AGREEMENT

ACH and the Affiliate Guarantors have entered into an undertaking in the form of the Continuing Disclosure Agreement for the benefit of the Beneficial Owners of the Series 2023 Bonds to cause certain financial and operating information to be sent annually to the Municipal Securities Rulemaking Board (the “MSRB”) through its Electronic Municipal Market Access system (“EMMA”) and to cause notice to be sent to EMMA of certain specified events, pursuant to the requirements of Section (b)(5)(i) of Rule 15c2-12 of the Securities Exchange Act of 1934, as amended (the “Rule”). ACH, the Affiliate Guarantors and the Dissemination Agent acknowledge that the Issuer has undertaken no responsibility with respect to any reports, notices or disclosures provided or required under the Continuing Disclosure Agreement, and has no liability to any person, including any Beneficial Owner, with respect to any such reports, notices or disclosures.

ACH and the Affiliate Guarantors are parties to prior undertakings pursuant to the Rule requiring them to file certain financial and operating information and financial statements and notice of the occurrence of certain listed events with the MSRB through its EMMA system. During the past five years,

ACH and the Affiliate Guarantors have not identified any instances in which filings were not made as required by such undertakings.

The Continuing Disclosure Agreement contains the following covenants and provisions:

(a) ACH and the Affiliate Guarantors covenant that they will disseminate, or will cause the Dissemination Agent to disseminate, not later than 150 days after the end of each Fiscal Year (presently June 30 in each year), commencing with the Fiscal Year ending June 30, 2023, provide to the MSRB, through its continuing disclosure service portal provided through EMMA or any similar system that is acceptable to the Securities and Exchange Commission, an Annual Report containing the information described in paragraph (c) below. ACH and the Affiliate Guarantors are required to deliver or cause delivery of such information in an electronic format as prescribed by the MSRB.

(b) Not later than fifteen (15) Business Days prior to the date specified in the preceding paragraph for providing Annual Reports to the MSRB, ACH and the Affiliate Guarantors shall provide a copy of the Annual Report to the Dissemination Agent and the Trustee (if the Trustee is not the Dissemination Agent). If by such date the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the Disclosure Representative to verify that the appropriate party will provide the Annual Report in sufficient time to comply with the filing requirements described in the preceding paragraph. If the Dissemination Agent is unable to verify that an Annual Report has been provided to the MSRB by the date required in the preceding paragraph, the Dissemination Agent shall file notice thereof with the MSRB.

(c) Annual Reports shall contain or include by reference the following:

(i) The principal amount of outstanding bond obligations of ACH and the Affiliate Guarantors;

(ii) The following general categories of financial information and operating data with respect to the LR Hospital:

(1) Statistical information regarding the operating beds at the LR Hospital as of the end of the prior Fiscal Year of the type presented under the caption “History & General” in Appendix A to this Official Statement;

(2) Statistical information regarding collections of the County Hospital Tax (as defined under the caption “County Hospital Maintenance Tax Support” in Appendix A to this Official Statement) for the immediately preceding five Fiscal Years;

(3) Statistical information regarding the State’s appropriations for the support of the LR Hospital for the immediately preceding five Fiscal Years of the type presented under the caption “State Support” in Appendix A to this Official Statement;

(4) Statistical information concerning the medical staff of the LR Hospital of the type presented with respect to the LR Hospital under the caption “Medical Staffs” in Appendix A to this Official Statement;

(5) Utilization data regarding the LR Hospital for the prior Fiscal Year of the type presented with respect to the LR Hospital under the caption “Historical Utilization” in Appendix A to this Official Statement;

(6) Statistical information regarding inpatient and outpatient discharges from the LR Hospital for the prior Fiscal Year of the type presented under the caption “LR Hospital Service Area” in Appendix A to this Official Statement; and

(7) Statistical information regarding sources of patient revenues at the LR Hospital for the prior Fiscal Year of the type presented with respect to the LR Hospital under the caption “Historical Financial Performance” in Appendix A to this Official Statement.

(iii) The following general categories of financial information and operating data with respect to the NW Hospital:

(1) Statistical information regarding the operating beds of the NW Hospital as of the end of the prior Fiscal Year of the type presented with respect to the NW Hospital under the caption “History & General” in Appendix A to this Official Statement;

(2) Statistical information concerning the medical staff of the NW Hospital of the type presented with respect to the NW Hospital under the caption “Medical Staffs” in Appendix A to this Official Statement;

(3) Utilization data regarding the NW Hospital for the prior Fiscal Year of the type presented with respect to the NW Hospital under the caption “Historical Utilization” in Appendix A to this Official Statement;

(4) Statistical information regarding inpatient and outpatient discharges from the NW Hospital Facility for the prior Fiscal Year of the type presented under the caption “NW Hospital Service Area” in Appendix A to this Official Statement; and

(5) Statistical information regarding sources of patient revenues at the NW Hospital for the prior Fiscal Year of the type presented with respect to the NW Hospital under the caption “Historical Financial Performance” in Appendix A to this Official Statement.

(iv) The Audited Financial Statements for the prior Fiscal Year. If the Audited Financial Statements are not available by the time the Annual Report is required to be filed, the Annual Report shall contain unaudited financial statements in a format similar to the Audited Financial Statements attached as Appendix C to this Official Statement, and the Audited Financial Statements shall be filed in the same manner as the Annual Report when they become available.

(d) After the occurrence of a Listed Event (excluding the event described in subsection (viii) of the definition of Listed Event below), Arkansas Children’s, Inc., one of the Affiliate Guarantors (the “Parent”), shall file (or cause the Dissemination Agent to file), in a timely manner not in excess of ten (10) Business Days after the occurrence of such Listed Event, a notice of such occurrence with the MSRB, through its continuing disclosure service portal provided through EMMA or any similar system that is acceptable to the Securities and Exchange Commission, with a copy to the Trustee (if the Trustee is not the Dissemination Agent). In the event of a Listed Event described in subsection (viii) of the definition of Listed Event below, the Trustee shall make the filing in compliance with the Indenture and notice thereof need not be given under the Continuing Disclosure Agreement any earlier than the notice for the underlying event is given to the registered owners of affected Series 2023 Bonds pursuant to the terms of the Indenture.

(e) The Continuing Disclosure Agreement has been executed in order to assist the Participating Underwriter in complying with the Rule; however, the Continuing Disclosure Agreement shall inure solely to the benefit of the Issuer, ACH, the Affiliate Guarantors, the Dissemination Agent, if any, the Participating Underwriter and the Beneficial Owners of the Series 2023 Bonds, and shall create no rights in any other person or entity. In the event of a failure of ACH, the Affiliate Guarantors or the Dissemination Agent (if the Trustee is not the Dissemination Agent) to comply with any provision of the Continuing Disclosure Agreement, any Beneficial Owner or the Trustee may (and, at the request of the holders of at least 25% aggregate principal amount of the Series 2023 Bonds shall), take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause ACH, the Affiliate Guarantors or the Dissemination Agent, as the case may be, to comply with its respective obligations under the Continuing Disclosure Agreement. A default under the Continuing Disclosure Agreement shall not be deemed an event of default under the Indenture, the Lease Agreement or any other agreement, and the sole remedy under the Continuing Disclosure Agreement in the event of

any failure of ACH, the Affiliate Guarantors or the Dissemination Agent to comply with the Continuing Disclosure Agreement shall be an action to compel performance.

(f) The respective obligations of ACH and the Affiliate Guarantors under the Continuing Disclosure Agreement shall terminate upon the defeasance, prior redemption or payment in full of all the Series 2023 Bonds. If such termination occurs prior to the final maturity of the Series 2023 Bonds, notice thereof shall be given in the same manner as for a Listed Event. If the obligations of ACH under the Lease Agreement are assumed in full by some other entity, such person shall be responsible for compliance with the Continuing Disclosure Agreement in the same manner as if it were ACH, and ACH shall have no further responsibility under the Continuing Disclosure Agreement. If the obligations of an Affiliate Guarantor under a Guaranty Agreement are assumed in full by some other entity, such person shall be responsible for compliance with the Continuing Disclosure Agreement in the same manner as if it were such Affiliate Guarantor, and the Affiliate Guarantor shall have no further responsibility under the Continuing Disclosure Agreement.

(g) ACH, the Affiliate Guarantors and the Dissemination Agent may amend the Continuing Disclosure Agreement, and any provision of the Continuing Disclosure Agreement may be waived, if (i) the amendment or waiver is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an “Obligated Person” (as defined in the Rule) with respect to the Series 2023 Bonds or the type of business conducted; (ii) the Continuing Disclosure Agreement, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Series 2023 Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstance; and (iii) the amendment or waiver either (1) is approved by the holders of the Series 2023 Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of holders of the Series 2023 Bonds, or (2) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or the Beneficial Owners of the Series 2023 Bonds.

(h) The following terms used under this caption shall have the meanings set forth below:

“*Annual Report*” shall mean any Annual Report provided by ACH and/or the Affiliate Guarantors pursuant to, and as described in paragraphs (a), (b) and (c) above.

“*Audited Financial Statements*” shall mean the consolidated financial statements of the Parent, ACH, ACNW, the Foundation and other related entities for the preceding Fiscal Year, which shall be prepared pursuant to GAAP, as in effect from time to time (except for any departures from GAAP that result in the inability to conform to future changes in GAAP), and which shall be accompanied by an audit report, if available at the time of submission of the Annual Report, resulting from an audit conducted by an independent certified public accountant or firm of independent certified public accountants, in conformity with generally accepted auditing standards (except for departures from generally accepted auditing standards disclosed from time to time in the audit report).

“*Beneficial Owner*” of a Series 2023 Bond shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Series 2023 Bonds (including persons holding Series 2023 Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Series 2023 Bonds for federal income tax purposes.

“*Disclosure Representative*” shall mean for each of ACH and the Affiliate Guarantors, the Chief Financial Officer of the Parent, or his or her designee, or such other person as ACH and the Affiliate Guarantors shall designate in writing to the Dissemination Agent from time to time.

“*Dissemination Agent*” shall mean Bank OZK, with offices in Little Rock, Arkansas, acting in its capacity as a dissemination agent under the Continuing Disclosure Agreement, or any successor dissemination agent designated in writing by the Parent and which has filed with the Trustee a written acceptance of such designation.

“EMMA” shall mean the Electronic Municipal Market Access system as described in 1934 Act Release No. 59062 and maintained by the MSRB for purposes of the Rule.

“Fiscal Year” shall mean any period of twelve (12) consecutive months adopted by ACH and the Affiliate Guarantors as their fiscal year for financial reporting purposes.

“Financial Obligation” shall mean a

- (i) debt obligation
- (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or
- (iii) guarantee of obligations described in (i) or (ii).

“GAAP” shall mean accounting principles generally accepted in the United States of America, as promulgated by the Financial Accounting Standards Board.

“Listed Event” means the occurrence of any of the following events with respect to the Series 2023 Bonds:

- (i) Principal and interest payment delinquencies;
- (ii) Nonpayment-related defaults, if material;
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) Substitution of credit or liquidity providers, or their failure to perform;
- (vi) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;
- (vii) Modifications to rights of security holders, if material;
- (viii) Bond calls (excluding mandatory sinking fund redemptions), if material;
- (ix) Defeasances and tender offers;
- (x) Release, substitution or sale of property securing repayment of the securities, if material;
- (xi) Rating changes;
- (xii) Bankruptcy, insolvency, receivership or similar event of the obligated person;
- (xiii) The consummation of a merger, consolidation or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
- (xiv) Appointment of a successor or additional trustee or the change of name of a trustee, if material;
- (xv) Incurrence of a Financial Obligation or the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the obligated person, any of which affect security holders, if material; and

- (xvi) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the obligated person, any of which reflect financial difficulties.

“MSRB” shall mean the Municipal Securities Rulemaking Board.

“Participating Underwriter” shall mean the original underwriter of the Series 2023 Bonds required to comply with the Rule in connection with the offering of the Series 2023 Bonds.

“Rule” means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission (“SEC”) under the Securities Exchange Act of 1934, as modified by Rule 15c2-12(d)(2), as the same may be amended from time to time.

UNDERWRITING

Under a bond purchase agreement entered into by and among the Issuer, ACH, the Affiliate Guarantors and Stephens Inc. (the “Underwriter”), the Series 2023 Bonds are being purchased at a purchase price of \$134,520,375.40 (which represents the stated principal amount of the Series 2023 Bonds plus an original net offering premium of \$6,947,050.40 and less an underwriting discount of \$576,675.00), for reoffering by the Underwriter. The bond purchase agreement provides that the Underwriter will purchase all of the Series 2023 Bonds if any are purchased. The obligation of the Underwriter to accept delivery of the Series 2023 Bonds is subject to various conditions contained in the bond purchase agreement, including the absence of pending or threatened litigation questioning the validity of the Series 2023 Bonds or any proceedings in connection with the issuance thereof, and the absence of material adverse changes in the financial or operating condition of ACH or the Affiliate Guarantors.

The Underwriter intends to offer the Series 2023 Bonds to the public initially at the offering prices set forth on the inside cover page of this Official Statement, which offering prices (or bond yields establishing such offering prices) may subsequently change without any requirement of prior notice. The Underwriter reserves the right to join with dealers and other underwriters in offering the Series 2023 Bonds to the public, and may offer and sell Series 2023 Bonds to such dealers and other underwriters at prices lower than the public offering price.

ACH and the Affiliate Guarantors have agreed to indemnify the Underwriter against certain civil liabilities in connection with the offering and sale of the Series 2023 Bonds, including certain liabilities under federal securities laws.

The Underwriter and its affiliates are multi-service financial institutions engaged in various activities, which may include securities trading, investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities, and other financial and non-financial activities and services. Such activities may involve or relate to assets, securities and/or instruments of ACH and its affiliates (whether directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with (or that are otherwise involved with transactions by) ACH and/or its affiliates. The Underwriter and its affiliates may have, from time to time, engaged, and may in the future engage, in transactions with, and performed and may in the future perform, various investment banking services for ACH and/or its affiliates for which they received or will receive customary fees and expenses. Under certain circumstances, the Underwriter and its affiliates may have certain creditor and/or other rights against ACH and/or its affiliates thereof in connection with such transactions and/or services. In addition, the Underwriter and its affiliates may currently have and may in the future have investment and other relationships with parties that may relate to assets of, or be involved in the issuance of securities and/or instruments by, ACH and/or its affiliates. The Underwriter and its affiliates also may communicate independent investment recommendations, market advice or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and at any time may hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

TAX MATTERS

Federal Tax Exemption

In the opinion of Friday, Eldredge & Clark, LLP, Bond Counsel, under existing law, the interest on the Series 2023 Bonds (including any original issue discount properly allocable to an owner thereof) is excludable from gross income for federal income tax purposes. Moreover, such interest is not an item of tax preference for purposes of the federal alternative minimum tax; provided, however, that with respect to certain corporations, interest on the Series 2023 Bonds will be taken into account in determining annual adjusted financial statement income for purposes of computing the federal alternative minimum tax. The opinions set forth in this paragraph are subject to the condition that the Issuer and ACH comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Series 2023 Bonds in order that interest thereon be, or continue to be, excludable from gross income for federal income tax purposes. The Issuer and ACH have covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Series 2023 Bonds in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2023 Bonds.

Bond Counsel expresses no opinion regarding other federal tax consequences arising with respect to the Series 2023 Bonds.

Purchasers of the Series 2023 Bonds, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States); property and casualty insurance companies, banks, thrifts or other financial institutions; certain recipients of Social Security or Railroad Retirement benefits; taxpayers otherwise entitled to claim the earned income tax credit; and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry tax-exempt obligations, should consult their tax advisors concerning their tax consequences of purchasing and holding the Series 2023 Bonds.

As shown on the inside front cover page of this Official Statement, certain of the Series 2023 Bonds are being sold at an original issue premium (collectively, the “Premium Bonds”). An amount equal to the excess of the issue price of a Premium Bond over its stated redemption price at maturity constitutes premium on such Premium Bond. An initial purchaser of a Premium Bond must amortize any premium over such Premium Bond’s term using constant yield principles, based on the purchaser’s yield to maturity (or, in the case of Premium Bonds callable prior to their maturity, by amortizing the premium to the call date, based on the purchaser’s yield to the call date and giving effect to the call premium). As premium is amortized, the amount of the amortization offsets a corresponding amount of interest for the period and the purchaser’s basis in such Premium Bond is reduced by a corresponding amount resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Bond prior to its maturity. Even though the purchaser’s basis may be reduced, no federal income tax deduction is allowed. Purchasers of the Premium Bonds should consult with their tax advisors with respect to the determination and treatment of amortizable premium for federal income tax purposes and with respect to the state and local tax consequences of owning a Premium Bond.

As shown on the inside front cover page of this Official Statement, certain of the Series 2023 Bonds are being sold at an original issue discount (collectively, the “Discount Bonds”). The difference between the initial public offering prices, as set forth on the inside cover page, of such Discount Bonds and their stated amounts to be paid at maturity constitutes original issue discount treated as interest which is excluded from gross income for federal income tax purposes, as described above.

The amount of original issue discount which is treated as having accrued with respect to such Discount Bond is added to the cost basis of the owner in determining, for federal income tax purposes, gain or loss upon disposition of such Discount Bond (including its sale, redemption, or payment at maturity). Amounts received upon disposition of such Discount Bond which are attributable to accrued original issue discount will be treated as tax-exempt interest, rather than as taxable gain, for federal income tax purposes.

Original issue discount is treated as compounding semiannually, at a rate determined by reference to the yield to maturity of each individual Discount Bond, on days which are determined by reference to the maturity date of such Discount Bond. The amount treated as original issue discount on such Discount Bond for a particular semiannual accrual period is equal to the product of (i) the yield of maturity for such Discount Bond (determined by compounding at the close of each accrual period) and (ii) the amount which would have been the tax basis of such Discount Bond at the beginning of the particular accrual period if held by the original purchaser, less the amount of any interest payable for such Discount Bond during the accrual period. The tax basis is determined by adding to the initial public offering price on such Discount Bond the sum of the amounts which have been treated as original issue discount for such purposes during all prior periods. If such Discount Bond is sold between semiannual compounding dates, original issue discount which would have been accrued for that semiannual compounding period for federal income tax purposes is to be apportioned in equal amounts among the days in such compounding period.

Owners of the Discount Bonds should consult their tax advisors with respect to the determination and treatment of original issue discount accrued as of any date and with respect to the state and local tax consequences of owning a Discount Bond.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the 2023 Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or otherwise prevent holders of the 2023 Bonds from realizing the full current benefit of the tax status of such interest. On August 16, 2022, President Biden signed the Inflation Reduction Act of 2022 (the “IRA”), which, among other things, makes certain changes to the federal tax laws affecting the taxation of certain corporations for tax years beginning after December 31, 2022. The introduction or enactment of any other legislative proposals or clarification of the Code or court decisions may affect, perhaps significantly, the market price for, or marketability of, the 2023 Bonds. Prospective purchasers of the 2023 Bonds should consult their own tax advisors regarding any proposed or enacted federal or state tax legislation (including particularly, without limitation, the IRA), regulations or litigation, as to which Bond Counsel expresses no opinion.

It is not an event of default on the Series 2023 Bonds if legislation is enacted reducing or eliminating the exclusion of interest on state and local government bonds from gross income for federal or state income tax purposes.

State Taxes

Bond Counsel is of the opinion that, under existing law, the Series 2023 Bonds and interest thereon are exempt from all state, county, and municipal taxes in the State of Arkansas and that the Series 2023 Bonds are further exempt from property taxation in the State of Arkansas.

RATINGS

Moody's Investors Service Inc. (“Moody’s”) has assigned a rating of “A1” (stable outlook) to the Series 2023 Bonds. S&P Global Ratings (“S&P”) has assigned a rating of “AA-” (stable outlook) to the Series 2023 Bonds. Such ratings reflect only the views of such rating agencies at the time such ratings were given, and the Issuer, ACH and the Affiliate Guarantors make no representation as to the appropriateness of such ratings. An explanation as to the significance of the above ratings may be obtained only from the respective rating agency furnishing the same.

ACH and the Affiliate Guarantors have furnished the above rating agencies certain information and materials relating to the Series 2023 Bonds, ACH and the Affiliate Guarantors, some of which have not been included in this Official Statement. Generally, rating agencies base their ratings on such information and materials and investigations, studies and assumptions furnished to and obtained and made by the rating agencies. There is no assurance that a particular rating will be maintained for any given period of time or that it may not be lowered, raised or withdrawn entirely by a rating agency if, in

the judgment of such rating agency, circumstances so warrant. None of the Issuer, ACH, the Affiliate Guarantors or the Underwriter have undertaken any responsibility to oppose any such revision or withdrawal. Any downward change in or withdrawal of a rating may have an adverse effect on the market price and marketability of the Series 2023 Bonds.

LEGAL MATTERS

Legal matters incident to the authorization and issuance of the Series 2023 Bonds and with regard to the tax-exempt status thereof are subject to the unqualified approving opinion of Friday, Eldredge & Clark, LLP, Little Rock, Arkansas, Bond Counsel, whose approving opinion will be delivered with the Series 2023 Bonds, and the form of which is attached as Appendix D to this Official Statement. Certain matters will be passed upon for ACH and the Affiliate Guarantors by their counsel, Friday, Eldredge & Clark, LLP, Little Rock, Arkansas, and certain matters will be passed on for the Underwriter by its counsel, Kutak Rock LLP, Little Rock Arkansas.

Tom Baxter, a partner at Friday, Eldredge & Clark, LLP, Bond Counsel, is a member of the Board of Directors of the Parent, a Guarantor of the Series 2023 Bonds.

LITIGATION

The Issuer

There is not now pending nor to the knowledge of the Issuer, threatened, any litigation restraining or enjoining the issuance or delivery of the Series 2023 Bonds or questioning or affecting the validity of the Series 2023 Bonds or the proceedings or authority under which they are to be issued. Neither the creation, organization or existence, nor the title of the present officers of the Issuer to their respective offices is being contested. There is no litigation pending or, to the knowledge of the Issuer, threatened which in any manner questions the right of the Issuer to enter into the Lease Agreement or the Indenture or to secure the Series 2023 Bonds in the manner provided in the Indenture.

ACH and the Affiliate Guarantors

Neither ACH nor the Affiliate Guarantors have any litigation or proceedings pending, or, to their knowledge, threatened against them which may not be adequately covered by ACH's and the Affiliate Guarantors' reserves and insurance policies, or which, in the opinion of management of ACH and the Affiliate Guarantors and their defense counsel, could have a material adverse effect on ACH's or the Affiliate Guarantors' respective operating or financial positions. See the caption "Miscellaneous - *Litigation*" in Appendix A hereto.

FINANCIAL STATEMENTS

The consolidated financial statements of Arkansas Children's, Inc. as set forth in Appendix C to this Official Statement, have been audited by KPMG LLP, independent certified public accountants, for the period indicated in their report thereon, which report is also included in Appendix C. The notes set forth in Appendix C are an integral part of such consolidated financial statements, and the statements and notes should be read in their entirety. The consolidated operating statements and balance sheets of Arkansas Children's, Inc. for the nine-month periods ended March 31, 2023 and March 31, 2022, also appear in unaudited form in Appendix C. There was no request made to KPMG LLP to perform any updating procedures subsequent to the date of its audit report on the June 30, 2022 financial statements.

FORWARD-LOOKING STATEMENTS

Any forward-looking statements and/or projections contained in this Official Statement reflect various estimates and assumptions by ACH and/or the Affiliate Guarantors concerning anticipated results. No representations or warranties are made by ACH or the Affiliate Guarantors as to the accuracy of any

such statements, assumptions or projections. Whether or not any such forward-looking statements or projections are in fact achieved will depend upon future events, some of which are not within the control of ACH or the Affiliate Guarantors. Accordingly, actual results may vary from the projected results, and such variations may be material. When used in this Official Statement, the words “anticipate,” “believe,” “estimate,” “project,” “predict,” “expect,” “intend,” and words or phrases of similar import are intended to identify forward-looking statements.

Although ACH and the Affiliate Guarantors believe that the expectations reflected in such forward-looking statements are reasonable, neither ACH nor the Affiliate Guarantors can give any assurance that such expectations will prove to have been correct. Actual results could differ materially from expectations for other reasons as well. Actual results may vary materially from those described herein as anticipated, believed, estimated, projected, predicted, expected or intended. Forward-looking statements speak only as of the date they are made, and ACH and the Affiliate Guarantors undertake no obligations to update such statements in light of new information, future events or otherwise.

MISCELLANEOUS

ACH and the Affiliate Guarantors have furnished the information in this Official Statement and in the Appendices hereto relating to ACH and the Affiliate Guarantors and their operations and relating to the LR Hospital and the NW Hospital. The Underwriter has furnished the information in this Official Statement with respect to the public offering prices of the Series 2023 Bonds and the information under the caption “UNDERWRITING.”

Any statements made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized.

The information contained in this Official Statement has been taken from sources considered to be reliable, but is not guaranteed. To the best of the knowledge of the undersigned, this Official Statement does not include any untrue statement of a material fact; nor does it omit the statement of any material fact required to be stated herein, or necessary to make the statements herein, in light of the circumstances under which they were made, not misleading.

The summaries in this Official Statement of certain provisions of the Indenture, the Lease Agreement, the Guaranty Agreements, the Series 2023 Bonds, the Continuing Disclosure Agreement and other documents do not purport to be complete, and reference is made to such documents for a complete statement of their provisions.

The attached Appendices are integral parts of this Official Statement and must be read together with all of the foregoing statements.

The Issuer, ACH and the Affiliate Guarantors have authorized and approved the execution and delivery of this Official Statement and its use by the Underwriter in connection with the offering and sale of the Series 2023 Bonds.

PULASKI COUNTY, ARKANSAS

By: /s/ Barry Hyde
County Judge

APPROVED BY:

ARKANSAS CHILDREN'S HOSPITAL

By: /s/ Marcella L. Doderer
President and Chief Executive Officer

ARKANSAS CHILDREN'S, INC.

By: /s/ Marcella L. Doderer
President and Chief Executive Officer

ARKANSAS CHILDREN'S NORTHWEST, INC.

By: /s/ Marcella L. Doderer
President and Chief Executive Officer

ARKANSAS CHILDREN'S HOSPITAL FOUNDATION, INC.

By: /s/ Enid Olvey
President

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APPENDIX A

ACH, ACNW AND THE HOSPITALS

History & General

Arkansas Children's Hospital (the "LR Hospital") is a pediatric hospital located at 1 Children's Way near the State Capitol in Little Rock, Arkansas. It is the only quaternary healthcare facility operated exclusively for children in the State of Arkansas (the "State"). The LR Hospital is operated by Arkansas Children's Hospital, an Arkansas not-for-profit corporation ("ACH"). Arkansas Children's, Inc., an Arkansas not-for-profit corporation (the "Parent"), is the parent and sole member of ACH and ACNW (defined below). The Parent, ACH, ACNW and their Affiliates are referred to collectively as the "System." See the caption "Affiliated Entities" below.

The LR Hospital includes the State's only Level I Pediatric Trauma Center; the State's only burn center (serving children and adults); 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 I verification from the American College of Surgeons; and the State's only nationally recognized pediatric transport system. Additionally, the LR Hospital is nationally ranked by U.S. News & World Report in seven pediatric subspecialties: Cancer; Cardiology & Heart Surgery; Diabetes & Endocrinology; Nephrology; Neurology & Neurosurgery; Pulmonology & Lung Surgery; and Urology.

The LR Hospital was founded in 1912 as the Arkansas Home Finding Society to locate homes for orphaned and abandoned children. In 1924, construction began on a hospital in order to provide healthcare facilities for the children of Arkansas. Following the commencement of full operation in 1926, the Society became known as the Arkansas Children's Home and Hospital. As various state and federal agencies gradually assumed the responsibility for dependent childcare and placement, and as the need to provide additional hospital services increased, the Home was phased out of operation. In 1955, the name of the facility was officially changed to Arkansas Children's Hospital.

In 1978, the voters of Pulaski County, Arkansas (the "County") approved the levy of a one mill property tax authorized under State law for the purpose of maintaining, operating and supporting the LR Hospital as a county hospital. In order to implement the levy of the tax, legal title to the LR Hospital was conveyed by ACH to the County and the LR Hospital was leased back by ACH pursuant to a long-term operating lease placing complete responsibility for management of the LR Hospital in the ACH Board of Directors. See the caption "County Hospital Maintenance Tax Support" below.

The LR Hospital has undergone many expansion and renovation projects over the years, with most of the physical growth of the LR Hospital occurring since 1980 and the most recent major project occurring in 2008 when construction was begun on a Utility Project and South Wing Project. The Utility Project, completed in 2010, increased capacity, reliability, redundancy and safety and included major infrastructure improvements in sewer, oxygen system rework, fire and life safety, electrical, and HVAC, including an expansion of the energy building and thermal link. The total cost of the Utility Project was approximately \$36 million. The South Wing Project opened in July 2012 and added approximately 258,000 square feet to the LR Hospital facility. The South Wing building included a 38-room Emergency Department (net addition of 15 rooms), outpatient clinic areas of 80 new exam rooms (net addition of 56 new rooms), 42 procedural/diagnostic areas (net addition of 19 new areas), and a net addition of 54 new inpatient beds for the NICU, CVICU, Hematology/Oncology, and Infant and Toddler patients. The total cost of the South Wing Project was approximately \$95 million.

As part of the System's long-range plan, the LR Hospital's master facility plan redesign is aimed at expanding access to pediatric care to the area, enhancing the patient experience consistent with recent System designs across the State, growing market share, and effectively securing the pediatric healthcare market for the State. Anchored in the information yielded by the System's industry, market and organizational analysis, the LR Hospital facility plan and investment focuses on the following: (i) providing centralized and highly efficient on-campus ambulatory care through renovation of the Sturgis outpatient clinics; (ii) improving efficiency of surgery by relocating outpatient surgery to a new four-level ambulatory surgery building of approximately 146,700 square feet, and (iii) improving access to the campus as well as patient circulation and wayfinding within the LR Hospital by creating a new main entrance to the facility. The aforementioned elements comprise the "Project" to be financed in part through the issuance of the Series 2023 Bonds. The total projected cost of the Project is \$235.2 million. The Project will add approximately 193,050 square feet of newly finished space and approximately 6,150 of new shell

space and will renovate approximately 118,500 square feet of existing space. See the caption “THE PROJECT” in the Official Statement to which this Appendix A is attached.

In 2013, ACH purchased two new Sikorsky S76 D model helicopters for medical transport use at a cost of approximately \$28 million. A portion of the cost (\$19.8 million) was financed through the issuance of bonds by the Arkansas Development Finance Authority, which bonds were directly placed with Bank of the Ozarks.

Effective March 31, 2023, the LR Hospital is licensed for 336 beds. The following table summarizes the LR Hospital's current operating bed complement:

Type of Service	Current Number of Beds Operating
Neonatal intensive care (NICU)	94
Pediatric intensive care (PICU)	26
Cardiovascular intensive care (CVICU)	30
Burn intensive care (BURN)	<u>16</u>
Total intensive care beds	166
Intermediate care beds	13
Medical/Surgical	<u>147</u>
Total operating beds as of 3/31/2023	<u>326</u>

In 2015, two new Arkansas nonprofit corporations were formed – Arkansas Children’s, Inc. (the “Parent”) and Arkansas Children’s Northwest, Inc. (“ACNW”). ACNW was organized to own and operate the 24-bed Arkansas Children’s Northwest pediatric healthcare facility (the “NW Hospital”) located in Springdale, Arkansas, which was financed in part with proceeds of \$75,465,000 City of Springdale Public Facilities Board Hospital Revenue Bonds, Series 2016 (Arkansas Children’s Northwest Project) (the “2016 Northwest Bonds”). The NW Hospital opened on February 27, 2018, as the first and only pediatric hospital in the Northwest Arkansas region providing: a Level IV Pediatric Trauma Center; a 24-bed inpatient unit; a 4-bed clinical decision unit; a surgical unit with five operating rooms; outpatient clinics offering over 20 subspecialties; an infusion center; diagnostic services; imaging capabilities; physical, occupational and speech therapy services; and Northwest Arkansas’ only pediatric emergency department, equipped with 30 exam rooms. The NW Hospital serves more than 200,000 children residing in the fifteen county Northwest Arkansas region.

Additional improvements to the NW Hospital (the “NW Hospital Project”) are planned and are presently intended to be funded, in part, through the issuance of City of Springdale Public Facilities Board Hospital Revenue Bonds, Series 2023 (Arkansas Children’s Northwest Project), in a principal amount now projected at \$28,335,000 (the “2023 Northwest Bonds”). As part of the System’s long-range plan, Phase 2 of the NW Hospital’s master facility plan redesign is aimed at expanding care close to the home of its service area population, elevating patient experience and growing market share. Anchored in the information yielded by the System’s industry, market and organizational analysis, the NW Hospital facility plan and investment focuses on growing facility capacity to meet the expanding needs of Northwest Arkansas, enhancing the design and location of ancillary spaces to accommodate growth and improve flow, and building capacity for higher acuity care. Specifically included in the improvements to the NW Hospital to be financed, in part, with proceeds of the 2023 Northwest Bonds are the following components: (i) doubling of laboratory space, (ii) renovation of physical therapy space for better flow and use, (iii) creation of a strategy for eventual growth of imaging, (iv) increased pharmacy space, (v) addition of two new operating rooms and eight private operating room prep and recovery rooms, (vi) renovations and relocations to allow opportunities to add endoscopy services, grow infusion services, and add a hematology and oncology component, and (vii) addition of eight to twelve additional inpatient rooms and associated support spaces. The estimated cost of the NW Hospital project cost is currently approximately \$82.7 million and will result in the addition of approximately 72,000 square feet (22,500 shell) and the renovation of approximately 22,900 square feet.

Effective March 31, 2023, the NW Hospital is licensed for 24 routinely operational beds. The following table summarizes the NW Hospital's current operating bed complement:

Type of Service	Current Number of Beds Operating
Medical/Surgical	<u>24</u>
Total operating beds as of 3/31/2023	<u>24</u>

Affiliated Entities

Arkansas Children's Foundation, Inc. (the "Foundation") was incorporated in 1982, and operates as the not-for-profit fundraising organization for the Parent and its affiliates. Arkansas Children's Research Institute, Inc. ("ACRI") was incorporated in 1990 to conduct and promote medical research programs leading to improved prevention, treatment and care of childhood diseases through basic, clinical and applied research. See the caption "Arkansas Children's Research, Institute, Inc. and Arkansas Children's Foundation, Inc." below.

Arkansas Children's Care Network, a not-for-profit pediatric statewide clinically integrated network ("ACCN"), was formed in 2017. Arkansas Children's Medical Group, PLLC ("ACMG") is a physician medical group formed in 2017 to provide physician services to ACH and ACNW. ACMG is managed by a board of managers. Sacova Insurance Company, Ltd., a single parent captive insurance company domiciled in the Cayman Islands ("SCV"), was formed in 2018.

The Parent functions as the parent corporation and sole member of ACH, ACNW, the Foundation, ACRI, ACCN and SCV. The Parent, ACH, ACNW and the Foundation are guarantors of the Series 2016 Bonds, the Series 2023 Bonds and the 2016 Northwest Bonds, and would also be guarantors of the 2023 Northwest Bonds. See the caption "SUMMARY OF PORTIONS OF THE GUARANTY AGREEMENTS" in the Official Statement to which this Appendix A is attached. The Parent maintains a separate budget for each of its affiliates, which is consolidated at the Parent level. The affiliate corporations retain control of their own revenues and expenditures, if budgeted. The Parent must approve expenditures in excess of certain defined limits. The Foundation is charged with soliciting donations for all affiliate entities.

Proton Therapy Joint Venture

The Parent, the University of Arkansas for Medical Sciences (UAMS), Baptist Health, an Arkansas nonprofit corporation (BH), and Proton International, LLC, a proton therapy developer (PI), have formed a joint venture limited liability company (the "Proton JV") with respect to the development of a proton therapy treatment center (the "Proton Center"), the first of its kind in Arkansas and one of only 41 in the United States, to be located on the main campus of UAMS in Little Rock, Arkansas. Proton therapy is a radiation-based technology for cancer treatment that has the capability to deliver high-dose radiation to cancer patients. It limits a patient's radiation exposure by using a beam of protons designed to deliver a majority of its energy directly to a patient's tumor, which reduces damage to the patient's healthy tissue and reduces the side effects of radiation treatment. It is widely used to treat children with cancer, as children are particularly sensitive to the effects of radiation therapy. The cost of developing the Proton Center is in excess of \$32 million. Financing was obtained through the issuance of bonds by the Public Finance Authority, a conduit issuer, which bonds are secured by the anticipated revenues of the Proton JV. Completion of the Proton Center is expected in the late summer of 2023.

Education Programs and Affiliations

The LR Hospital serves as the pediatric teaching facility for the University of Arkansas for Medical Sciences ("UAMS"). UAMS was established in 1879 as the Medical Department of the Arkansas Industrial University. Today, it is a comprehensive health center with five colleges (medicine, nursing, pharmacy, health-related professions and public health) and a graduate school. UAMS education, service and research programs are closely integrated with ACH, the McClellan Veterans Administration Hospital adjacent to UAMS, and the North Little Rock Veterans Administration Hospital. The mission of UAMS is to provide exemplary and comprehensive education and training programs for the health professions, to offer health and medical services in order to meet the needs of patients in the State and region, and to conduct programs of research on human health and disease.

UAMS is the only health sciences university in the State. In July 1975, it was designated as one of the campuses within the University of Arkansas System, including the University of Arkansas at Fayetteville, the University of Arkansas at Little Rock, the University of Arkansas at Pine Bluff, the University of Arkansas at Monticello, the University of Arkansas at Fort Smith, and the Clinton School of Public Service.

In 1982, the Board of Directors of ACH and the Board of Trustees of the University of Arkansas, on behalf of UAMS, entered into an affiliation agreement to advance institutional academic programs as well as the health of the children of the State. The agreement recognizes that education and research programs comprise integral parts of a comprehensive healthcare program. The Parent's Chief Executive Officer and the UAMS Chancellor serve as the responsible officials of the two institutions in the administration of the affiliation agreement. An Affiliation Oversight Council ("AOC") serves as the single point of authority and accountability for the affiliation between the

parties and provides joint governance of the strategic initiatives developed in order to achieve their common goal. The AOC is co-chaired by the CEO and Chancellor and consists of no more than eight (8) individuals mutually agreed upon by the co-chairs. It is intended that AOC members should collectively represent the leadership talents necessary to achieve the stated goals of the affiliation and strategic collaborations.

All active members of the UAMS medical faculty who deal with professional services for children are encouraged to apply for LR Hospital privileges. Patients seen in the LR Hospital inpatient and outpatient facilities are the clients of the LR Hospital and not of UAMS. ACH has agreed to provide space and adequate support functions for the student teaching programs and for the office and research needs of the assigned faculty.

The Chief Clinical and Academic Officer (“CCAO”) for the System is the Physician in Chief responsible for all clinical, educational and research activity of physicians within the System. The CCAO is appointed by the Arkansas Children’s CEO with approval by the Parent Board. The CCAO is responsible to the Parent Board of Directors through its Chief Executive Officer for providing continuous overall clinical, educational and research perspective to operations of both the LR Hospital and the NW Hospital. The CCAO is accountable to the Parent for coordination of patient, teaching and research programs within both hospitals in order to minimize any conflicts between these programs.

The ACH Chief Medical Officer (“ACH CMO”) is jointly appointed by the Parent’s Chief Executive Officer and the Dean of the UAMS College of Medicine and is a UAMS faculty member. The ACH CMO is responsible to the Board of Directors through the Chief Clinical and Academic Officer and Chief Executive Officer for providing continuous overall medical perspective to operations of the LR Hospital. Medical perspective is the assessment and critique of patient care activities to determine whether the LR Hospital is achieving healthcare objectives, keeping scientifically competent and current, and evaluating medical staff performance within the context of meeting hospital accreditation requirements.

The ACNW Chief Medical Officer (“ACNW CMO”) is appointed by the Parent’s Chief Executive Officer. The ACNW CMO is responsible to the Board of Directors through the Chief Clinical and Academic Officer and Chief Executive Officer for providing continuous overall medical perspective to operations of the NW Hospital. Medical perspective is the assessment and critique of patient care activities to determine whether the NW Hospital is achieving healthcare objectives, keeping scientifically competent and current, and evaluating medical staff performance within the context of meeting hospital accreditation requirements.

County Hospital Maintenance Tax Support

In October 1978, a petition was filed with the County Clerk of Pulaski County, Arkansas (the "County"), pursuant to Amendment 32 to the Arkansas Constitution (“Amendment 32”) to levy a one mill tax (which was later adjusted to approximately .6 of a mill as the result of a tax “roll-back”) against taxable real and personal property located in the County for the purpose of maintaining, operating and supporting the LR Hospital as a county hospital (the “County Hospital Tax”). At the general election held in November 1978, the proposal for the County Hospital Tax was approved by a favorable vote of approximately 70% of the voters participating in the election. Following the approval of the County Hospital Tax, the County and ACH implemented the procedure for levy and collection of the tax by conveyance of legal title to the LR Hospital to the County and by leasing the LR Hospital back to ACH under a long-term operating lease placing complete responsibility for management of the LR Hospital in the ACH Board of Directors.

During the past five fiscal years, the following revenues from the County Hospital Tax were remitted to Arkansas Medicaid, on behalf of ACH, to be used as a match for supplemental Medicaid payments:

Fiscal Year	Revenues
2018	\$4,289,745
2019	\$4,354,796
2020	\$4,473,627
2021	\$4,759,649
2022	\$4,780,792

Under Section 3 of Amendment 32, the County Hospital Tax may be reduced or abolished at any time if (1) 100 electors of the County file a petition requesting such reduction or abolition and (2) a majority of the electors of the County approve such reduction or abolition at the next general election. Unless and until such action is taken, however, the tax will continue to be levied at the same rate and collected annually.

Management of ACH is not aware of any other facts or circumstances indicating that any unfavorable action with respect to the County Hospital Tax is likely, but no prediction or assurances can be given in that regard.

State Support

Since 1929, the State has supported the LR Hospital with an annual appropriation. Beginning with \$29,000 the first year, the yearly total has grown to substantial amounts during the past years as described below. This support has been applied towards ACH's operating and capital needs.

Operating Support. The State's annual operating appropriations for the benefit of the LR Hospital are currently given to defray costs of delivery of healthcare services to indigents, to fund costs associated with the operation of the LR Hospital's Neonatal Intensive Care Unit, to fund costs of operating the Arkansas Reproductive Health Monitoring System, and to defray some general operating costs. The following table details revenues received by ACH from the State for operating support, other than provision of indigent healthcare, for the fiscal years indicated, which were remitted to Arkansas Medicaid, on behalf of the LR Hospital, to be used as a match for supplemental Medicaid payments:

Fiscal Year	Operating Revenues Received
2018	\$3,497,594
2019	\$3,497,594
2020	\$3,497,594
2021	\$3,322,715
2022	\$3,382,486

Beginning in 1983, the State has made additional annual appropriations to support ACH’s provision of healthcare services to indigents. The following table details revenues from the State for indigent healthcare for the years indicated, which were remitted to Arkansas Medicaid, on behalf of the LR Hospital, to be used as a match for supplemental Medicaid payments:

Fiscal Year	Revenues Received For Indigent Care
2018	\$1,864,085
2019	\$1,866,966
2020	\$1,901,803
2021	\$1,811,789
2022	\$1,994,758

There can be no assurance that the State will continue to appropriate funds for the benefit of the LR Hospital in the future.

Goals and Strategic Initiatives

The 2020–2025 strategic planning process was a condensed process that the System undertook from October 2019–June 2020. The planning process was the most broad-based process the System had engaged in to date, with listening session feedback from nearly 500 stakeholders and more than 100 leaders engaged in the actual planning of ideas. Every member of the senior team and several physician chiefs were engaged in the conversation and contributed to plan development. The Strategy and Analytics committee of the Parent Board provided governance guidance, and all governing boards were updated regularly throughout the process. The Chief Executive Officer and Chief Strategy Officer jointly distilled the information, charted the five-year direction and authored the strategy with the following aims:

LR Hospital Strategy

Solidify the LR Hospital as a destination for pediatric care: Embrace clinical excellence through signature programs, centers and institutes focused on specific disease conditions while continuing to build relationships and partnerships with other entities focused on championing children.

Address and improve the whole health of the child: Focusing on the first 2,100 days of each child’s life (the 40 weeks of pregnancy and first five years of a person’s life), the LR Hospital will expand service delivery, improve infant mortality, reduce adverse childhood experiences and expand preventative care and education. The LR Hospital will advance a culture of research and innovation by building a health-focused workforce prepared to

boldly support a new era of child health. The LR Hospital will pursue a regulatory and legislative agenda to create the most beneficial environment for improved child health in Arkansas.

Deliver healthcare without walls: Distance, availability and inefficiency challenge healthcare delivery for children in the State and region. The LR Hospital will create greater, easier access to specialized pediatric care for every child. The System will build a pediatric healthcare network supported by a digital infrastructure that allows it to anticipate an individual child's needs, work to keep them healthy, and deliver as much care as possible within a 60-mile radius of their homes, schools, family workplaces and communities.

NW Hospital Strategy

Specifically at the NW Hospital over the next five years, the NW Hospital will expand from a community hospital to an anchor pediatric institution. The NW Hospital will strengthen its clinical care hub and expand its outreach arm. Specific initiatives are aimed at maximizing capacity, increasing acuity level of care, formalizing research and education partnerships, expanding the physical plant, and recruiting and retaining a workforce that mirrors and meets the diverse needs of Northwest Arkansas.

These System aims are addressed through three pillars of work:

1. **ADVANCE PATIENT CARE:** The System will implement growth and solvency strategies, maintain a health outcomes focus and strengthen a commitment to delivering the right care at the right time in the right space, focusing on the following imperatives:
 - Nationally Ranked in Outcomes
 - 60-Mile Commitment to Every Child
 - Quaternary Care & Niche Services Development
 - Arkansas Children's Northwest Anchored
 - Coordinated Primary Care
2. **BUILD COMMUNITY:** The System will act boldly to develop safer, healthier communities, giving particular focus to four interconnected issues: adverse childhood experiences, infant mortality, vaccination compliance and access to behavioral health resources. Two imperatives will guide this work:
 - A Focus on the First 2,100 Days of Life
 - Behavioral Health
3. **CHAMPION EXCELLENCE:** The System will align, develop and focus its workforce to deliver unprecedented child health through the following imperatives:
 - Diversity, Equity & Inclusion
 - Quality, Safety & High Reliability
 - Research & Innovation
 - Team for the Future

Advancing child health in Arkansas will require effort that extends far beyond any one organization. Three drivers will ensure the broadest effort is employed:

- **Digital Transformation:** Harness the power of technology and systems to extend reach, efficiency and engagement.
- **Partnerships:** Build mutually beneficial and well-defined relationships to galvanize networks.
- **Advocacy:** Promote a child first agenda that reprioritizes child health and advanced public policy and community action.

The System will operationalize a three-phase approach monitoring process, performance and outcome metrics. The System will focus on demonstrating progress through clear pathways, transparency and outcomes. The System will ensure financial sustainability through investing strategically in capital, programs and people to advance the vision.

Patient Care

The LR Hospital is organized into inpatient and outpatient services to respond to a full range of patient needs, from well-baby checkups and immunizations to treatment of critically ill or injured children.

Inpatient units consist of:

- Neonatal Intensive Care
- Pediatric Intensive Care
- Heart Center
- Burn Center
- Cancer and Blood Disorders Center
- Medical/Surgical Units

Surgical services consist of:

- Operating Rooms
- Ambulatory Surgery
- Post Anesthetic Care Unit

Outpatient services consist of:

- Day Medicine
- Emergency Department
- More than 65 outpatient clinics, including the General Pediatric Clinic, Evening General Pediatric Clinic, and many Specialty Clinics (see below for the list of specialized clinics)
- Clinics in Southwest Little Rock, Jonesboro and Pine Bluff, Arkansas
- Kids Care: After-Hours Resource Line

Patient care services, which support inpatient and outpatient care at the LR Hospital, are:

- Imaging Capabilities (Diagnostic radiology, Magnetic Resonance Imaging (MRI), Computed Tomography (CT), Interventional - Radiology, Ultrasound and Nuclear Medicine)
- Magnetoencephalography (MEG) system
- Pathology and clinical laboratory services
- Extracorporeal Membrane Oxygenation (ECMO) program
- Cardiac diagnostic services and transplantation
- Clinical nutrition and dietetic services
- Pharmacy
- Anesthesia
- Rehabilitation (physical, occupational, orthotics, speech-language pathology and audiology)
- Respiratory/Pulmonary care
- Transport**
- Renal Dialysis
- Sedation services
- Autologous and allogenic bone marrow transplantation

Patient support services, which support inpatient and outpatient care at the LR Hospital, are:

- Social work
- Interpreters
- Child life and education
- Pastoral care and palliative care
- Patient/family representatives
- Discharge planning
- Financial Counselors

** ACH's transport system consists of five specialized ambulances designed for neonatal and pediatric transport, two Sikorsky S76 D helicopters which have been fitted out as mobile intensive care units, and access to fixed wing air ambulances as needed. The transport system serves a region with nearly a 300-mile radius and has transported patients from all over the United States for specialized treatment at the LR Hospital.

ACH operates over 150 clinics in the primary care, specialty and sub-specialty service lines described below. These clinics are located on the LR Hospital campus, in Pine Bluff, Jonesboro, West Little Rock, Southwest Little Rock, and school-based. Clinics are staffed by attending physicians and medical residents.

Adolescent Medicine	Nephrology
Allergy & Immunology	Neurology
Cardiology	Neurosurgery
Dental	Ophthalmology
Dermatology	Orthopaedics
Developmental Pediatrics	Otolaryngology
Endocrinology	Pediatrics
Gastrointestinal	Psychology
Genetics	Pulmonary
Gynecology	Rehab Medicine
Hematology & Oncology	Rheumatology
Infectious Disease	Surgery
Neonatology	Urology

The NW Hospital is organized into inpatient and outpatient services to respond to a full range of patient needs, from well-baby checkups and immunizations to treatment of injured children.

Inpatient units consist of:

- Medical/Surgical Units

Surgical services consist of:

- Operating Rooms
- Ambulatory Surgery
- Post Anesthetic Care Unit

Outpatient services consist of:

- Infusion Center

Patient care services, which support inpatient and outpatient care at the NW Hospital, are:

- Imaging Capabilities (Diagnostic radiology, Magnetic Resonance Imaging (MRI), Computed Tomography (CT), Interventional – Radiology, and Ultrasound)
- Pathology and clinical laboratory services
- Cardiac diagnostic services
- Clinical nutrition and dietetic services
- Pharmacy
- Anesthesia
- Rehabilitation (physical, occupational, speech-language pathology and audiology)
- Respiratory/Pulmonary care

Patient support services, which support inpatient and outpatient care at the NW Hospital, are:

- Social work
- Interpreters
- Child life and education
- Pastoral care
- Patient/family representatives
- Discharge planning
- Financial Counselors

ACNW operates over 30 clinics in the service lines described below on the main campus of the NW Hospital and at ACNW's Harvey Clinic location. Clinics are staffed by attending physicians and medical residents.

- | | |
|--------------------------|----------------|
| Adolescent Medicine | Neurosurgery |
| Allergy | Orthopaedics |
| Cardiology | Otolaryngology |
| Developmental Pediatrics | Pediatrics |
| Endocrinology | Psychology |
| Gastroenterology | Pulmonary |
| Genetics | Radiology |
| Gynecology | Rehab Medicine |
| Hematology & Oncology | Rheumatology |
| Infectious Disease | Surgery |
| Nephrology | Urology |
| Neurology | |

Community Network

The LR Hospital interacts with various community organizations and State agencies involved with children, including the Arkansas Heart Association, Centers for Youth and Families, Cystic Fibrosis Foundation, Juvenile Diabetes Foundation, Epilepsy Foundation, Camp Aldersgate, Women and Children First, Arkansas Department of Human Services, Spinal Cord Commission, Arkansas Department of Health, Arkansas Minority Health Commission, Ronald McDonald House, Arkansas Department of Elementary and Secondary Education and most Arkansas school districts, Arkansas Hunger Relief Alliance and various Arkansas food banks, the City of Little Rock, Child Advocacy Centers of Arkansas, and Arkansas Advocates for Children & Families.

The NW Hospital also interacts with various community organizations and State agencies involved with children, including the Arkansas Heart Association, Cystic Fibrosis Foundation, Juvenile Diabetes Foundation, Epilepsy Foundation, Camp Aldersgate, Compassion House, Arkansas Department of Human Services, Spinal Cord Commission, Arkansas Department of Health, Arkansas Minority Health Commission, Ronald McDonald House, Arkansas Department of Elementary and Secondary Education and most Arkansas school districts, Arkansas Hunger Relief Alliance and the Northwest Arkansas Foodbank, Apple Seeds, Inc., the City of Springdale, Child Advocacy Centers of Arkansas, and Arkansas Advocates for Children & Families.

Governing Body and Organization

The organizational chart below illustrates the governing structure of the Parent and ACH, ACNW, ACRI, the Foundation, ACCN, ACMG and SCV.



Arkansas Children’s, Inc. (the “Parent”)

The Articles of Incorporation and By-laws of the Parent provide that its business and affairs shall be conducted solely by a Board of Directors. The Board consists of fifteen (15) members, including the Chief Executive Officer of the Parent. Directors are elected annually from among the citizens of the State for three-year terms. The present members of the Board of Directors, their principal occupations, and their years of service on the Board are as follows:

Name	Occupation/Affiliation	Date of Joining Board⁽¹⁾
Jeff Nolan, Chair	Independent Director, Murphy Oil Corporation	August 1, 2009
Mark McCaslin, Vice Chair	Independent Consultant	October 1, 2009
Sharilyn Gasaway, Treasurer	Public Company Board Member	August 1, 2012
John H. Bale, Jr.	Owner, Bale Automotive Group	October 1, 1974
Tom Baxter ⁽²⁾	Partner, Friday, Eldredge & Clark, LLP	October 1, 1994
Ron Clark	General Counsel, The Stephens Group, LLC	October 1, 2003
Harry C. Irwin, III	Partner, Erwin & Company	October 1, 1990
Gary C. George	Chairman, George’s Inc.	December 2, 2015
Paul Hart	Executive Vice Chairman, McLarty Auto Group; EVP/CFO, McLarty Companies	October 1, 2006
Sonja Yates Hubbard	Partner, Yates Group, Inc.	April 1, 2018
James L. “Skip” Rutherford, III	Former Dean, University of Arkansas Clinton School of Public Service	October 1, 1988
R. Mark Saviers	Co-founder, Tempus Realty Partners; Partner, Sage Partners	October 1, 1996
Patrick Schueck	President, Lexicon, Inc.	October 1, 2013
Charles Whiteside	Self-employed (investments)	October 1, 1974
Marcella L. Doderer	President & CEO, Arkansas Children’s, Inc.	July 15, 2013

(1) Including service on an Affiliate Board of Directors.

(2) Mr. Baxter is a partner with Friday, Eldredge & Clark, LLP, which firm is serving as Bond Counsel in connection with the issuance of the Series 2023 Bonds.

Governance and Nominating Committee. The Governance and Nominating Committee shall consist of the Chair of the Board of Directors and three or four additional members to be appointed annually by the Chair, subject to approval by the Board, or by the Board. The Governance and Nominating Committee shall advise the Board of Directors as to issues relating to the governance and corporate administration of the Parent and the remainder of the Arkansas Children’s health system.

Financial Planning and Oversight Committee. The Financial Planning and Oversight Committee shall consist of the Treasurer, as Chairman, and three other members of the Board of Directors appointed annually by the Chair of the Board, subject to approval by the Board, or by the Board. No director who receives compensation from the Parent or an Affiliate may serve as a member of the Financial Planning and Oversight Committee. Each member of the Committee shall be both independent and financially literate. At least one member shall qualify as a “financial expert,” as defined in Section 407 of the Sarbanes-Oxley Act of 2002 and the regulations thereunder. The Committee causes to be prepared and submitted to the Board of Directors the capital and operating budgets of the Parent and the other Affiliates, examines the monthly financial reports of each Affiliate, reviews internal auditing functions, engages the external audit firm, provides oversight for the corporate compliance program, among other finance-related duties.

Investment Committee. The Investment Committee consists of three or four members of the Board of Directors appointed annually by the Chair of the Board, subject to approval by the Board, or by the Board, as well as each of the Treasurers of the Parent, ACH, ACNW, the Foundation and ACRI Boards of Directors. The Investment Committee performs the following functions: (1) advises the Board of Directors on setting investment policies that define risk and return objectives, identify permitted investments and asset classes and any restrictions thereon, and provide guidelines on asset allocation; (2) authorizes the purchase and sale of securities and other investments; (3) advises the Board of Directors on the selection of investment managers and advisors; and (4) monitors the performance of investment managers and their compliance with policy. The Investment Committee also selects and monitors investment options and through its Administrative (ERISA) Committee and Plan Investment Committee, establishes investment policy for the employee pension plans of the Parent, ACH, ACNW and the other Affiliates.

Strategy and Analytics Committee. The Strategy and Analytics Committee consists of four or five members of the Board of Directors appointed annually by the Chair of the Board, subject to approval by the Board, or by the Board. The duties of the Strategy and Analytics Committee include (1) overseeing the standard of care, including coordinating the clinical and quality assurance activities of the System; (2) establishing the strategic orientation of the System, including goals related to growth and development; (3) overseeing efforts to improve the System’s data and analytics capabilities and adopt technological improvements; (4) interfacing with the fundraising efforts and marketing programs of the System; and (5) overseeing advocacy efforts, marketing and advertising, and government relations efforts for the System.

Human Resources and Compensation Committee. The Human Resources and Compensation Committee consists of three or four members of the Board of Directors appointed annually by the Chair of the Board, subject to approval by the Board, or by the Board. The Human Resources and Compensation Committee has authority and responsibility for reviewing and approving compensation policies, base salary and incentive compensation levels, executive retirement and other executive benefit plans for senior management.

Arkansas Children’s Hospital (“ACH”)

The Articles of Incorporation and By-laws of ACH provide that its business and affairs shall be conducted solely by a Board of Directors. The Board consists of fifteen (15) members, including the Chief Executive Officer of the Parent and the Chief of the LR Hospital’s Medical Staff. Directors are elected annually from among the citizens of the State for three-year terms. The present members of the Board of Directors, their principal occupations, and their years of service on the Board are as follows:

Name	Occupation/Affiliation	Date of Joining Board
Beverly Morrow, Chair	Owner, TLM Management	October 1, 2005
Douglas Jackson, Vice Chair	First Vice President, Wealth Management Advisor, Merrill Lynch	March 30, 2016
Phillip Jett, Treasurer	Vice Chair and Chief Banking Officer, Encore Bank	October 1, 2014
Hunter Bale	Vice President, Bale Automotive Group	April 1, 1923
Trav Baxter	Attorney, Mitchell Williams	January 1, 2021
Missy Graham, MD	Community Physician, Allergy & Immunology	October 1, 2013
Richard F. Jacobs, MD	Retired Physician	January 1, 2006
Tionna Jenkins, PhD	Senior Advisor, Health Equity, Clinton Foundation	October 1, 2017
Holly Marr	Retired Executive	October 1, 2009
Pat McClelland	Professional Volunteer	October 1, 1993
Barbara Moore	Retired Accountant	October 1, 1986
Ross Whipple	Managing Partner, Horizon Capital Partners	October 1, 2017
Darrin Williams	CEO, Southern Bancorp, Inc.	January 1, 2021
Marcella L. Doderer	President & CEO, Arkansas Children’s, Inc.	July 15, 2013
Gresham Richter, MD	Chief, Medical Staff, Arkansas Children’s Hospital	November 1, 2020

Quality and Safety Committee. The Quality and Safety Committee shall consist of at least four directors appointed annually by the Chair of the Board of Directors, subject to approval by the Board, and shall also include the Chief of the Medical Staff, the Chief Medical Officer and the Chief Nursing Officer of ACH. The Quality and Safety Committee shall be responsible for providing oversight for quality improvement activities as related to quality and safety of patient care.

Planning and Development Committee. The Planning and Development Committee shall consist of at least four directors appointed annually by the Chair of the Board of Directors, subject to approval by the Board, and shall also include the Chief Financial Officer and the Chief Strategy Officer of the Parent. The Planning and Development Committee shall (1) cause to be prepared, and submit to the Board for its review and approval, an operating budget and a capital budget for the ensuing year; (2) oversee the development, implementation and updating of the LR Hospital’s capital plans and programs; (3) review, provide oversight and make recommendations to the Board regarding new strategic initiatives and review and evaluate performance against ACH’s business development goals; and (4) oversee the conduct of the ACH community health needs assessment.

Arkansas Children’s Northwest, Inc. (“ACNW”)

The Articles of Incorporation and By-laws of ACNW provide that its business and affairs shall be conducted solely by a Board of Directors. The Board consists of not less than twelve (12) nor more that fifteen (15) members, including the Chief Executive Officer of the Parent and the Chief of the NW Hospital’s Medical Staff. Directors are elected annually from among the citizens of the State for three-year terms. The present members of the Board of Directors, their principal occupations, and their years of service on the Board are as follows:

Name	Occupation/Affiliation	Date of Joining Board
Noel White, Chair	Retired Executive	January 1, 2020
K.C. Tucker, Vice Chair	Owner, The Law Group of Northwest Arkansas, LLP	April 1, 2019
John Roberts, Treasurer	President & CEO, J.B. Hunt	July 1, 2017
Ron Clark	General Counsel, The Stephens Group, LLC	December 2, 2015
Harry C. Irwin, III	Partner, Erwin & Company	December 2, 2015
Gary C. George	Chairman, George’s Inc.	December 2, 2015
Aaron J. Marshall	Founder/CEO, Team Marshall Angus	April 1, 2023
Pat McClelland	Professional Volunteer	December 2, 2015
Charles Redfield	EVP & Chief Merchandising Officer, Walmart U.S.	July 1, 2017
Steve Stafford	President & CEO, Anstaff Bank	January 1, 2023
Celia Swanson	Owner, The Swanson Group	January 1, 2023
Barbara Tyson	Retired Executive	July 1, 2017
Marcella L. Doderer	President & CEO, Arkansas Children’s, Inc.	December 2, 2015
Robert L. Saylor, MD	Chief, Medical Staff, Arkansas Children’s Northwest	July 1, 2022

Quality and Safety Committee. The Quality and Safety Committee shall consist of at least four directors appointed annually by the Chair of the Board of Directors, subject to approval by the Board, and shall also include the Chief of the Medical Staff, the Chief Medical Officer and the Chief Nursing Officer of ACNW. The Quality and Safety Committee shall be responsible for providing oversight for quality improvement activities as related to quality and safety of patient care.

Planning and Development Committee. The Planning and Development Committee shall consist of at least four directors appointed annually by the Chair of the Board of Directors, subject to approval by the Board, and shall also include the Chief Financial Officer and the Chief Strategy Officer of the Parent. The Planning and Development Committee shall (1) cause to be prepared, and submit to the Board for its review and approval, an operating budget and a capital budget for the ensuing year; (2) oversee the development, implementation and updating of the NW Hospital’s capital plans and programs; (3) review, provide oversight and make recommendations to the Board regarding new strategic initiatives and review and evaluate performance against ACNW’s business development goals; and (4) oversee the conduct of the ACNW community health needs assessment.

Business Transactions with Members of the Boards of Directors. The Parent, ACH, ACNW and the other Affiliates may from time to time invest certain funds with, and procure goods and services from, institutions and companies affiliated with or controlled by various members of their Boards of Directors, where the Parent, ACH, ACNW or an Affiliate has a need for the goods or services offered by any such persons, institutions or companies, and where the terms and conditions of such transactions and the compensation paid would be as favorable in all material respects as the Parent, ACH, ACNW or the Affiliate could obtain from unaffiliated or unrelated persons.

All members of the Boards of Directors disclose any conflicts of interest on an annual basis. All members of the Boards of Directors also abstain from discussing or voting on any matters in which they may have a conflict of interest. Determination of whether a listed conflict is material is determined by the corporate compliance officer, with advice from legal counsel if uncertain. During the year, while members of the Boards of Directors may participate in initial discussion, members who have a conflict are prohibited from participating in deliberations and decisions in related transactions and abstain from voting, which is noted in the Board minutes.

Arkansas Children's Research Institute, Inc. and Arkansas Children's Foundation

The Arkansas Children's Research Institute, Inc. ("ACRI") was incorporated in 1990 to provide both the research infrastructure and facilities for faculty members who practice at the LR Hospital, most of whom are also members of the faculty of UAMS. Research studies at ACRI address a broad spectrum of children's health concerns and aim to improve the health of children, families and their communities through clinical, basic science, translational, health promotion, health outcomes, health services, and prevention research. The entire research enterprise is part of a three-fold mission in efforts to provide (1) the best in clinical care to the children of Arkansas, (2) excellent medical education, and (3) research capabilities to expand the boundaries of child healthcare. The Board of Directors of the Parent recognizes that research is the cornerstone of every world-class health science center as it is essential in making state-of-the-art clinical treatments available to patients and advances knowledge of the disease process.

Over 190,000 square feet of space is currently available for research activities on the LR Hospital campus. This space encompasses the ACRI building, the Arkansas Children's Nutrition Center (ACNC), approximately 5,340 square feet of research space in the Sturgis building, approximately 10,000 square feet in the South Campus building, approximately 3,000 square feet on the East Campus, and approximately 4,700 square feet in the ACH Pediatric Clinical Research Unit. Animal research facilities, as well as laboratories and office space, are provided for research. There are presently over 145 investigators on the LR Hospital campus.

The Arkansas Children's Foundation, Inc. (the "Foundation") was incorporated in 1982 with the exclusive mission of developing and implementing plans to meet fund-raising requirements for the System. The Foundation is responsible for raising private support for ACH, ACNW and ACRI, including restricted and unrestricted gifts for operations, capital needs and endowment. Over the last five fiscal years, the Foundation has raised approximately \$154 million in donations to benefit ACH, ACNW and ACRI.

Administrative

The day-to-day management of the System is the responsibility of the Chief Executive Officer and her executive leadership team. The Chief Executive Officer is hired by the Parent's Board of Directors and has the authority to select the members of the executive staff. Key members of the executive staff and a brief biography of each follow:

Marcella L. Doderer, FACHE, is President and Chief Executive Officer of the System. Ms. Doderer became President and Chief Executive Officer on July 15, 2013. Prior to her role at Arkansas Children's, she served as a member of senior leadership for CHRISTUS Santa Rosa Health System in various capacities since 2002. Ms. Doderer became Administrator for CHRISTUS Santa Rosa Children's Hospital in 2008 and led the effort to transform the facility into the free standing Children's Hospital of San Antonio. Her previous leadership experience includes positions at CHRISTUS St. Joseph's Health System and McCuiston Regional Medical Center, both in Paris, Texas, and at Presbyterian Hospital of Dallas, Dallas, Texas.

Ms. Doderer is a Fellow in the American College of Health Care Executives (ACHE) and is active in many professional organizations. She serves as the Chair of the Children's Hospital Solutions for Patient Safety Board of Directors and the Immediate Past Chair of the Children's Hospital Association Board of Directors. She is also a member of the American Hospital Association's The Changing Workforce Task Force. Within Arkansas, Ms. Doderer is a member of Fifty for the Future and sits on the board of Healthy Active Arkansas. She has been recognized for her leadership both at the local and national level, including being named one of Modern Healthcare's "Top 25 Women Leaders" in 2021. Ms. Doderer was named Woman of the Year in 2020 by Women & Children First and Woman of the Year in Business in 2018 by the Women's Foundation of Arkansas. She obtained her Bachelor of Science degree in Finance from Trinity University, San Antonio, Texas, and Master of Arts degree in Hospital and Health Administration from the University of Iowa.

Jamie Wiggins Ph.D., MBA, RN, NEA-BC, FACHE, serves as the Executive Vice President/Chief Operating Officer for Arkansas Children's. Prior to his role at Arkansas Children's, Dr. Wiggins served as Senior Vice President, Chief Clinical Officer & Chief Nursing Officer at Children's Hospital New Orleans. He earned his Associate degree in Nursing from Pitt Community College, Bachelor of Science degree in Nursing from the University of San Francisco, Master of Science degree in Nursing and Health Systems Leadership from the University of California San Francisco, Master of Business Administration degree from Nicholls State University, and PhD in Nursing from LSU Health Sciences Center in New Orleans.

Gena Wingfield, CPA (inactive), has been the Chief Financial Officer for Arkansas Children's Hospital since 1998 and is currently Executive Vice President/Chief Financial Officer for Arkansas Children's. Since joining ACH in 1985, Ms. Wingfield's roles have included Controller and interim Chief Information Officer. Ms. Wingfield worked in public accounting for Arthur Young & Co. (now Ernst & Young) until joining ACH. She graduated from the University of Central Arkansas with a Bachelor's of Business Administration degree in Accounting.

Brent Thompson, J.D., serves as Arkansas Children's Executive Vice President/Chief Legal Officer. Prior to joining Arkansas Children's, he served as Chief Legal Officer for Cape Fear Valley Health System in Fayetteville, North Carolina. Mr. Thompson earned his law degree at the University of Tulsa College of Law and is an alum of the University of Oklahoma in Norman.

Frederick (Rick) E. Barr, M.D., serves as Executive Vice President/Chief Clinical and Academic Officer and as interim Chief Medical Officer for Arkansas Children's. He also holds the Jonathan R. Bates, MD Endowed Chair for Improving Child Health. From October 2017 through November 2020, Dr. Barr served as Chair of the Department of Pediatrics and Associate Dean for Child Health in the University of Arkansas for Medical Sciences (UAMS) College of Medicine, as well as Pediatrician in Chief for Arkansas Children's and interim President of the Arkansas Children's Research Institute. Dr. Barr holds a Bachelor of Science degree in Animal and Veterinary Science from West Virginia University and a Doctor of Medicine from the University of Virginia. His graduate training includes a Master's of Science degree in Clinical Investigation, Vanderbilt University and a Masters of Business Administration degree from the University of Massachusetts-Amherst, Isenberg School of Management. Post graduate training includes a residency in Pediatrics at Vanderbilt University, a Fellowship in Pediatric Critical Care at the University of California, San Francisco, and a Research Fellowship at the Cardiovascular Research Institute, University of California, San Francisco.

Fred Scarborough, CFRE, serves as Executive Vice President/Chief Communications and Development Officer for Arkansas Children's. Previously, Mr. Scarborough served as President of Arkansas Children's Foundation, as Senior Vice President for Major Gifts – ACF, as Director of Development for the Arkansas Symphony Orchestra, and as Director of Development for Meals on Wheels (CareLink). He holds a Bachelor of Arts degree in Communications from the College of the Ozarks, Point Lookout, Missouri, and a Master of Arts degree from the Fulbright College of Fine Arts at the University of Arkansas at Fayetteville.

Crystal Kohanke, MS, PHR, SHRM-CP, ACC, serves as Senior Vice President/Chief People Officer for Arkansas Children's. She most recently served as Group Vice President of Human Resources for CHRISTUS Health South Texas, where her responsibilities included the Children's Hospital of San Antonio. Ms. Kohanke earned a Bachelor of Business Administration degree in Accounting from St. Mary's University and a Master of Science degree in Human Resource Management Systems from Chapman University.

Ashlie Hilbun, Ed.D., CFRE, serves as Senior Vice President/Chief Strategy Officer for Arkansas Children's. Previously, Ms. Hilbun served in the Arkansas Children's Foundation as Vice President of Philanthropy. She has also served as a Senior Development Officer and as Executive Director of Philanthropy for Arkansas Children's Foundation. Before joining the Arkansas Children's team, she led development and external relations for the University of Arkansas J. William Fulbright College of Arts and Sciences. Ms. Hilbun earned a doctorate of education from the University of Arkansas, holds a Master's degree in social work from Tulane University, and is a graduate of Centenary College of Louisiana in Shreveport.

Erin Parker, MBA, CHC, CHPC, CHRC, serves as the Senior Vice President/Chief Information Officer for Arkansas Children's. She most recently served as Vice President/System Compliance Officer for Arkansas Children's. Ms. Parker holds a Master of Business Administration degree from the University of Arkansas at Little Rock and a Bachelor's degree in Professional Accountancy from Ouachita Baptist University.

Jason Williams, Psy.D., M.S. Ed., serves as Senior Vice President/Chief Mental and Behavioral Health Officer at Arkansas Children's and Division Chief of Child and Adolescent Psychiatry at the University of Arkansas for Medical Sciences (UAMS). Prior to joining Arkansas Children's, Dr. Williams served as Associate Professor of Psychiatry at the University of Colorado School of Medicine, and as the Director of Operations in the Pediatric Mental Health Institute at Children's Hospital Colorado. He received his Master's degree in education from the University of Southern California, and his Doctoral degree from the California School of Professional Psychology in Los Angeles, California. He completed an internship and postdoctoral training program at the Children's Hospital in Los Angeles.

Amy Fallon, MPH, PhD, serves as Senior Vice President of Operations for Arkansas Children's Hospital. Previous positions held include the Arkansas Children's Vice President of Facilities and Support Services and the Director of Support Services for Texas Children's Hospital West Campus, Houston Texas. Dr. Fallon holds a Bachelor's of Science degree in Radiological Health (Nuclear) Engineering, Texas A&M University, College Station, Texas, a Masters of Public Health degree in Environmental and Occupational Health, University of Texas School of Public Health, Houston, Texas, and a Doctorate in Management and Policy Science, University of Texas School of Public Health, Houston, Texas.

Shannon Hendrix, MS, RD, LD, serves as Senior Vice President/Administrator for Arkansas Children's Northwest. She previously served as Vice President of Clinical and Diagnostic Services for Arkansas Children's Hospital. A registered dietitian, Ms. Hendrix holds Bachelor's and Master's degrees in Nutrition from the University of Central Arkansas.

Enid Olvey, CFRE, serves as Senior Vice President of Philanthropy for Arkansas Children's/President for Arkansas Children's Foundation. A member of the Arkansas Children's team since 2003, Ms. Olvey has held many roles in the Foundation. Olvey holds a Bachelor of Arts degree in Psychology from Lyon College.

Pete Mourani, M.D., serves as the Senior Vice President/Chief Research Officer for Arkansas Children's/President of Arkansas Children's Research Institute (ACRI). Additionally, he holds the Ross and Mary Whipple Family Distinguished Research Scientist Endowed Chair. He previously worked at the University of Colorado and Children's Colorado Hospital as professor of pediatrics in the section of Critical Care Medicine and most recently as the Medical Director of the Children's Hospital Colorado Research Institute. Dr. Mourani holds a Bachelor's of Science degree from the University of Notre Dame, South Bend, Indiana, a medical degree from Loyola University, Stritch School of Medicine, Maywood, Illinois, a Pediatric Residency, Loyola University Medical Center, Maywood, Illinois, a Pediatric Critical Care Fellowship, University of Colorado School of Medicine, The Children's Hospital Denver, Colorado, a Pediatric Pulmonary Fellowship University of Colorado School of Medicine, The Children's Hospital Denver, Colorado, and a Certificate in Clinical Science Investigation University of Colorado Denver and Health Sciences Center, Denver, Colorado.

Heather Cherry, MHA, RN, NE-BC, DNP, serves as the Chief Nursing Officer for Arkansas Children's Hospital. Previous positions held include the Assistant Vice President Nursing and Director, Newborn Center and Vascular Access Services, Texas Children's Hospital, Houston TX. Dr. Cherry holds a Doctor of Nursing Practice from the Cizik School of Nursing, The University of Texas Health Science Center, a Master of Health Administration, Saint Louis University School of Public Health, and a Bachelor of Science degree in Nursing, Jewish Hospital College of Nursing and Allied Health, Saint Louis, Missouri.

Medical Administration

Physicians practicing at the LR Hospital are formally organized as a Medical Staff under Medical Staff by-laws. The LR Hospital Medical Staff officers and a brief biography of each follow:

Gresham Richter, MD, FACS, FAAP, is the elected Chief of the Medical Staff of the LR Hospital. He is a Professor, Vice Chair, and Chief of Pediatric Otolaryngology in the Department of Otolaryngology-Head and Neck Surgery at the University of Arkansas for Medical Sciences (UAMS) and Arkansas Children's Hospital (ACH). He is the distinguished recipient of the James Hamlen and Robert Siebert Endowed Chair in Pediatric Otolaryngology and the past chair-holder of the Benjamin and Milton Waner Endowed Chair in Pediatric Facial Plastics and Reconstructive Surgery. Dr. Richter received his undergraduate and medical degrees at the University of Colorado. He completed his residency in Otolaryngology at UAMS and fellowship in Pediatric Otolaryngology at Cincinnati Children's Hospital.

Karen Farst, MD, is the elected Vice-Chief of the Medical Staff of the LR Hospital. Dr. Farst is Chief of Child Maltreatment services and holder of the Jerry G. Jones Endowed Chair in Child Maltreatment. She is Professor of Pediatrics at UAMS and serves as the Medical Director of the inpatient and outpatient units for the Team for Children at Risk at ACH. Dr. Farst received a Bachelor of Arts degree in Psychology from Texas Tech University and earned her medical degree from Texas Tech University Health Sciences Center. She completed a residency in Internal Medicine and Pediatrics at UAMS. Following three years of primary care practice, she completed a fellowship in Child Abuse Pediatrics with the Mayerson Center for Safe and Healthy Children at Cincinnati Children's Hospital. Dr. Farst is board certified by the American Board of Pediatrics in both General Pediatrics as well as Child Abuse Pediatrics.

Aru Reddy, MD, is the elected Secretary/Treasurer of the Medical Staff of the LR Hospital. Dr. Reddy is the Professor of Anesthesiology at UAMS. Dr. Reddy trained originally as an Obstetrician/ Gynecologist in India. She completed her residency in anesthesiology at University of Kentucky followed by a fellowship in Pediatric Anesthesiology at Cincinnati Children's Hospital in Ohio in 2003. Dr. Reddy received her Masters of Business Administration degree from the Gatton College of Business and Economics at the University of Kentucky in 2018. She is a board certified pediatric anesthesiologist and is the Chief of Pediatric Anesthesia at the LR Hospital.

Renee Bornemeier, MD, is the Immediate Past Chief of Staff at the LR Hospital. Dr. Bornemeier is a Professor of Pediatrics at UAMS and works in the Section of Pediatric Cardiology. She is a graduate of the University of Arkansas for Medical Sciences (UAMS) College of Medicine and completed her pediatric residency at UAMS and Arkansas Children's. She then went on to complete a fellowship in Pediatric Cardiology at the Children's Hospital of Philadelphia before returning to UAMS and Arkansas Children's. She is board certified in pediatric cardiology. Dr. Bornemeier has additional roles of Vice Chair for Faculty Affairs for the Department of Pediatrics and as Associate Dean for Faculty Affairs and Development for the UAMS College of Medicine.

Physicians practicing at ACNW are formally organized as a Medical Staff under Medical Staff by-laws. The NW Hospital Medical Staff officers and a brief biography of each follow:

Robert L. Saylor III, MD, is the elected Chief of the Medical Staff of the NW Hospital and is the Medical Director of the Hematology and Oncology service and of the Infusion Center at the NW Hospital. He is a Professor of Pediatrics in the Department of Pediatrics at the University of Arkansas for Medical Sciences and is the distinguished recipient of the Jaxon C. Lee and Robert L. Saylor III, MD, Endowed Chair in Pediatric Hematology and Oncology at Arkansas Children's. Dr. Saylor received his undergraduate degree at Louisiana State University in Shreveport and his medical degree at Louisiana State University School of Medicine in Shreveport. He completed his residency in Pediatrics at Arkansas Children's Hospital and the University of Arkansas for Medical Sciences and his fellowship in Pediatric Hematology and Oncology at St. Louis Children's Hospital and Washington University School of Medicine in St. Louis, Missouri.

Christina Dalton, DO, is the elected Secretary of the Medical Staff of the NW Hospital. Dr Dalton is an Adjunct Clinical Assistant Professor at the University of Arkansas for Medical Sciences (UAMS) and serves as the Medical Director for Hospitalist Service at the NW Hospital. She serves on the Patient Care Committee, Patient Satisfaction Inpatient Committee, and Trauma Council for ACNW. She received her undergraduate degree from Pittsburg State University in Biology and Chemistry. She earned her Doctor of Osteopathic Medicine degree from Kansas City University of Medicine and Biosciences and completed her Pediatric Residency at Children's Mercy Hospitals and Clinic in Kansas City. She is a board-certified pediatrician and is a member of the American Academy of Pediatrics and the Academy of Breastfeeding Medicine.

Jennifer Aunspaugh, MD, is the Immediate Past Chief of the Medical Staff of the NW Hospital and is the Director of Anesthesiology at the NW Hospital. She also serves as Director of Sedation Services at the NW Hospital and is an Associate Professor at the University of Arkansas for Medical Sciences (UAMS). Dr. Aunspaugh served as the Program Director for the pediatric anesthesia fellowship program at the LR Hospital from 2009-2017. During her time as Program Director, she was awarded the Golden Apple Excellence Award in Clinical Anesthesia Education, presented by graduating anesthesia of Anesthesiology/College of Medicine UAMS and was a finalist for the ACGME Parker J. Palmer "Courage to Teach" Award. Dr. Aunspaugh received a B.S. degree in Zoology from Arkansas State University and earned her medical degree from the American University of the Caribbean School of Medicine Cupecoy, Netherlands Antilles. She completed a residency in Anesthesiology at UAMS and the LR Hospital and a fellowship in Pediatric Anesthesiology at the Monroe Carell, Jr. Children's Hospital at Vanderbilt. She is board-certified in general and pediatric anesthesiology and serves as a Part 2 Board Examiner for the American Board of Anesthesiology.

Kevin Hinkle, MD, is the Director of Pediatric Cardiology at the NW Hospital and an Associate Professor of Pediatrics at the University of Arkansas for Medical Sciences (UAMS). Dr. Hinkle earned his undergraduate degree in Biology at Hendrix College and his medical degree at UAMS. He completed his Pediatric residency at Children’s Mercy Kansas City and a Pediatric Cardiology Fellowship at Primary Children’s Hospital in Salt Lake City, Utah where he served as Pediatric Cardiology Chief Fellow. He serves as an American College of Cardiology Fellow/Diplomat and is board-certified in both General Pediatrics and Pediatric Cardiology.

Medical Staffs

The Active Medical Staff of the LR Hospital consists of physicians who admit patients at the LR Hospital; provide care in the LR Hospital’s Emergency Department; provide consultation at an Arkansas Children’s Hospital site; or are assigned call coverage at the LR Hospital on a regular basis. They must attend at least one Medical Staff General meeting during the year, have a right to vote and to hold office, and may be asked to serve on Medical Staff committees. The Courtesy Medical Staff consists of physicians or dentists qualified for staff membership but who may not admit, treat or write orders. They may visit their patients and document in the progress notes. They may order outpatient diagnostic testing; are eligible to vote but not hold office; are eligible for membership on the Executive Committee but are not required to serve on Medical Staff committees; and are not required to attend the mandatory Medical Staff General meeting. The Medical Staff has an Executive Committee, which meets monthly. The Executive Committee represents and acts on behalf of the Medical Staff.

As of March 12, 2023, there were 607 physicians and dentists on the LR Hospital's medical staff with an average age of 46.

Staff Classification	Number of Physicians
Active	465
Courtesy	57
Limited Active Staff	15
Consulting	43
Coverage	<u>27</u>
Total:	<u>607</u>

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Physicians and dentists on the LR Hospital's Medical Staff are classified by specialty and board certification as of March 12, 2023, and are as follows:

Physician Primary Specialty	Number of Physicians	Number of Board Certified Physicians
Adolescent Medicine	3	3
Adult Cardiology	9	9
Adult Internal Medicine	2	2
Adult Nephrology	1	1
Allergy & Immunology	13	13
Anesthesiology	61	56
Burn Surgery	5	4
Cardiology	31	30
Cardiovascular Surgery	2	2
Children at Risk	3	3
Clinical Pharmacology & Toxicology	3	3
Community Pediatrics	4	4
Critical Care Medicine	13	13
CV Anesthesiology	3	3
Dentistry	27	10
Dermatology	2	2
Developmental & Behavioral Pediatrics	7	7
Emergency Medicine	47	41
Endocrinology	6	6
Gastroenterology & Nutrition	9	9
General Pediatrics	64	55
General Surgery	9	9
Gynecology	2	2
Hematology/Oncology	12	12
Hospitalist	25	22
Infectious Diseases	7	6
Medical Genetics	5	5
Neonatology	40	38
Nephrology	5	5
Neurology	15	13
Neurosurgery	7	6
Ophthalmology	18	13
Orthopedic Surgery	23	20
Otolaryngology	19	18
Pathology	37	36
Plastic & Reconstructive Surgery	5	4
Primary Care – Pine Bluff	5	4
Psychiatry	9	8
Pulmonology	9	9
Radiology	22	19
Rehabilitation & Physical Medicine	3	3
Rheumatology	6	4
Transplant Surgery	4	3
Urology	3	2
Vascular Surgery	<u>2</u>	<u>1</u>
Total:	<u>607</u>	<u>538</u>

Set forth below is a table detailing the service and admission volume of the LR Hospital's top ten physicians based on their respective percentage of net revenues, along with their percentage of total admissions during the fiscal years ended June 30, 2022 and 2021.

Physician Specialty	Percent of FY 2022 Admissions	Percent of Total FY 2022 Net Revenue
Pediatrics	3.29%	0.83%
Pediatrics	2.94%	0.73%
Pediatrics	2.93%	0.81%
Pediatrics	2.81%	0.74%
Pediatrics	2.80%	0.76%
Pediatrics	2.74%	0.73%
Pediatrics	2.69%	0.74%
Pediatrics	2.68%	0.87%
Pediatrics	2.63%	0.78%
Pediatrics	<u>2.51%</u>	<u>0.65%</u>
Total:	<u>28.01%</u>	<u>7.64%</u>

Physician Specialty	Percent of FY 2021 Admissions	Percent of Total FY 2021 Net Revenue
Pediatrics	3.65%	0.84%
Pediatrics	2.58%	0.64%
Pediatrics	2.58%	0.59%
Pediatrics	2.54%	0.58%
Pediatrics	2.36%	0.77%
Pediatrics	2.13%	0.57%
Pediatrics	2.07%	0.61%
Pediatrics	2.03%	0.57%
Burn Surgery	1.99%	1.96%
Pediatrics	<u>1.87%</u>	<u>0.44%</u>
Total:	<u>23.80%</u>	<u>7.58%</u>

No single physician has accounted for more than 3.65% of LR Hospital admissions during either of the last two fiscal years.

The Active Medical Staff of the NW Hospital consists of physicians who admit patients at the NW Hospital; provide care in the NW Hospital's Emergency Department; provide consultation at an Arkansas Children's Northwest site; or are assigned call coverage at the NW Hospital on a regular basis. They must attend at least one Medical Staff General meeting during the year, have a right to vote and to hold office, and may be asked to serve on Medical Staff committees. The Courtesy Medical Staff consists of physicians or dentists qualified for staff membership but who may not admit, treat or write orders. They may visit their patients and document in the progress notes. They may order outpatient diagnostic testing; are eligible to vote but not hold office; are eligible for membership on the Executive Committee but are not required to serve on Medical Staff committees; and are not required to attend the mandatory Medical Staff General meeting. The Medical Staff has an Executive Committee, which meets monthly. The Executive Committee represents and acts on behalf of the Medical Staff.

As of March 12, 2023, there were 258 physicians and dentists on the NW Hospital's medical staff with an average age of 46.

Staff Classification	Number of Physicians
Active	180
Courtesy	6
Limited Active Staff	7
Consulting	13
Coverage	<u>52</u>
Total:	<u>258</u>

Physicians and dentists on the NW Hospital's Medical Staff are classified by specialty and board certification as of March 12, 2023, and are as follows:

Physician Primary Specialty	Number of Physicians	Number of Board Certified Physicians
Allergy & Immunology	7	7
Anesthesiology	10	10
Behavioral Health	2	2
Cardiology	22	22
Dentistry	23	13
Emergency Medicine	18	16
Endocrinology	5	5
Gastroenterology & Nutrition	7	7
General Pediatrics	19	18
General Surgery	11	11
Hematology/Oncology	7	7
Hospitalist	15	15
Infectious Diseases	3	3
Medical Genetics	3	3
Nephrology	3	3
Neurology	13	11
Neurosurgery	3	3
Ophthalmology	6	6
Orthopedic Surgery	19	18
Otolaryngology	14	14
Pathology	12	12
Plastic & Reconstructive Surgery	2	1
Pulmonology	9	9
Radiology	13	12
Rehabilitation & Physical Medicine	4	4
Rheumatology	3	2
Sports Medicine	2	2
Urology	3	2
Total:	<u>258*</u>	<u>238</u>

* Of the 258 physicians on the medical staff, 79 are on the medical staff of the NW Hospital only and 179 are on the medical staffs of both the NW Hospital and the LR Hospital.

Set forth below is a table detailing the service and admission volume of the NW Hospital's top ten physicians based on their respective percentage of net revenues, along with their percentage of total admissions during the fiscal years ended June 30, 2022 and 2021. ACNW net revenue in fiscal year 2022 was 21.51% attributable to inpatients and 78.49% attributable to outpatients.

Physician Specialty	Percent of FY 2022 Admissions	Percent of Total FY 2022 Net Revenue
Pediatrics	17.67%	3.70%
Pediatrics	16.31%	3.35%
Pediatrics	14.32%	2.93%
Pediatrics	9.77%	1.83%
Hematology & Oncology	8.30%	1.70%
Pediatrics	6.59%	1.29%
Pediatrics	6.53%	1.43%
Emergency Medicine	4.55%	0.93%
Pediatrics	2.78%	0.55%
General Surgery	<u>2.39%</u>	<u>0.62%</u>
Total:	<u>89.20%</u>	<u>18.31%</u>

Physician Specialty	Percent of FY 2021 Admissions	Percent of Total FY 2021 Net Revenue
Pediatrics	29.29%	4.73%
Pediatrics	18.27%	2.62%
Emergency Medicine	10.72%	1.48%
Pediatrics	8.64%	0.99%
Pediatrics	8.34%	1.12%
Pediatrics	6.06%	0.86%
General Surgery	4.77%	0.99%
Hematology & Oncology	4.27%	0.50%
Orthopedic Surgery	1.69%	0.28%
Pediatrics	1.39%	0.15%
Total:	93.44%	13.72%

Nursing Staffs

The nursing complement of the LR Hospital, as of February 28, 2023, consisted of 1,199 direct care registered nurses, 52 direct care licensed practical nurses, and 283 direct care patient care technicians/care partners. There were 196 indirect care and management registered nurses.

The nursing complement of the NW Hospital, as of February 28, 2023, consisted of 215 direct care registered nurses, 5 direct care licensed practical nurses, and 33 direct care patient care technicians/care partners. There were 29 indirect care and management registered nurses.

Together with the support of the Board of Directors and the implementation of aggressive recruitment strategies, the LR Hospital and the NW Hospital continue to remain competitive in RN salaries, benefits and professional development. Recruiting efforts include, but are not limited to, the following: robust online recruiting which includes videos and direct response e/mailings; partnerships with various job boards and resume data warehouses; partnerships with various candidate sourcing platforms; mailers to home addresses; and deepened recruiting/relationships at nursing schools across the southern states. In addition, nursing/clinical job fairs are hosted throughout the year both on site and virtually to target experienced staff. Significant referral bonuses have been offered for experienced clinical staff. Additionally, an international recruiting strategy has been implemented, with the first international RN at the LR Hospital starting in Spring of 2023 and the first international RN at the NW Hospital starting in February 2023.

The LR Hospital has a Versant Nursing Residency Program. The NW Hospital also has a Nurse Residency Program. These programs have resulted in tremendous growth in both the number and quality of applicants from within and outside the State. The number of new graduate nurses starting at the LR Hospital doubled between 2022 and 2023, and the number of new graduate nurses starting at the NW Hospital increased by 50%.

The LR Hospital was re-designated as a Magnet facility in 2022, recognizing nursing excellence. In addition, both the LR Hospital and the NW Hospital continue to place high value on important recognition programs such as the DAISY Award for Extraordinary Nurses as well as the annual Excellence in Nursing Awards.

The LR Hospital and NW Hospital have experienced higher RN turnover rates during and post-COVID than previously. FY21 ended at 16.43%, FY22 ended at 19.53% and FY23 YTD is at 9.3%, but is showing significant improvement over the prior year.

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Other System Employees

As of February 28, 2023, the System employed 3,639.8 full-time equivalent employees, including the nursing staff referred to above. A breakdown of the employees, by area of service, is as follows:

Area of Service	Number of Full-Time Equivalents
Administrative Services	734.8
General Services	788.0
Medical Services	970.7
Nursing Services	1,090.5
Other	<u>55.8</u>
Total:	<u>3,639.8</u>

Administrative Services includes those employees in the administrative, business office, social services, admissions, pastoral care and patient care technicians of the System. General Services includes maintenance, communication services, pharmacy, guards and security employees. Medical Services includes those employees involved in laboratory, cardiology, audiology, dental, neurophysiology, radiology, respiratory therapy, transport, physical therapy and occupational therapy services. Nursing Services includes all nurses and nurse's aides. Other refers to unit secretaries and surgical non-nursing, medical records, materials management, personnel, public relations and quality management employees.

The System continually evaluates its regional competitiveness in the employment market through wage and salary surveys, most recently with a comprehensive third party assessment conducted in December 2022. Salary adjustments have been implemented each year, when possible, to maintain market competitiveness, including 2021 and 2022. Management believes that the wages, salaries and benefits presently paid to its employees are average to above average of those paid by other hospitals in its service areas. In September of 2021, the System increased its minimum starting wage to \$15.00/hour. In January of 2023, a tiered insurance premium plan based upon income was introduced, with some employees being eligible for \$0 premiums.

In 2022 Arkansas Children's was named the top workplace in the state by Forbes and a best-in-class employer by Gallagher.

Intentional work has been done to increase the diversity of the System's clinical and leadership staff. For example, relationships with local Historically Black Colleges (HBCUs) have been created and/or strengthened. The System has partnered with Philander Smith College and the University Arkansas at Pine Bluff to support graduating healthcare professionals, to include nursing, through clinical rotations, advisory board participation, instructors and other avenues to create a broader pipeline of diverse clinical staff.

There are no collective bargaining agreements presently in effect with System employees nor, to management's knowledge, are there any ongoing efforts to seek organized employee representation. Management characterizes labor relations with its employees to be good. Since 1999, the System has hired an external company to conduct employee opinion surveys. In these years, the LR Hospital and the System scored well compared to other healthcare institutions surveyed and has shown significant improvement, primarily due to the System's ability to address and effectively implement changes based on employees' concerns.

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Historical Utilization

The following table summarizes historical utilization at the LR Hospital for the fiscal years ended June 30, 2018 through June 30, 2022 and the nine-month periods ended March 31, 2022 and 2023:

	For Years Ended June 30					For the Nine Months Ended March 31	
	2018	2019	2020	2021	2022	2022	2023
Admissions	15,380	16,177	15,315	13,388	15,374	11,356	11,906
Average Stay (days)	5.55	5.28	5.56	5.56	5.68	5.74	5.64
Patient Days	83,891	82,225	79,824	71,395	85,024	64,634	67,041
Average Daily Census	229.8	225.3	218.1	195.6	232.9	235.8	244.7
No. of Operating Beds	336	336	336	336	322	324	326
Occupancy Percentage ¹	68.4%	67.0%	64.9%	58.2%	72.4%	72.9%	75.1%
Outpatient Visits	246,318	242,690	234,285	231,228	256,816	191,081	195,757
ER Visits ²	63,320	62,307	57,548	48,852	62,600	46,508	51,999
Total Surgeries	15,586	15,480	14,303	14,525	14,926	10,968	11,863

¹ Based on operating beds

² Not included in Outpatient Visits above

The following table summarizes historical utilization at the NW Hospital for the period from February 27, 2018 through June 30, 2018, for the fiscal years ending June 30, 2019 through June 30, 2022 and the nine-month periods ending March 31, 2022 and 2023:

	For Years Ended June 30					For the Nine Months Ended March 31,	
	2018	2019	2020	2021	2022	2022	2023
Admissions	591	2,225	2,275	2,173	3,088	2,290	3,099
Average Stay (days)	2.17	2.12	2.11	1.86	2.09	2.11	2.01
Patient Days	1,236	4,560	4,654	3,880	6,137	4,628	5,896
Average Daily Census	10.1	12.5	12.7	10.6	16.8	16.9	21.5
No. of Operating Beds	24	24	24	24	24	24	24
Occupancy Percentage ¹	42.2%	52.1%	53.0%	44.3%	70.0%	70.3%	83.3%
Outpatient Visits	4,417	33,741	36,058	42,298	50,266	36,929	58,664
ER Visits ²	4,344	22,499	26,624	22,594	38,205	29,000	35,725
Total Surgeries	432	2,541	2,951	3,397	3,889	2,800	3,775

¹ Based on operating beds

² Not included in Outpatient Visits above

Impact of COVID-19 Pandemic

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

COVID-19 Pandemic” in the Official Statement to which this Appendix A is attached. Initially, the COVID-19 pandemic had an adverse effect on the operations and financial position of health care provider systems, including the System, primarily due to reduction in overall patient volume. However, beginning in March 2021, volumes rapidly increased and have sustained through the current date resulting in hospitals often being in critical bed status, experiencing surging emergency department volumes and incurring significant staffing challenges.

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

- Implanting certain cost reduction initiatives;
- Assessing certain planned projects and capital expenditures;
- Increasing the number of telemedicine visits offered to patients; and
- Focusing on retaining and supporting staff.

Management believes the extent of the COVID-19 pandemic’s impact on operating results and financial condition has been and will continue to be driven by many factors, most of which are beyond the System’s control and ability to forecast. Such factors include, but are not limited to, the impact of new strains, such as the Delta and Omicron variants, on the pediatric population, the vaccination rate of Arkansas’s population, and the challenges of staffing sustained increased volumes. See the caption “Historical Financial Performance – Management’s Discussion of Operating Results” below and Note 2(t) to the audited consolidated financial statements of the System attached as Appendix C to the Official Statement to which this Appendix A is attached.

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LR Hospital Market Share

The LR Hospital's primary care service area (PCSA) is seen as the six-county central Arkansas region comprised of Pulaski, Faulkner, Saline, Lonoke, Conway and Perry Counties. The secondary care service area (SCSA) is seen as the entire State.

The most recent estimates show that the LR Hospital has a 97.2% market share for "pediatric inpatient services" in the PCSA and a 76.4% market share in the SCSA.

LR Hospital Service Area

The LR Hospital serves patients from throughout the State and, on occasion, from other states and countries. In the fiscal year ended June 30, 2022, the LR Hospital drew approximately 71.4% of its outpatients and 62.0% of its inpatients from Pulaski County and the surrounding counties of Saline, Faulkner, Lonoke and Jefferson, as well as from White County in north central Arkansas, Garland County in west central Arkansas, Benton and Washington Counties in the northwest corner of the State, and Pope County in northwest central Arkansas. Approximately 43.1% of outpatient discharges and 25.2% of inpatient discharges in fiscal year 2022 came from Pulaski County.

Fiscal Year 2022 inpatient and outpatient discharges from the LR Hospital are summarized as follows:

Service Area	Inpatient Discharges Fiscal Year 2022	Percent of Inpatient Discharges	Outpatient Discharges Fiscal Year 2022	Percent of Outpatient Discharges
Pulaski County	3,723	25.2%	137,788	43.1%
Saline County	1,023	6.9%	23,529	7.4%
Faulkner County	825	5.6%	18,556	5.8%
Lonoke County	782	5.3%	11,396	3.6%
White County	559	3.8%	7,334	2.3%
Garland County	551	3.7%	6,357	2.0%
Washington County	489	3.3%	3,414	1.1%
Benton County	452	3.1%	2,877	0.9%
Jefferson County	420	2.8%	12,167	3.8%
Pope County	339	2.3%	4,755	1.5%
Other Counties in Arkansas	5,096	34.5%	86,583	27.1%
Outside Arkansas	<u>524</u>	<u>3.5%</u>	<u>4,660</u>	<u>1.5%</u>
Totals:	<u>14,783</u>	<u>100.0%</u>	<u>319,416</u>	<u>100.0%</u>

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NW Hospital Market Share

The NW Hospital's primary care service area (PCSA) is seen as the three-county northwest Arkansas region comprised of Washington, Benton and Madison Counties. The secondary care service area (SCSA) is seen as the twelve county area of northwest Arkansas comprised of Baxter, Boone, Carroll, Crawford, Franklin, Johnson, Logan, Marion, Newton, Pope, Scott and Sebastian counties.

The most recent estimates show that the NW Hospital has a 75.2% market share for "pediatric inpatient services" in its PCSA. The market share for the twelve county SCSA is absorbed into the System calculation for the State.

NW Hospital Service Area

In the fiscal year ended June 30, 2022, the NW Hospital drew approximately 80.1% of its outpatients and 75.1% of its inpatients from Washington and Benton Counties in northwest Arkansas.

Fiscal Year 2022 inpatient and outpatient discharges from the NW Hospital are summarized as follows:

Service Area	Inpatient Discharges Fiscal Year 2022	Percent of Inpatient Discharges	Outpatient Discharges Fiscal Year 2022	Percent of Outpatient Discharges
Washington County	1,231	41.6%	42,893	48.5%
Benton County	993	33.5%	27,955	31.6%
Sebastian County	187	6.3%	4,212	4.8%
Crawford County	94	3.2%	2,695	3.0%
Madison County	76	2.6%	2,636	3.0%
Carroll County	55	1.9%	1,262	1.4%
Boone County	44	1.5%	587	0.7%
Franklin County	23	0.8%	404	0.5%
Logan County	21	0.7%	420	0.5%
Scott County	12	0.4%	153	0.2%
Other Counties in Arkansas	46	1.6%	2,299	2.6%
Outside Arkansas	179	6.0%	2,955	3.3%
Totals:	<u>2,961</u>	<u>100.0%</u>	<u>88,471</u>	<u>100.0%</u>

Demographic Data

The following population data for selected Arkansas counties is provided by the United States Census Bureau.

Primary Service Area	2000	2010	2020	Percent Change	
	Census	Census	Census	2000-2010	2010-2020
Pulaski County	361,474	382,748	399,125	5.9%	4.3%
Faulkner County	86,014	113,237	123,498	31.7%	9.1%
Saline County	83,529	107,118	123,416	28.2%	15.2%
Lonoke County	52,828	68,356	74,015	29.4%	8.3%
Jefferson County	84,278	77,435	67,260	-8.1%	-13.2%
Washington County	157,715	203,065	245,065	28.8%	20.7%
Benton County	153,406	221,339	284,333	44.3%	28.5%

Arkansas has a relatively diversified employment base. State government and medical care providers employ a significant number of the State's employees. The top 20 largest employers in the State for 2022 are shown below (Source: *Arkansas Business*).

Employer	Employees
Wal-Mart Stores, Inc.	55,504
State of Arkansas	24,635
Tyson Foods Inc.	24,000
U.S. Government	20,605
University of Arkansas for Medical Science	11,041
Baptist Health	10,558
J.B. Hunt Transport Services Inc.	7,904
Mercy	5,610
Simmons Foods Inc. & Affiliates	4,900
Arkansas Children's Inc.	4,472
Harp's Food Stores Inc.	4,360
University of Arkansas	4,264
George's Inc.	4,200
St. Bernard's Healthcare Inc.	4,198
FedEx Corp.	4,167
Dollar General Corp.	4,100
Arvest Bank Group Inc.	4,081
CHI St. Vincent	4,052
Kroger Co.	3,645
Community Health Systems Inc.	3,622

The following statistics summarize recent employment trends for the calendar years 2021 and 2022 (Source: Arkansas Department of Workforce Services):

Area	2021		2022	
	Number Employed	Rate of Unemployment	Number Employed	Rate of Unemployment
Pulaski County	179,428	3.2%	180,899	3.0%
Washington County	125,315	1.9%	127,053	2.0%
Benton County	141,766	1.8%	143,701	2.1%
State of Arkansas	1,308,958	3.3%	1,325,681	3.4%
United States	155,975,000	3.9%	159,244,000	3.5%

The following table, for the most recent years available, indicates the total reported value of new privately-owned residential building permits issued within the Little Rock-North Little Rock-Conway MSA (encompassing Pulaski County) and the Fayetteville-Springdale-Rogers MSA (encompassing Benton and Washington Counties) for the calendar years indicated (Source: U.S. Census Bureau):

	2019	2020	2021	2022
LR-NLR-Conway MSA	\$ 467,360,000	\$ 541,324,000	\$ 667,775,000	\$ 595,712,000
Fayetteville-Springdale-Rogers MSA	\$1,335,139,000	\$1,421,304,000	\$1,716,873,000	\$1,881,070,000

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The following table, for the most recent years available, provides per capita personal income for Pulaski County, Washington County, the State, and the United States for the calendar years indicated (Source: U.S. Department of Commerce, Bureau of Economic Analysis and St. Louis Federal Reserve):

	2017	2018	2019	2020	2021
Pulaski County	\$49,037	\$49,691	\$52,047	\$55,423	\$58,583
Washington County	38,994	39,549	41,081	44,261	47,836
Benton County	84,871	92,062	86,848	86,938	91,687
State of Arkansas	41,046	42,566	44,582	47,109	51,148
United States	51,640	53,712	54,474	59,729	64,444

Historical Financial Performance

The System maintains its financial records on the basis of a fiscal year ending June 30. Set forth in Appendix C to the Official Statement to which this Appendix A is attached are the consolidated financial statements of the Parent for the fiscal years ended June 30, 2022 and June 30, 2021. All of the consolidated entities are under common control. Certain assets of ACH were transferred to the Foundation in 1985 and to ACRI in 1990, which represented the initial years of operation for each entity. The Parent, ACH, ACNW, the Foundation, ACRI and ACMG are each tax-exempt organizations under section 501(c)(3) of the Internal Revenue Code.

The notes set forth in Appendix C are an integral part of the consolidated financial statements, and the statements and notes should be read in their entirety. Also set forth in Appendix C are the unaudited consolidated balance sheet for the nine-month period ended March 31, 2023, and the consolidated statement of activities for the nine-month periods ended March 31, 2023 and March 31, 2022, of the Parent, ACH, ACNW, the Foundation, ACRI, ACCN, ACMG and SCV. In the opinion of management, the unaudited consolidated balance sheet and consolidated statement of activities contain all necessary adjustments (consisting of normal recurring accruals) necessary for a fair presentation of the results of operations for the indicated periods. The results of operations for the nine-month period ended March 31, 2023, are not necessarily indicative of the results to be expected for the full fiscal year ending June 30, 2023. These unaudited financial statements have not been subjected to audit by the independent auditors.

The following consolidated statements of operations for the fiscal years ended June 30, 2022, 2021 and 2020, are derived from the audited consolidated financial statements set forth in Appendix C, and the following consolidated statements of operations for the nine-month periods ended March 31, 2023 and March 31, 2022, are derived from the unaudited consolidated financial statements set forth in Appendix C.

The consolidated statements of operations should be read in conjunction with the audited consolidated financial statements and notes in Appendix C and the other financial information included herein and in the unaudited consolidated financial statements in Appendix C.

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CONSOLIDATED STATEMENTS OF OPERATIONS

	Fiscal Year Ended June 30			Nine Months Ended March 31	
	2020	2021	2022	2022	2023
Revenues, gains and other support:					
Net patient service revenue	\$622,862,489	\$610,248,045	\$735,538,009	\$551,205,758	\$624,796,202
Specific purpose grants	32,170,551	34,022,809	42,134,961	26,157,538	31,921,377
Supplemental Medicaid reimbursement	40,560,179	43,087,063	45,106,273	35,310,774	37,977,831
Other	20,507,538	20,531,794	33,505,657	26,741,065	28,012,978
Government grants	2,665,721	38,212,294	15,521,384	15,521,384	0
Net assets released from restrictions and used for operations	<u>5,681,015</u>	<u>6,048,978</u>	<u>8,060,924</u>	<u>5,158,107</u>	<u>6,537,970</u>
Total revenues, gains and other support	<u>724,447,493</u>	<u>752,150,983</u>	<u>879,867,208</u>	<u>660,094,626</u>	<u>729,246,358</u>
Expenses:					
Salaries and wages	284,846,413	275,772,326	346,496,240	249,441,470	296,517,426
Employee benefits	56,239,184	60,251,010	64,888,077	47,127,280	51,223,041
Supplies and pharmaceuticals	108,666,367	106,799,380	132,578,409	96,859,404	116,206,321
Professional fees	91,478,604	104,003,993	105,428,876	79,693,165	84,527,414
Purchased services	78,429,613	74,979,224	97,060,640	68,600,168	77,617,901
Depreciation	49,537,817	48,688,337	49,482,423	36,941,629	37,687,344
Interest	6,992,226	6,680,081	6,577,147	4,910,637	4,797,747
Utilities	5,931,598	5,952,691	6,874,114	5,208,891	5,322,198
Insurance	3,381,011	3,971,534	6,302,512	4,395,633	4,789,538
Other	<u>10,020,653</u>	<u>10,925,375</u>	<u>12,519,174</u>	<u>7,729,647</u>	<u>9,145,411</u>
Total expenses	<u>695,523,486</u>	<u>698,023,951</u>	<u>828,207,612</u>	<u>600,907,924</u>	<u>687,834,341</u>
Income from operations	<u>28,924,007</u>	<u>54,127,032</u>	<u>51,659,596</u>	<u>59,186,702</u>	<u>41,412,017</u>
Nonoperating revenues, gains, expenses and losses:					
Contributions	7,959,031	9,847,920	9,665,084	6,585,206	9,124,424
Investment income	14,897,223	13,323,732	14,535,267	9,157,945	13,688,008
Gain (Loss) on sales of investments	9,395,047	13,062,063	9,440,502	9,876,013	(1,071,155)
Other (loss)/gain on investments	(10,287,697)	50,819,906	(72,159,854)	(26,333,652)	(4,356,784)
Other gains/(losses)	432,296	(245,397)	462,245	334,287	412,117
Fundraising expenses	<u>(7,821,120)</u>	<u>(6,338,486)</u>	<u>(7,698,883)</u>	<u>(5,190,489)</u>	<u>(6,075,815)</u>
Net nonoperating revenues, gains, expenses and losses	<u>14,574,780</u>	<u>80,469,738</u>	<u>(45,755,639)</u>	<u>(5,570,690)</u>	<u>11,720,795</u>
Excess of revenues and gains over expenses and losses	43,498,787	134,596,770	5,903,957	53,616,012	53,132,812
Other changes in net assets without donor restrictions:					
Net unrealized (loss)/gain on investments	12,643,789	(5,965,467)	(8,525,554)	(8,312,513)	10,181,615
Net assets released from restrictions used for purchase of property and equipment	11,837,917	12,524,017	4,613,105	4,228,788	2,508,067
Grant funds used to purchase capital assets	545,662	2,241,509	1,130,984	664,397	1,831,951
Gift Annuity reserve	-	(22,497)	(10,805)	(1,550)	(106,998)
Transfer of net assets	<u>(294,985)</u>	<u>(173,711)</u>	<u>(326,009)</u>	<u>(324,233)</u>	<u>735,832</u>
Increase in net assets without donor restrictions	<u>\$ 68,231,170</u>	<u>\$ 143,200,621</u>	<u>\$ 2,785,678</u>	<u>\$ 49,870,901</u>	<u>\$ 68,283,279</u>

Management's Discussion of Operating Results. The following is a brief discussion by management concerning the consolidated revenue and expenses of the consolidated System for the fiscal years ended June 30, 2022 and 2021, and for the nine-month periods ended March 31, 2023 and March 31, 2022:

Revenue: Beginning in March 2020, the System experienced lower patient volumes due to the COVID-19 pandemic. Volumes continued to be lower for most of fiscal year 2021; however, beginning in March 2021, volumes rapidly increased and remained high for fiscal year 2022.

Net patient service revenue for the consolidated System in fiscal year 2022 was \$735,538,009, an increase of 20.5% over fiscal year 2021 with net patient service revenue of \$610,248,045.

In the Spring of 2020, many providers automatically received funds from the Provider Relief Fund (PRF), a program established by the Coronavirus Aid, Relief and Economic Security Act (CARES Act). Funds were distributed as either general distribution or targeted funds. The System received \$12,031,753 of general distributions in April 2020 and \$5,000,000 of safety net targeted distributions in June 2020. In July 2020, Arkansas Children's received an additional \$830,542 of general distribution funds and \$90,268 of MCD & CHIP provider targeted funds. In August 2020, Arkansas Children's received an additional \$18,647,170 of safety net targeted funds. In total, the System received \$36,599,733, which was recognized in fiscal year 2021.

In November 2021, the System received \$6,897,340 of funds from the American Rescue Plan Act (ARPA) that were designated for providers who serve rural Medicaid, Children's Health Insurance Program (CHIP), and Medicare beneficiaries. In addition, the System received PRF Phase 4 general distribution funds of \$2,258,797 in December 2021 and \$389,247 in February 2022. In total, the System received \$9,545,384 from the ARPA and the PRF, which was recognized as revenue in fiscal year 2022.

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

The CARES Act also established the Coronavirus Relief Fund. In fiscal year 2020, the System recognized Coronavirus Relief Fund proceeds, distributed through the State, of \$2,665,721, which were available for qualifying COVID-19 related expenses through June 30, 2020. In fiscal year 2021, the System recognized Coronavirus Relief Fund proceeds, distributed through the State, of \$245,531 for qualifying COVID-19 related expenses through June 30, 2020 and \$1,367,029 for qualifying COVID-19 related expenses through December 31, 2020. In fiscal year 2022, the System recognized Arkansas American Rescue Plan Fund proceeds, distributed by the State, of \$4,476,000 for qualifying COVID-19 related expenses through June 30, 2022. In addition, a total of \$1,500,000 was received in January and February of 2022 based on an agreement with the Arkansas Department of Health to provide additional hospital bed capacity for COVID-19 patients for 20 days at \$5,000 per bed per day.

With respect to the volumes at the LR Hospital, fiscal year 2022, as compared to fiscal year 2021 reflected an increase of 14.83% in admissions, an increase of 19.09% in patient days, an increase of 28.14% in emergency department visits, an increase of 11.07% in outpatient visits, and an increase of 2.76% in total surgeries. Total occupancy increased 24.4% and the average length of stay increased from 5.56 days to 5.68 days.

With respect to the volumes at the NW Hospital, fiscal year 2022, as compared to fiscal year 2021 reflected an increase of 42.11% in admissions, an increase of 58.17% in patient days, an increase of 69.09% in emergency department visits, an increase of 18.84% in outpatient visits, and an increase of 14.48% in total surgeries. Total occupancy increased 58.01% and the average length of stay increased from 1.86 days to 2.09 days.

With respect to the nine-month period ended March 31, 2023, as compared to the nine-month period ended March 31, 2022, volumes at the LR Hospital reflected an increase of 4.84% in admissions, an increase of 3.72% in patient days, an increase of 11.81% in emergency department visits, an increase of 2.45% in outpatient visits, and an increase of 8.16% in total surgeries. Total occupancy increased 3.02%; however, the average length of stay decreased from 5.74 days to 5.64 days.

With respect to nine-month period ended March 31, 2023, as compared to the nine-month period ended March 31, 2022, volumes at the NW Hospital reflected an increase of 35.33% in admissions, an increase of 27.40% in patient days, an increase of 23.19% in emergency department visits, an increase of 58.86% in outpatient visits, and an increase of 34.82% in total surgeries. Total occupancy increased 18.44%; however, the average length of stay decreased from 2.11 days to 2.01 days.

The System is committed to working with others to achieve high quality, cost-effective, fully accessible services for all children in Arkansas and maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for the services furnished under the System's financial assistance policy, which is applicable to both the LR Hospital and the NW Hospital. The following information estimates the level of charity care provided by the LR Hospital and the NW Hospital, based on gross charges and costs, during the fiscal years ended June 30, 2022 and 2021.

	FY 2022	FY 2021
Charity discounts for patient care	\$18,818,990	\$19,411,311
Cost of charity care	\$12,141,056	\$12,147,254

In addition to providing charity care, the System coordinates a variety of programs, services and initiatives which benefit children and families in the State. Arkansas Children's is the foundational organization for a coalition called the Natural Wonders Partnership Council (NWPC) which brings together child health stakeholders to work strategically to improve the health of children in Arkansas. The System funds several programs that have been identified as shared priorities by NWPC members. For example, a current focus on the importance of early childhood vaccines has been called out by NWPC and led to partnerships to increase the number of Vaccines for Children sites, support for public private partnerships, and new efforts for mobile vaccine delivery to underserved regions of the State with lower vaccine uptake. The System has improved the oral health of children through its mobile dental vans and portable sealant outreach efforts, and partnered with Food Banks and a community of practice to support backpack and school-based food security programming, and increased enrollment in the Supplemental Nutrition Assistance Program (SNAP) and the Special Supplemental Nutrition Program for Women Infants and Children (WIC). Through its community efforts, the System's Community Engagement, Advocacy, and Health Division provides children and families throughout the State with evidence-based health education programs related to child safety, healthy relationships, and other important health topics. The LR Hospital has been designated by the Arkansas Department of Health as the State's only Level I Trauma center, an indication that it provides the highest standard of care for injured children.

During the fiscal years ended June 30, 2022 and 2021, the System's consolidated gross patient service revenue at established rates less third-party payer contractual adjustments consisted of the following:

	FY 2022	FY 2021
Patient service revenue	\$1,444,230,258	\$1,198,657,746
Less contractual allowances and implicit price concessions	<u>(708,692,249)</u>	<u>(588,409,701)</u>
Net patient service revenue	<u>\$ 735,538,009</u>	<u>\$ 610,248,045</u>

The System's Medicaid cost reports have been settled by the Medicaid fiscal intermediary through the year ended June 30, 2018. 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 fiscal year ended June 30, 2022, net patient service revenue increased approximately \$4,200,000, and during the fiscal year ended June 30, 2021, net patient service revenue decreased approximately \$5,300,000, each as a result of changes in prior year estimates, from final Medicaid settlements, and from changes in management estimates for related reserves.

Total other operating revenue for the System was \$144,329,199 for fiscal year 2022 as compared to \$141,902,938 for fiscal year 2021, which was an increase of 1.71%. Other operating revenue included \$15,521,384 of CARES Act funds in fiscal year 2022 compared to \$38,212,294 recognized in fiscal year 2021. Excluding the CARES Act funds, other operating revenue increased 24.22% mainly due to implementing a 340B Contract Pharmacy program in fiscal year 2022, which resulted in \$11,834,004 of other revenue and an increase in specific purpose grant revenue of \$8,112,152. Other operating revenue for fiscal year 2023 through March 31, 2023, was \$104,450,156, a decrease of 4.08% for the comparative period in fiscal year 2022, primarily due to no CARES Act funds being received in fiscal year 2023.

Expenses: Total operating expenses for the System increased approximately 18.65% in fiscal year 2022 as compared to fiscal year 2021, mainly due to higher patient volumes which resulted in increased salary and supply costs. Fiscal year 2022 salary costs also included an increase in temporary labor expense of \$22,032,000 and in other premium pay of \$12,246,000 compared to fiscal year 2021; however, consolidated FTE's/Adjusted Occupied Bed were 7.81 in fiscal year 2022 compared to 8.22 in fiscal year 2021. The new 340B Contract Pharmacy program implemented in fiscal year 2022 had related expense of \$8,162,745. In addition, the increase in specific purpose grant revenue of \$8,112,152 had offsetting expenses of the same amount. Total operating expenses for fiscal year 2023 through March 31, 2023, increased 14.47% as compared to the comparative period in fiscal year 2022,

primarily due to increases in temporary labor expense and premium pay, increased pharmaceutical costs due to high-cost drug utilization, and an increase in the number of FTEs and supplies due to increased volumes.

The CARES Act provided for deferred payment of the employer portion of social security taxes between March 27, 2020 and December 31, 2020, with 50% of the deferred amount due December 31, 2021 and the remaining 50% due December 31, 2022. The System began deferring the employer portion of social security taxes in mid-April 2020. As of June 30, 2022, \$5,483,855 of the deferred amount was included in accrued expenses. As of June 30, 2021, the System had deferred \$10,967,709 in social security taxes, of which \$5,483,854 was included in accrued expenses and \$5,483,855 was included in other long term payables on the consolidated balance sheet. The deferred tax deposit due in December 2021 was paid during fiscal year 2022.

Income from Operations: The System's income from operations for fiscal year 2022 was \$51,659,596 compared to \$54,127,032 for fiscal year 2021. Income from operations for the nine-month period ended March 31, 2023, was \$41,412,017, a decrease of 30.03% from income from operations for the nine-month period ended March 31, 2022.

Excess of Revenue and Gains over Expenses and Losses: The consolidated System's excess of revenues and gains over expenses and losses was \$5,903,957 in fiscal year 2022 as compared to \$134,596,770 in fiscal year 2021, due in part to recording net market losses of \$72,159,854 in fiscal year 2022, compared to net market gains of \$50,819,906 in fiscal year 2021. The consolidated System had an operating margin of 5.9% and an excess margin of 0.7% in fiscal year 2022, compared to the fiscal year 2021 operating margin of 7.2% and excess margin of 16.2%.

Net Unrealized Investment Gains and Losses: For internally managed available-for-sale debt securities, which are excluded from the excess of revenues and gains over expenses and losses, the consolidated System reported an increase in unrealized losses of \$8,525,554 for fiscal year 2022 compared to unrealized losses of \$5,965,467 for fiscal year 2021.

The following information provides the portfolio structure of the System for the fiscal years ended June 30, 2022 and 2021:

	2022	2021
Cash (Treasury MM mutual fund)	8.57%	9.15%
Fixed	63.10%	59.98%
Equity	23.14%	25.47%
International	4.21%	4.57%
Other	<u>0.98%</u>	<u>0.83%</u>
Total:	<u>100.00%</u>	<u>100.0%</u>

ACH is currently reimbursed for allowable costs for both inpatient and outpatient services provided to Arkansas Medicaid and Medicare recipients at the LR Hospital. Following is an analysis of ACH's sources of gross revenue for fiscal year 2022:

	Inpatient	Outpatient	Total
Medicaid	68.6%	62.5%	66.3%
Medicare	1.5%	1.0%	1.3%
Managed Care	28.4%	32.1%	29.8%
Self-Pay	0.4%	1.6%	0.9%
Other	<u>1.1%</u>	<u>2.8%</u>	<u>1.7%</u>
Total:	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

ACNW is currently reimbursed for allowable costs for both inpatient and outpatient services provided to Arkansas Medicaid and Medicare recipients at the NW Hospital. Following is an analysis of ACNW's sources of gross revenue for fiscal year 2022:

	Inpatient	Outpatient	Total
Medicaid	59.5%	58.5%	58.6%
Medicare	0.0%	0.2%	0.2%
Managed Care	35.5%	36.9%	36.7%
Self-Pay	1.7%	3.0%	2.7%
Other	<u>3.3%</u>	<u>1.4%</u>	<u>1.8%</u>
Total:	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Miscellaneous

Budgeting Process. The budgeting process is designed to control and monitor the financial operation of the Parent and its subsidiaries. Projecting the patient volumes for the upcoming year is the initial step in the budgeting process because volumes determine the revenue and the salary expense for the hospitals, which are based primarily on productivity benchmarks for the units of service. The leadership team makes this determination based on several factors. The Strategy department provides an environmental scan of the current market data, the Chief Clinical and Academic officer provides the review of the existing provider workforce and the recruitment of providers for the upcoming budget year and the Chief Operating Officer, the Chief Nursing Officer, Chief Medical Officer and other operational leaders review historical, current and forecasted volume trends. After extensive review of this data and other relevant factors, the Chief Executive Officer, the Executive Vice Presidents and the Senior Vice Presidents set the budget volumes and other assumptions for the upcoming budget year. Once these assumptions have been determined, the finance departments begin working with each department in the preparation of a detailed budget of revenues and expenses for the next fiscal year, primarily utilizing a zero based budgeting approach. The initial drafts of these departmental budgets, along with the budget assumptions, are then distributed to the department directors. The department directors, in turn, confer with physicians and supervisory staff to assess the adequacy of existing equipment, facilities and staff in light of these projections. Upon review of their departmental budgets, department directors may submit requests for budget amendments to senior administration for review and approval. During the time between the initial preparation of a budget and its final approval, the Chief Executive Officer, Executive Vice Presidents and Senior Vice Presidents, in close cooperation with Finance, review the budget. Management then presents a completed budget to each Affiliate's Board of Directors, which is then recommended to the Parent's Board of Directors for final approval.

The administrative staff is required to review and monitor the performance of each department in compliance with the budget approved by the Parent's Board of Directors for the fiscal year. Monthly comparisons between budgeted and actual performance are reviewed by department directors and administrative staff. Significant variances are reported to the Chief Executive Officer, Executive Vice Presidents and Senior Vice Presidents for review and evaluation and, where indicated, remedied.

Insurance and Employee Benefits. The System is self-insured with respect to claims paid for employee health care and dental care. Estimates of health insurance claims incurred but unpaid are accrued based on the System's past experience, as well as other considerations, including the nature of claims and relevant trends. The System actively promotes, through programs and plan design, a culture of wellness among its employees to impact medical claim cost through medical claim prevention and claim reduction. The System recoups some of the cost of health insurance benefits through premium charges to employees and maintains stop-loss insurance coverage with respect to the employer share of medical insurance claims costs. See Note 10 to the audited consolidated financial statements of the Parent for the fiscal years ended June 20, 2022 and 2021, attached as Appendix C to the Official Statement to which this Appendix A is attached.

Sacova Insurance Company, Ltd., a single parent captive insurance company domiciled in the Cayman Islands ("SCV"), was formed in 2018 to provide professional and general liability and workers' compensation insurance coverage to the System effective July 1, 2018. All claims incurred from July 1, 2018 forward are covered under the captive entity, and the tail liability for professional and general claims not reported prior to July 1, 2018, remains \$190,000. Under the terms provided by the captive entity, coverage for professional and general liability includes a \$1,000,000 indemnity and expense limit on a mature claims made basis. The System carries an umbrella liability policy in the amount of \$20,000,000 to cover professional and general liability claims in excess of \$1,000,000. The System also maintains excess worker's compensation insurance which will reimburse 100% of the cost of each employee's claim in excess of \$500,000. The System also maintains Directors & Officers liability insurance. See Note 10 to the audited consolidated financial statements of the Parent for the fiscal years ended June 20, 2022 and 2021, attached as Appendix C to the Official Statement to which this Appendix A is attached.

The System maintains commercial property insurance coverage in the amount of approximately \$1.25 billion (including real and personal property as well as business income protection).

The Parent has a contributory 403(b) tax-sheltered annuity plan for the benefit of substantially all of its employees. Employer contributions are made based on the employees' respective contributions, and are vested based on the years of service of the individual employees. Since July 2002, the System has sponsored a defined contribution retirement plan covering substantially all employees meeting certain eligibility requirements. Employer contributions are made at the direction of the Parent's Board of Directors. In fiscal years 2022 and 2021, the Board authorized a contribution to the discretionary defined contribution plan equal to 2% for both years,

respectively, of eligible employee compensation. The Parent has also established nonqualified deferred compensation plans under Internal Revenue Code Section 457(b) and Internal Revenue Code Section 457(f). See Note 11 to the audited consolidated financial statements of the Parent for the fiscal years ended June 30, 2022 and 2021, attached as Appendix C to the Official Statement to which this Appendix A is attached.

The System provides fully-insured basic group term life insurance with accidental death and dismemberment benefits to eligible employees. Employer provided group short-term and long-term disability insurance coverage for eligible employees is in place to provide employees partial income replacement for non-occupational medical disabilities. Both disability plans are fully-insured with rates determined by the insurance carrier and based on actuarial and underwriting considerations.

Accreditation and Licenses. The LR Hospital and the NW Hospital are fully accredited by The Joint Commission, licensed by the Arkansas Department of Health, and approved for participation in the Medicare and Medicaid programs by the United States Department of Health and Human Services and the State. The LR Hospital and the NW Hospital are also accredited by the College of American Pathologists. In addition, the LR Hospital is accredited by the Centers for Medicare and Medicaid Services for the Organ Transplant Program and the Renal Dialysis Program. The LR Hospital and the NW Hospital are members of the American Hospital Association, the Arkansas Hospital Association and the Children's Hospital Association.

Volunteer Programs. The Volunteer Engagement Department coordinates the activities of a diverse group of volunteers at the LR Hospital and the NW Hospital. As of February 28, 2023, 297 persons had volunteered approximately 8,489 hours to various LR Hospital departments, and 212 persons had volunteered approximately 7,187 hours to various NW Hospital departments. Volunteers who supported Child Life and Education programming contributed the largest amounts of volunteer hours. These volunteers assist the staff in playrooms, the emergency department, ambulatory surgery area, and in classrooms. In-service volunteers are required to be at least 14 years of age and agree to serve a regular placement of at least three hours per week. The standard volunteer commitment is 36 hours. In-service volunteers meet all Occupational Safety and Health Administration (OSHA), Arkansas State Department of Health, and Joint Commission on Accreditation of Healthcare Organizations (JCAHO) regulations. The System's Volunteer Engagement Department is directed and managed by a director, two volunteer managers, two coordinators and a generalist.

The Department of Volunteer Services is also responsible for processing in-kind donations. Donations of toys, educational materials, arts and crafts, and other handmade items are processed and distributed strategically throughout the System. In-kind donors are also stewarded through this department. As of February 28, 2023, for fiscal year 2023, ACH had received items valued at approximately \$675,775 from 878 individual donors and groups, and ACNW had received items valued at approximately \$414,685 from 585 individual donors and groups.

The Foundation directs the following volunteer programs which are primarily responsible for fundraising events and activities: Arkansas Children's Hospital Auxiliary (approximately 476 members); and Circle of Friends (approximately 60 members). These two volunteer groups raised approximately \$1.6 million for the Foundation during the fiscal year ended June 30, 2022.

Litigation. The System is insured by several claims-made liability policies, including medical malpractice, general liability and Directors & Officers liability insurance. Estimated liabilities of \$2,440,003 and \$1,613,653 were accrued as of June 30, 2022 and 2021, respectively. At March 31, 2023, estimated liabilities were \$3,033,513.

Under Arkansas law, the Parent and its affiliate entities have been recognized as charitable institutions immune from tort liability or execution in the enforcement of a judgment in a tort action. There is no assurance that the doctrine of charitable immunity will be held to apply to the System in future litigation, but previously decided case law would support such a holding.

There are no proceedings pending against the System, or to its knowledge, threatened against it, which may not be adequately covered by SCV or the System's reserves and insurance policies or which, in the opinion of management, could have a materially adverse effect on the System's financial position. See Note 10 to the audited consolidated financial statements of the Parent for the fiscal years ended June 30, 2022 and 2021, attached as Appendix C to the Official Statement to which this Appendix A is attached.

APPENDIX B

DEFINITIONS

Set forth below are the definitions of certain terms used in this Official Statement, the Lease Agreement, the Indenture and the Guaranty Agreements.

“ACH” or “Corporation” means Arkansas Children’s Hospital, an Arkansas nonprofit corporation, and its successors and assigns. ACH is the primary obligor on the Series 2016 Bonds and the Series 2023 Bonds and is a guarantor of the 2016 Northwest Bonds.

“Act” means Act 175 of the General Assembly of the State for the year 1961 (codified as Arkansas Code Annotated § 14-265-101 *et seq.*), as amended from time to time.

“ACNW” means Arkansas Children’s Northwest, Inc., an Arkansas nonprofit corporation, and its successors and assigns. ACNW is the primary obligor on the 2016 Northwest Bonds and is a guarantor of the Series 2016 Bonds and the Series 2023 Bonds.

“Additional Bonds” means Bonds in addition to the Series 2016 Bonds and the Series 2023 Bonds authorized pursuant to the Indenture.

“Affiliate” means any entity more than 50% of which is owned or controlled by the Parent, or its successors and assigns, directly or indirectly (by way of stock ownership, board of directors, partnership, membership or otherwise).

“Affiliate Guarantors” means the Parent, ACNW and the Foundation, each of whom have executed a Guaranty Agreement pursuant to which each Affiliate Guarantor unconditionally guarantees payment of the principal of and interest on the Series 2023 Bonds.

“Alternative Indebtedness” means Permitted Indebtedness incurred for any purpose, which Alternative Indebtedness may share on a parity with and be entitled to the same benefit and security as the Issuer, the Trustee and the holders of the Bonds in the Gross Revenues of ACH, and be entitled to such other security as ACH may deem necessary or desirable; provided, however, the Issuer, the Trustee and the holders of the Bonds shall share on a parity with and shall be entitled to the same benefit and security as the security for such Alternative Indebtedness and the instruments evidencing such Alternative Indebtedness and the security therefor shall reflect the interest of the Issuer, the Trustee and the holders of the Bonds in such security; provided, however, ACH covenants and agrees in the Lease Agreement that it will not incur any Alternative Indebtedness except upon satisfaction of the requirements and conditions described under the subcaptions “THE SERIES 2023 BONDS – Additional Bonds” and “THE SERIES 2023 BONDS – Alternative Indebtedness” in the Official Statement to which this Appendix B is attached.

“Bond Counsel” means Friday, Eldredge & Clark, LLP, Little Rock, Arkansas, and its successors, or such other nationally recognized bond counsel as may hereafter be designated as bond counsel by the Issuer.

“Bond Fund” means the fund by that name created pursuant to the Indenture. Within the Bond Fund are the Interest Account, the Principal Account and the Redemption Account. Moneys in the Bond Fund are to be used solely for the purpose of paying the principal of and premium, if any, and interest on the Bonds.

“Bondholder” and *“holder”* means the registered owner of a Bond. Notwithstanding the foregoing, the Trustee is authorized to recognize any person as the Bondholder and beneficial owner of any Bond as the Trustee, in its sole discretion and under conditions fixed by it, may determine.

“Bonds” means the Series 2016 Bonds, the Series 2023 Bonds and any Additional Bonds.

“Business Day” means any day other than a Saturday or Sunday or a day on which banks in the State or in the state in which the Trustee is located are not open for business.

“Code” means the Internal Revenue Code of 1986, as amended.

“*Continuing Disclosure Agreement*” means a Continuing Disclosure Agreement dated as of the date of delivery of the Series 2023 Bonds, by and among ACH, the Affiliate Guarantors and Bank OZK, Little Rock, Arkansas, as dissemination agent.

“*Costs of Issuance Fund*” means the fund by that name created pursuant to the Indenture.

“*Fiscal Year*” means the 12-month period commencing on July 1 of any calendar year and ending on June 30 of the following calendar year or such other period commencing on the date designated by ACH and ending one year later as shall be consented to by the Trustee.

“*Foundation*” means Arkansas Children’s Hospital Foundation, Inc., an Arkansas nonprofit corporation, and its successors and assigns. The Foundation is a guarantor of the Series 2016 Bonds, the Series 2023 Bonds and the 2016 Northwest Bonds.

“*GAAP*” means accounting principles generally accepted in the United States of America as promulgated by the Financial Accounting Standards Board.

“*Government Obligations*” means (i) any obligations to the timely payment of which the full faith and credit of the United States of America are pledged, (ii) certificates evidencing ownership of any such obligations or any principal and interest payments on the same, or (iii) obligations for which an Irrevocable Deposit consisting of cash or Government Obligations described in clauses (i) or (ii) shall have been made.

“*Gross Receipts of ACNW*” means all revenues, income, receipts and money received in any period by or on behalf of ACNW from any and all sources whatsoever (other than proceeds of borrowing, and other than interest earned on all such proceeds if and to the extent such interest is required to be excluded by the terms of the borrowing and other than revenue, income, receipts and money received by ACNW as agent of someone other than ACNW), including, but without limiting the generality of the foregoing, (a) revenues derived from its operations, (b) gifts, grants, bequests, donations and contributions to the extent not specifically restricted by the donor to a particular purpose inconsistent with their use for payments due under the Northwest Loan Agreement, (c) proceeds derived from (i) insurance, except to the extent the use thereof is otherwise required by the Northwest Loan Agreement, (ii) condemnation awards or sales under a reasonably apprehended threat of condemnation, except to the extent the use thereof is otherwise required by the Northwest Loan Agreement, (iii) accounts receivable, (iv) securities and other investments, (v) inventory and other tangible and intangible property, (vi) medical or hospital expense reimbursement or insurance programs or agreements, and (vii) contract rights and other rights and assets now or hereafter owned, held, or possessed by or on behalf of ACNW.

“*Gross Revenues of ACH*” means all revenues, income, receipts, cash and negotiable instruments received in any period by or on behalf of ACH, including, but without limiting the generality of the foregoing, (a) cash receipts derived from its operations and (b) proceeds derived from (i) insurance and condemnation awards, except to the extent the use thereof is otherwise required by the Lease Agreement, (ii) accounts receivable, (iii) securities and other investments, (iv) inventory and other tangible and intangible property, (v) medical or hospital expense reimbursement or insurance programs or agreements, (vi) contract rights and other rights and assets now or hereafter owned, held, or possessed by or on behalf of ACH, (vii) any hospital maintenance tax levied by the Issuer pursuant to Amendment 32 to the Arkansas Constitution, and (viii) appropriations by the Quorum Court of the Issuer, excluding however, (a) the gross revenues from portions of the LR Hospital financed with Permitted Indebtedness described in Section 1001(b) of the Lease Agreement to the extent pledged to such Permitted Indebtedness, (b) the proceeds of borrowings, other than a borrowing evidenced by Bonds, and interest earned thereon, (c) revenues, income, receipts, and money received by ACH as agent for and on behalf of someone other than ACH, and (d) restricted gifts, grants, bequests, donations, and contributions.

“*Guarantors*” means ACH, the Parent, ACNW and the Foundation, each of whom have executed a Guaranty Agreement pursuant to which each Guarantor unconditionally guarantees payment of the principal of and interest on the Series 2023 Bonds.

“*Guaranty Agreements*” means those certain Guaranty Agreements dated as of June 15, 2023, pursuant to which the Guarantors unconditionally guarantee payment of the principal of and interest on the Series 2023 Bonds.

“*Indenture*” means the Trust Indenture dated as of October 1, 1985, as supplemented and amended pursuant to a 1987 Supplemental Trust Indenture dated as of January 1, 1987, a 1993 Supplemental Trust Indenture dated as of March 15, 1993, a 2002 Supplemental Trust Indenture dated as of July 15, 2002, a 2005 Supplemental Trust Indenture dated as of December 1, 2005, a 2009 Supplemental Trust Indenture dated as of May 1, 2009, a 2010 Supplemental Trust Indenture dated as of November 1, 2010, a 2016 Supplemental Trust Indenture dated as of August 1, 2016, and a 2023 Supplemental Trust Indenture dated as of June 15, 2023, and as from time to time further supplemented and amended, entered into by and between the Issuer and the Trustee.

“*Insurance Consultant*” means a person or firm not an officer or employee of ACH qualified to survey risks and to recommend insurance coverage for hospital facilities and services, and having a favorable national reputation for skill and experience in such surveys and recommendations, and who may be a broker or agent with whom ACH transacts business.

“*Interest Account*” means the account by that name within the Bond Fund created pursuant to the Indenture.

“*Interim Indebtedness*” means Permitted Indebtedness in anticipation of long-term indebtedness and maturing within five years if certain specified conditions for the incurrence of Alternative Indebtedness are satisfied and assuming that such Interim Indebtedness was being issued as Alternative Indebtedness with a term of 25 years, level annual debt service payments, and an interest rate equal to the average prime rate charged by the Trustee for the past 12 months or at a rate available to ACH as confirmed in writing by a financial institution.

“*Irrevocable Deposit*” means the irrevocable deposit in trust of cash in an amount (or securities obligations the principal of and interest on which will be available in an amount) and under terms sufficient to pay all or a portion of the principal of and interest on, as the same shall become due, any Bonds or Permitted Indebtedness which would otherwise be considered Outstanding. The trustee of such deposit may be the Trustee or any other trustee authorized to act in such capacity.

“*Issuer*” or “*County*” means Pulaski County, Arkansas, or any public body or corporation succeeding to its rights and obligations under the Lease Agreement.

“*Lease Agreement*” means the Lease Agreement dated as of October 1, 1985, as supplemented and amended pursuant to a 1987 Supplemental Lease Agreement dated as of January 1, 1987, a 1993 Supplemental Lease Agreement dated as of March 15, 1993, a 2002 Supplemental Lease Agreement dated as of July 15, 2002, a 2005 Supplemental Lease Agreement dated as of December 1, 2005, a 2009 Supplemental Lease Agreement dated as of May 1, 2009, a 2010 Supplemental Lease Agreement dated as of November 1, 2010, a 2016 Supplemental Lease Agreement dated as of August 1, 2016, and a 2023 Supplemental Lease Agreement dated as of June 15, 2023, and as from time to time further amended and supplemented, between the Issuer and ACH.

“*Lease Payments*” means the amount required to be paid by ACH as stated in Article V of the Lease Agreement.

“*LR Hospital*” means the healthcare facilities of ACH, including land, buildings, and equipment.

“*Management Consultant*” means an independent management consulting firm, which may be a firm of certified public accountants, qualified to pass upon questions relating to the financial affairs of facilities of the type operated by ACH, selected by ACH.

“*Maximum Total Principal and Interest Requirements*” means the maximum Total Principal and Interest Requirements in the current or any subsequent Fiscal Year.

“Net Revenues Available for Debt Service” means the excess of revenues over expenses, determined in accordance with GAAP, to which there shall be added depreciation, amortization and interest expenses; provided, however, that no determination thereof shall take into account any extraordinary gains or losses, unrealized gains or losses resulting from the periodic valuation of investments, interest rate swap agreements or similar agreements. Net Revenues Available for Debt Service shall, however, include “other-than-temporary” impairment losses recorded pursuant to FAS 115 and FAS 124, but shall exclude refinancing gains or losses. Net Revenues Available for Debt Service shall be calculated on a consolidated basis.

“2016 Northwest Bonds” means the City of Springdale Public Facilities Board Hospital Revenue Bonds, Series 2016 (Arkansas Children's Northwest Project), authorized by the Northwest Indenture in the original principal amount of \$75,465,000.

“Northwest Indenture” means the Trust Indenture dated as of June 1, 2016, by and between the City of Springdale Public Facilities Board and Bank OZK (formerly, Bank of the Ozarks), Little Rock, Arkansas, as issuer and trustee, respectively, of the 2016 Northwest Bonds.

“Northwest Loan Agreement” means the Loan Agreement and Security Agreement dated as of June 1, 2016, by and between the City of Springdale Public Facilities Board, as issuer of the 2016 Northwest Bonds, and ACNW, as borrower of the proceeds of the 2016 Northwest Bonds.

“NW Hospital” means the pediatric hospital facility acquired, constructed and equipped with a portion of the proceeds of the 2016 Northwest Bonds.

“Operating Revenues” means the gross patient revenues plus other operating revenues as currently defined by GAAP and income from all investments of ACH, derived from all sources for the last Fiscal Year immediately preceding the year in which such determination is made for which ACH's final certified financial audits are available, less bad debt allowances, contractual adjustments for third party payors, and other adjustments for such preceding Fiscal Year. Operating Revenues shall be calculated on a consolidated basis.

“Order” means the order entered by the County Court of the Issuer, dated May 24, 2023, authorizing the issuance and delivery of the Series 2023 Bonds.

“Other Obligations” means installment purchase contracts, loans secured by purchase money mortgages or purchase money security interests, lease-purchase agreements, or leases entered into by ACH for the purpose of acquiring and leasing real property, equipment, fixtures, inventory, and other personal property, but shall not include obligations incurred in connection with leases having a term (including any renewal period) of not more than two years which are true operating leases and not financing leases, Short-Term Indebtedness, Alternative Indebtedness, Unsecured or Otherwise Secured Indebtedness, or obligations of ACH related to the Bonds.

“Outstanding” when used with reference to Bonds, means, subject to the provisions of the Indenture relating to the determination of ownership of Bonds, as of any particular time, all the Bonds authenticated and delivered by the Trustee under the Indenture, except (i) Bonds theretofore cancelled by the Trustee or delivered to the Trustee cancelled or for cancellation, (ii) Bonds or portions of Bonds for the payment or redemption of which moneys or Government Obligations timely maturing and bearing interest in the necessary amount shall have been deposited in trust with the Trustee, provided that if such Bonds or portions of Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the Indenture or provisions satisfactory to the Trustee shall have been made for giving such notice, and (iii) Bonds in substitution for which other Bonds shall have been authenticated and delivered pursuant to the terms of the Indenture.

“Parent” means Arkansas Children's, Inc., an Arkansas nonprofit corporation, and its successors and assigns. The Parent is a guarantor of the Series 2016 Bonds, the Series 2023 Bonds and the 2016 Northwest Bonds.

“Permitted Indebtedness” means the indebtedness authorized pursuant to the Lease Agreement. See the caption “SUMMARY OF PORTIONS OF THE LEASE AGREEMENT—Permitted Indebtedness” herein.

“Principal Account” means the account by that name within the Bond Fund created pursuant to the Indenture.

“Principal and Interest Requirements on Other Obligations” means the total amount required of ACH to pay principal, interest, redemption premium (if any), rentals, and other payments on Other Obligations.

“Principal and Interest Requirements on Outstanding Bonds” means, for any Fiscal Year, the amount required to pay the interest on and principal of (whether pursuant to a maturing principal installment or Redemption Requirements applicable thereto) all Outstanding Bonds becoming due in such Fiscal Year, provided, however, that for purposes of such computation (i) if 50% or more of the original principal amount of any series of Outstanding Bonds matures, or is payable at the option of the holder, on the same date and is not required to be amortized by redemption prior to such date, the original principal amount of the Bonds of such series shall be assumed to mature over a term of 25 years from date of issue with substantially level annual debt service at the actual interest rate on such series; and (ii) if interest on any Bonds is payable pursuant to a variable interest rate formula, the interest rate on such Bonds for periods when the actual interest rate cannot be determined yet shall be assumed to be equal to the average annual rate of interest (calculated in the manner in which interest for such periods is required to be calculated) which was in effect (or that would have been in effect if the Bonds had been outstanding) for the 12-month period immediately preceding the date of calculation; provided further, however, if there has been made an Irrevocable Deposit of moneys, Government Obligations, or any other security or obligation which, at the time of investment therein, is rated by Standard & Poor's Ratings Services in the highest rating category of such rating agency, sufficient to pay the principal of or interest on Outstanding Bonds as it comes due, such principal or interest, as the case may be, shall not be included in the calculation of the Principal and Interest Requirements on Outstanding Bonds.

“Principal Requirements” means the aggregate principal amount of Outstanding Bonds maturing or required to be paid by mandatory redemption in any Fiscal Year, less the principal amount of any Bonds maturing in such Fiscal Year but required to be mandatorily redeemed in any Fiscal Year prior thereto.

“Project” means the portion of the LR Hospital financed by the Series 2023 Bonds.

“Qualified Investments” means Government Obligations and (a) bonds, debentures, notes, or other evidences of indebtedness issued by any of the following agencies of the United States of America or such other like United States government or government-sponsored agencies of substantially similar creditworthiness which may be hereafter created: Bank for Cooperatives; Federal Intermediate Credit Banks; Federal Financing Bank, Federal Home Loan Bank System; Export-Import Bank of the United States; Farmers Home Administration; Small Business Administration; Federal Land Banks; Federal National Mortgage Association; Government National Mortgage Association; Tennessee Valley Authority; and Washington Metropolitan Area Transit Authority and (b) certificates of deposit or time deposits insured by FDIC or FSLIC, or fully collateralized or secured by Government Obligations to the extent not so insured, of any bank (including the Trustee); provided, that the maturity of such certificates of deposit may not extend beyond 12 months from the date of their issuance; and (c) any repurchase agreement by the Trustee that is with a bank or institution, provided, that such repurchase agreement shall not extend more than 359 days beyond its issuance and such repurchase obligation shall be for Government Obligations; and notwithstanding any of the foregoing, to the extent that any obligations described in this definition are repurchase agreements, then (i) the Trustee must have perfected a first security interest in such obligations, (ii) the Trustee or a third party acting solely as agent for the Trustee must have possession of such obligations, (iii) such obligations must be free and clear of such third party claims, and (iv) any investment in a repurchase agreement shall be considered to mature on the date the

bank or institution providing the repurchase agreement is obligated to repurchase the Qualified Investment; (d) commercial paper or finance company paper rated not less than A-1 or its equivalent by Standard & Poor's Ratings Services; and (e) surety bonds obligating an insurance company or bank, rated not lower than "AA" by Standard & Poor's or "Aa2" by Moody's, to deposit immediate funds, on demand, into the Bond Reserve Fund.

"Record Date" means the fifteenth day of the month preceding each interest payment date.

"Redemption Account" means the account by that name within the Bond Fund created pursuant to the Indenture

"Redemption Requirements" for any Fiscal Year means with respect to the Bonds the mandatory sinking fund requirements applicable thereto pursuant to the Indenture.

"Revenue Fund" means the fund by that name created pursuant to the Indenture.

"Secured Indebtedness" means indebtedness secured by a lien on or security interest in any portion of the LR Hospital or by a pledge of any part of the Gross Revenues of ACH.

"Series 2016 Bonds" means the Pulaski County, Arkansas Hospital Revenue Refunding Bonds (Arkansas Children's Hospital), Series 2016, dated as of the date of their delivery, authorized by the Indenture in the original principal amount of \$85,395,000.

"Series 2023 Bonds" means the Pulaski County, Arkansas Hospital Revenue Bonds (Arkansas Children's Hospital), Series 2023, dated as of the date of their delivery, authorized by the Indenture in the original principal amount of \$128,150,000.

"Short Term Indebtedness" means unsecured indebtedness of ACH now existing or hereinafter incurred, maturing, including any renewal period, not more than 365 days after it is incurred.

"State" means the State of Arkansas.

"Term of the Lease Agreement" means the term of the Lease Agreement described therein. The initial term of the Lease Agreement commenced upon its execution and delivery and shall continue until such time as there is no Bond Outstanding.

"Total Principal and Interest Requirements" means, for any Fiscal Year or other 12-month period, the total principal (including mandatory redemption) and interest (except to the extent that such interest is payable from the proceeds of such indebtedness) then coming due on Outstanding Bonds, Other Obligations, Alternative Indebtedness, Secured Indebtedness and the Permitted Indebtedness of ACH and ACNW described in Section 1001(6) of the Lease Agreement; provided, however, that for purposes of such computation (i) if 50% or more of the original principal amount of any single series of Outstanding Bonds, any single obligation included in Other Obligations, any single instrument constituting Alternative Indebtedness, any single instrument constituting Secured Indebtedness, or any single debt incurred pursuant to Section 1001(6) of the Lease Agreement, matures, or is payable at the option of the holder, on the same date and is not required to be amortized by redemption prior to such date, the original principal amount of indebtedness represented by such series, such obligation, such instrument or such debt shall be assumed to mature over a term of twenty-five (25) years from date of issue with substantially level annual debt service at the actual interest rate on such indebtedness; and (ii) if interest on any indebtedness is payable pursuant to a variable interest rate formula, the interest rate for periods when the actual interest rate cannot be yet determined shall be assumed to be equal to the average annual rate of interest (calculated in the manner in which interest for such periods is required to be calculated) which was in effect (or that would have been in effect if the indebtedness had been outstanding) for the twelve (12) month period immediately preceding the date of calculation; provided further, however, if there has been made an Irrevocable Deposit of moneys, Government Obligations, or any other security or obligation which at the time of investment therein is rated by Standard & Poor's Ratings Service in the highest rating category of such rating agency, sufficient to pay the principal of or interest on any Outstanding Bonds, Other Obligations, Alternative Indebtedness, Secured Indebtedness, or Permitted Indebtedness described

in Section 1001(6) of the Lease Agreement, as it comes due, such principal or interest, as the case may be, shall not be included in the calculation of the Total Principal and Interest Requirements. Section 1001 of the Lease Agreement sets forth limitations on the incurrence of indebtedness by ACH, including guarantees by ACH of indebtedness of others (guaranteed party). A percentage of the principal and interest coming due in any Fiscal Year on indebtedness guaranteed by ACH shall be included in the computation of Total Principal and Interest Requirements based upon the guaranteed party's ratio of Net Revenues Available for Debt Service, as of the end of its most recent Fiscal Year for which audited financial statements are available, to Maximum Total Principal and Interest Requirements (with such terms having the same meanings with respect to a guaranteed party as such terms have in the Lease Agreement with respect to ACH) in accordance with the following table:

<u>Ratio</u>	<u>Percentage</u>
1 to 1 or less	100%
Greater than 1 to 1, but not more than 1.1 to 1	50%
greater than 1.1 to 1, but not more than 1.5 to 1	25%
greater than 1.5 to 1	20%

In calculating Total Principal and Interest Requirements, there need not be included any debt guaranteed by ACH or ACNW if the debt was incurred by ACH or ACNW and the debt is already in the calculation.

“*Trustee*” means Bank OZK (formerly, Bank of the Ozarks), or its successor or successors from time to time as trustee under the Indenture.

“*Trust Estate*” shall have the meaning set forth in the granting clauses of the Indenture.

“*Unsecured or Otherwise Secured Indebtedness*” means indebtedness incurred for any purpose, which indebtedness may not be secured by a lien on the LR Hospital or the Gross Revenues of ACH. Such indebtedness may be unsecured, or secured by other security as may be available, including a pledge of the gross revenues of any portion of the LR Hospital which may be financed with the proceeds of such indebtedness.

“*Underwriter*” means Stephens Inc.

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APPENDIX C

**Audited Consolidated Financial Statements of
Arkansas Children's, Inc.
as of and for the Fiscal Years ended
June 30, 2022 and June 30, 2021**

and

**Unaudited Consolidated Operating Statements and
Balance Sheets of
Arkansas Children's, Inc.
as of and for the nine-month periods ended
March 31, 2023 and March 31, 2022**

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ARKANSAS CHILDREN'S

Consolidated Financial Statements

June 30, 2022 and 2021

(With Independent Auditors' Report Thereon)

ARKANSAS CHILDREN'S

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KPMG LLP
1201 Demonbreun Street
Suite 1100
Nashville, TN 37203

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, 2022 and 2021, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Arkansas Children's as of June 30, 2022 and 2021, 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 audit 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 Arkansas Children's and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about 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.

KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a Swiss entity, a company limited by guarantee.



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 27, 2022

ARKANSAS CHILDREN'S
Consolidated Balance Sheets
June 30, 2022 and 2021

Assets	2022	2021
Current assets:		
Cash and cash equivalents	\$ 86,554,868	93,916,413
Net patient accounts receivable	106,800,778	82,554,373
Other current receivables	36,783,354	35,928,040
Investments – at fair value	534,368,311	518,249,823
Assets limited as to use – current	5,029,175	4,652,525
Estimated third-party payor settlements – current	131,439,770	138,050,512
Inventories	12,039,917	10,809,276
Prepays and other current assets	13,203,131	12,654,727
Total current assets	<u>926,217,104</u>	<u>896,815,689</u>
Assets limited as to use – noncurrent	393,010,225	414,592,496
Pledges receivable – noncurrent	18,330,446	21,109,761
Property, plant, and equipment – net	388,482,314	411,127,876
Operating right of use assets, net	10,320,871	3,287,080
Other noncurrent assets	81,807,300	61,328,774
Total assets	<u>\$ 1,818,168,260</u>	<u>1,808,261,676</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 44,716,550	47,120,968
Accrued interest	2,124,175	2,167,525
Accrued expenses and other liabilities	68,791,970	55,583,902
Operating leases – current	2,000,498	1,361,065
Current portion of long-term debt	4,807,611	4,351,338
Total current liabilities	<u>122,440,804</u>	<u>110,584,798</u>
Noncurrent liabilities:		
Other long-term payables	2,363,414	5,503,737
Operating leases – noncurrent	8,320,373	1,926,015
Grant carryover	8,644,402	9,368,401
Long-term debt – net of current portion	153,726,223	158,884,691
Total liabilities	<u>295,495,216</u>	<u>286,267,642</u>
Commitments and contingencies		
Net assets:		
Without donor restrictions	1,319,429,805	1,316,644,127
With donor restrictions	203,243,239	205,349,907
Total net assets	<u>1,522,673,044</u>	<u>1,521,994,034</u>
Total liabilities and net assets	<u>\$ 1,818,168,260</u>	<u>1,808,261,676</u>

See accompanying notes to consolidated financial statements.

ARKANSAS CHILDREN'S

Consolidated Statements of Operations

Years ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Revenues, gains and other support:		
Net patient service revenue	\$ 735,538,009	610,248,045
Specific purpose grants	42,134,961	34,022,809
Supplemental Medicaid reimbursement	45,106,273	43,087,063
Other	33,505,657	20,531,794
Government grants	15,521,384	38,212,294
Net assets released from restrictions and used for operations	<u>8,060,924</u>	<u>6,048,978</u>
Total revenues, gains and other support	<u>879,867,208</u>	<u>752,150,983</u>
Expenses:		
Salaries and wages	346,496,240	275,772,326
Employee benefits	64,888,077	60,251,010
Supplies and pharmaceuticals	132,578,409	106,799,380
Professional fees	105,428,876	104,003,993
Purchased services	97,060,640	74,979,224
Depreciation	49,482,423	48,688,337
Interest	6,577,147	6,680,081
Utilities	6,874,114	5,952,691
Insurance	6,302,512	3,971,534
Other	<u>12,519,174</u>	<u>10,925,375</u>
Total expenses	<u>828,207,612</u>	<u>698,023,951</u>
Income from operations	<u>51,659,596</u>	<u>54,127,032</u>
Nonoperating revenues, gains, expenses and losses:		
Contributions	9,665,084	9,847,920
Investment income	14,535,267	13,323,732
Gain on sales of investments	9,440,502	13,062,063
Other (loss)/gain on investments	(72,159,854)	50,819,906
Other gains/(losses)	462,245	(245,397)
Fundraising expenses	<u>(7,698,883)</u>	<u>(6,338,486)</u>
Net nonoperating revenues, gains, expenses and losses	<u>(45,755,639)</u>	<u>80,489,738</u>
Excess of revenues and gains over expenses and losses	5,903,957	134,596,770
Other changes in net assets without donor restrictions:		
Net unrealized (loss) on investments	(8,525,554)	(5,965,467)
Net assets released from restrictions used for purchase of property and equipment	4,613,105	12,524,017
Grant funds used to purchase capital assets	1,130,984	2,241,509
Gift Annuity reserve	(10,805)	(22,497)
Transfer of net assets	<u>(326,009)</u>	<u>(173,711)</u>
Increase in net assets without donor restrictions	\$ <u>2,785,678</u>	\$ <u>143,200,621</u>

See accompanying notes to consolidated financial statements.

ARKANSAS CHILDREN'S

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2022 and 2021

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Balance – June 30, 2020	\$ 1,173,443,506	194,143,857	1,367,587,363
Excess of revenues and gains over expenses and losses	134,596,770	—	134,596,770
Net assets released from donor restrictions and used for operations	—	(6,048,978)	(6,048,978)
Unrealized loss on investments, net	(5,965,467)	(112,703)	(6,078,170)
Contributions with donor restrictions	—	16,574,560	16,574,560
Income from investments with donor restrictions	—	1,466,060	1,466,060
Gain on sale of investments with donor restrictions	—	4,449,007	4,449,007
Other gains on investments with donor restrictions	—	15,042,219	15,042,219
Net assets released from donor restrictions and used for purchase of property and equipment	12,524,017	(12,524,017)	—
Other	—	(7,759,899)	(7,759,899)
Other than temporary impairment on investments with donor restrictions	—	(53,910)	(53,910)
Grant funds used to purchase capital assets	2,241,509	—	2,241,509
Annuity reserve	(22,497)	—	(22,497)
Transfer of net assets	(173,711)	173,711	—
Change in net assets	<u>143,200,621</u>	<u>11,206,050</u>	<u>154,406,671</u>
Balance – June 30, 2021	<u>1,316,644,127</u>	<u>205,349,907</u>	<u>1,521,994,034</u>
Excess of revenues and gains over expenses and losses	5,903,957	—	5,903,957
Net assets released from donor restrictions and used for operations	—	(8,060,924)	(8,060,924)
Unrealized (loss)/gain on investments, net	(8,525,554)	45,081	(8,480,473)
Contributions with donor restrictions	—	19,314,746	19,314,746
Income from investments with donor restrictions	—	1,331,441	1,331,441
Gain on sale of investments with donor restrictions	—	2,617,598	2,617,598
Other losses on investments with donor restrictions	—	(12,513,806)	(12,513,806)
Net assets released from donor restrictions and used for purchase of property and equipment	4,613,105	(4,613,105)	—
Other than temporary impairment on investments with donor restrictions	—	(553,708)	(553,708)
Grant funds used to purchase capital assets	1,130,984	—	1,130,984
Annuity reserve	(10,805)	—	(10,805)
Transfer of net assets	(326,009)	326,009	—
Change in net assets	<u>2,785,678</u>	<u>(2,106,668)</u>	<u>679,010</u>
Balance – June 30, 2022	<u>\$ 1,319,429,805</u>	<u>203,243,239</u>	<u>1,522,673,044</u>

See accompanying notes to consolidated financial statements.

ARKANSAS CHILDREN'S
Consolidated Statements of Cash Flows
Years ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Change in net assets	\$ 879,010	154,406,671
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	49,482,423	48,688,337
Net realized and unrealized losses/(gains) on investments	57,476,812	(79,912,805)
Other than temporary impairment of investments	24,170,251	2,872,809
Loss on disposition of fixed assets	101,704	753,404
Contributions for restricted endowments and capital assets	(9,372,918)	(10,426,077)
Amortization/accretion of bond premium/discount and bond issuance costs	(350,953)	(338,593)
Changes in operating assets and liabilities:		
Patient and other receivables	(25,349,318)	(3,366,671)
Estimated third-party payor settlements	(10,959,902)	(6,646,726)
Pledges receivable	3,026,914	6,944,471
Inventories	(1,230,641)	247,634
Other assets	(3,456,286)	(7,606,571)
Accounts payable	(2,714,702)	14,786,353
Accrued expenses, interest, grant carryover, and other liabilities	6,956,865	22,166,294
Refundable advances -- government grants	—	(17,031,753)
Net cash provided by operating activities	<u>88,459,259</u>	<u>125,346,977</u>
Cash flows from investing activities:		
Purchases of property, plant, and equipment	(24,258,584)	(31,716,199)
Purchases of investments and assets limited as to use	(214,373,480)	(329,798,183)
Proceeds from sales of investments and assets limited as to use	137,756,036	169,077,935
Net cash used in investing activities	<u>(100,876,028)</u>	<u>(192,436,447)</u>
Cash flows from financing activities:		
Contributions for restricted endowments and capital assets	9,372,918	10,426,077
Principal payments on long-term debt	(4,351,242)	(4,260,360)
Capital lease obligation	—	19,884
Payments on capital lease obligations	(26,166)	—
Net cash provided by financing activities	<u>4,995,510</u>	<u>6,185,601</u>
Net decrease in cash and cash equivalents	<u>(7,421,259)</u>	<u>(60,903,869)</u>
Cash and cash equivalents:		
Beginning of year	<u>94,149,311</u>	<u>155,053,180</u>
End of year	<u>\$ 86,728,052</u>	<u>94,149,311</u>
Reconciliation of cash and cash equivalents:		
Cash and cash equivalents	\$ 86,554,668	93,916,413
Restricted cash for self-insurance funding	173,384	232,896
	<u>\$ 86,728,052</u>	<u>94,149,311</u>
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 6,548,123	6,632,736
Noncash operating and investing activities – purchases of property, plant, and equipment in accounts payable	3,058,978	1,028,323
Purchase of property, plant, and equipment through vendor financing and capital lease	2,363,414	—
Noncash operating and investing activities – lease liability on right of use assets	2,399,668	1,814,482

See accompanying notes to consolidated financial statements.

ARKANSAS CHILDREN'S

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

(1) Organization

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

Arkansas Children's is the only healthcare system in the state solely dedicated to caring for Arkansas' children. The private, non-profit 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 1 pediatric trauma center, burn center, Level 4 neonatal intensive care unit, pediatric intensive care unit, pediatric surgery program with Level 1 verification from the American College of Surgeons (ACS), magnetoencephalography (MEG) system for neurosurgical planning and cutting edge research, and nationally recognized pediatric transport program. Additionally, ACH is nationally ranked by U.S. News & World Report in our pediatric subspecialties of cancer, cardiology/heart surgery, diabetes/endocrinology, nephrology, neurology/neurosurgery, pulmonology/lung surgery, and urology. ACNW, the first and only pediatric hospital in the Northwest Arkansas region, operates a 24-bed inpatient unit, a surgical unit, and 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.

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, and existing data sets. CHNAs also satisfy the requirements of the Internal Revenue Service (IRS) for tri-annual needs assessments for non-profit 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 2020 through fiscal year 2022. New Implementation Plans will roll out in the fall of fiscal year 2023, and the plans will cover the timeframe of fiscal years 2023-2025.

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Arkansas Children's is the cornerstone organization for the Natural Wonders Partnership Council (NWPC). NWPC is a coalition of stakeholders that works in strategic partnership to define pressing child health issues in our state and organize/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 when purchased to be cash equivalents.

Restricted cash includes funds restricted as to withdrawal or use. Restricted cash consists of cash held under self-insurance funding arrangements within the consolidated financial statements. Arkansas Children's applies Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-18, *Statement of Cash Flows (Topic 230) – Restricted Cash*, 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.

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The mix of net patient receivables as of June 30, 2022 and 2021, was as follows:

	2022	2021
Medicaid and Medicare	30 %	31 %
Other third-party payors (insurance and managed care)	65	66
Patients	5	3
Total mix of net patient receivables	100 %	100 %

(e) Investments

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

(f) Assets Limited as to Use

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

(g) Inventories

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

(h) Costs of Borrowing

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

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

(i) Property, Plant, and Equipment

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

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

(j) Impairment of Long-lived Assets

The carrying value of long-lived assets (including property, plant, and equipment) are evaluated for impairment whenever events or changes in circumstances indicate that the net book value of an asset may not be recoverable from the estimated undiscounted future cash flows expected to result from its use and eventual disposition. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment is measured as the amount by which the carrying amount of the asset exceeds the fair value of the asset. As a result of Arkansas Children's review of long-lived assets, no impairments were recorded for the years ended June 30, 2022 and 2021.

(k) Gifts and Bequests

Arkansas Children's applies FASB ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, 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 which are not restricted by donors are classified in non-operating revenues, gains, expenses and losses. Gifts and bequests which are restricted for specific purposes by donors are recorded as additions to net assets with donor restrictions in the period the unconditional promise to give or gift is made. Expirations of donor-imposed restrictions are reported as reclassifications between net assets with donor restrictions and net assets without donor restrictions and reported in the consolidated statements of changes in net assets as net assets released from restrictions.

(l) Pledges Receivable

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

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(m) Net Assets

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

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

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

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

(n) Endowments

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

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

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

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

(o) *Income Taxes*

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

Arkansas Children's applies FASB ASC Topic 740 (Topic 740), *Accounting for Uncertainty in Income Taxes*. Topic 740 clarifies the accounting for uncertainty in income tax positions and provides guidance on when tax positions are recognized in an entity's financial statements and how the values of these positions are determined. Management has analyzed the tax positions taken by Arkansas Children's and has concluded that as of June 30, 2022 and 2021, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the consolidated financial statements.

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

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

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

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

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

(q) Consolidated Statements of Operations

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

(r) Fair Value Measurement

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

(s) Recently Issued Accounting Standards

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement, Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement*. This ASU intends to improve the effectiveness of disclosures in the notes to the financial statements by modifying disclosure requirements for fair value measurements. The ASU is effective for Arkansas Children's as of July 1, 2020, with early adoption permitted. The adoption of ASU No. 2018-13 did not have a material impact on the disclosures in the consolidated financial statements.

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This ASU changes the presentation and disclosure requirements for not-for-profit entities to increase transparency about contributed nonfinancial assets. This ASU is effective for annual periods beginning after June 15, 2021, and interim periods with annual periods beginning after June 15, 2022, with early adoption permitted. The adoption of this standard did not have a material impact on the disclosures in the consolidated financial statements.

(t) COVID 19 Pandemic and CARES Act Funding

In December 2019, a strain of coronavirus (COVID 19) initially identified in Wuhan, China, spread around the world. The World Health Organization described the coronavirus outbreak as a "public health emergency of international concern" and on March 11, 2020 declared the outbreak of COVID 19 to be a pandemic. On March 13, 2020, President Trump declared a national public health emergency

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with respect to the COVID 19 outbreak. In Arkansas, Governor Asa Hutchinson declared a public health emergency on March 11, 2020, in response to the first presumptive case. Orders closing schools, limiting gatherings, and closing restaurants preceded a directive from the Arkansas Department of Health effective April 3, 2020 suspending elective surgical procedures, which were subsequently reinstated, starting April 27, 2020 with certain restrictions in place. The emergency, initially declared on March 11, 2020, was renewed several times until its final expiration on May 30, 2021 at which time there were 1,938 active cases of COVID 19 in Arkansas and 194 hospitalizations in Arkansas due to COVID 19. Subsequently, the Delta Variant of COVID 19 caused infections and hospitalizations to rise at an alarming rate. On July 27, 2021, there were 15,491 active cases of COVID 19 in Arkansas and 1,025 hospitalizations. Governor Hutchison declared a public health emergency due to the catastrophic statewide impact of the Delta Variant of COVID 19 on July 29, 2021, which expired 60 days after issuance.

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

Arkansas Children's pandemic response plan has evolved as the pandemic continues to unfold. Management has taken steps to enhance operational and financial flexibility, and to react to the risks the COVID 19 pandemic presents to operations, including the following:

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

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

In the spring of 2020, many providers automatically received funds from the Provider Relief Fund (PRF), a program established by the Coronavirus Aid, Relief and Economic Security Act (CARES Act). Funds were distributed as either general distribution or targeted funds. Arkansas Children's received \$12,031,753 of general distributions in April 2020 and \$5,000,000 of safety net targeted distributions in June 2020. In July 2020, Arkansas Children's received an additional \$830,542 of general distribution funds and \$90,268 of MCD & CHIP provider targeted funds. In August 2020, Arkansas Children's received an additional \$18,647,170 of safety net targeted funds. In total, Arkansas Children's received \$36,599,733, which was recognized in fiscal year 2021, as management can attest that Arkansas Children's has incurred healthcare related expenses or lost revenues attributable to COVID 19 in

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excess of these distributions for the reporting period January 2020 through June 2021. For the fiscal year ended June 30, 2020, based on an analysis of the initial and subsequent clarifications of the compliance and reporting requirements of the Provider Relief Fund available at that time, Arkansas Children's recorded funds received prior to June 30, 2020 of \$17,031,753 as deferred revenue on the 2020 consolidated balance sheet.

In November 2021, Arkansas Children's received \$6,897,340 of funds from the American Rescue Plan Act (ARPA) that were designated for providers who serve rural Medicaid, Children's Health Insurance Program (CHIP), and Medicare beneficiaries. In addition, Arkansas Children's received PRF Phase 4 general distribution funds of \$2,258,797 in December 2021 and \$389,247 in February 2022. In total, Arkansas Children's received \$9,545,384 from the ARPA and the PRF, which was recognized as revenue in fiscal year 2022 as management can attest that Arkansas Children's has incurred healthcare related expenses or lost revenues attributable to COVID 19 in excess of these distributions for the period of availability beginning January 2020 through June 30, 2022.

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

The CARES Act also established the Coronavirus Relief Fund. In fiscal year 2020, Arkansas Children's recognized Coronavirus Relief Fund proceeds, distributed through the State of Arkansas, of \$2,665,721, which were available for qualifying COVID 19 related expenses through June 30, 2020. In fiscal year 2021, Arkansas Children's recognized Coronavirus Relief Fund proceeds, distributed through the State of Arkansas, of \$245,531 for qualifying COVID 19 related expenses through June 30, 2020 and \$1,367,029 for qualifying COVID 19 related expenses through December 31, 2020. In fiscal year 2022, Arkansas Children's recognized Arkansas American Rescue Plan Fund proceeds, distributed by the State of Arkansas, of \$4,476,000 qualifying COVID 19 related expenses through June 30, 2022. In addition, a total of \$1,500,000 was received in January and February of 2022 based on an agreement with the Arkansas Department of Health to provide additional hospital bed capacity for COVID patients for 20 days at \$5,000 per bed per day.

Lastly, the CARES Act provides for deferred payment of the employer portion of social security taxes between March 27, 2020 and December 31, 2020, with 50% of the deferred amount due December 31, 2021 and the remaining 50% due December 31, 2022. The Health System began deferring the employer portion of social security taxes in mid April 2020. As of June 30, 2022, \$5,483,855 of the deferred amount is included in accrued expenses. As of June 30, 2021, the Health System deferred \$10,987,709 in social security taxes, of which \$5,483,854 was included in accrued expenses and \$5,483,855 was included in other long term payables on the consolidated balance sheet. The deferred tax deposit due in December 2021 was paid during fiscal year 2022.

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(3) Liquidity and Availability

Financial assets available for general expenditure within one year of June 30, 2022 and 2021 include the following:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 86,554,668	93,916,413
Investments	534,366,311	518,249,823
Estimated third-party payor settlements – current portion	131,439,770	138,050,512
Patient accounts receivable	106,800,778	82,554,373
Other current receivables	20,457,858	21,678,749
	<u>\$ 879,619,385</u>	<u>854,449,870</u>

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

(4) Other Current Receivables

The composition of other current receivables follows:

	<u>2022</u>	<u>2021</u>
Supplemental Medicaid receivable	\$ 8,941,899	9,163,898
Pledge receivable – current portion	6,438,578	6,686,177
Grant receivables	9,886,918	7,563,114
Bequests & trusts receivable without donor restrictions	—	3,515,673
Other receivables	11,516,159	8,999,178
	<u>\$ 36,783,354</u>	<u>35,928,040</u>

(5) Net Patient Service Revenue and Charity Care

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

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Performance obligations are determined based on the nature of the services provided by Arkansas Children's. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) receipts. Arkansas Children's believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in the hospital receiving inpatient acute care services. Arkansas Children's measures the performance obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided and Arkansas Children's does not believe it is required to provide additional goods or services to the patient.

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

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

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

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

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Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge Arkansas Children's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon Arkansas Children's. In addition, the contracts Arkansas Children's has with commercial payors also provide for retroactive audit and review of claims.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. Arkansas Children's also provides services to uninsured patients, and offers those uninsured patients a discount, 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 2022 or 2021.

(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, 2022 and 2021, consisted of the following:

	<u>2022</u>	<u>2021</u>
Patient service revenue	\$ 1,444,230,258	1,198,657,746
Less contractual allowances and implicit price concessions	<u>(708,692,249)</u>	<u>(588,409,701)</u>
Net patient service revenue	<u>\$ 735,538,009</u>	<u>610,248,045</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.

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Arkansas Children's net patient service revenues were derived from the following payor sources for the years ended June 30, 2022 and 2021, and are as follows:

	<u>2022</u>	<u>2021</u>
Medicaid and Medicare	59.0 %	58.5 %
Other third-party payors	40.8	41.4
Patients	0.2	0.1
	<u>100 %</u>	<u>100 %</u>

The composition of net patient service revenue based on Arkansas Children's lines of business for the years ended June 30, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Inpatient	\$ 429,009,423	355,884,591
Outpatient	274,955,390	226,490,321
Professional fees	31,573,196	27,873,133
	<u>\$ 735,538,009</u>	<u>610,248,045</u>

(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, 2022, for open cost report periods from 2017 to the current year is \$197,267,805, net of a reserve of \$36,026,301 which could differ from actual settlements. Of the total net receivable of \$197,267,805 recorded as of June 30, 2022, \$65,828,035 is considered noncurrent and is therefore included in other noncurrent assets in the accompanying 2022 consolidated balance sheet. The estimated net settlements at June 30, 2021, for open cost report periods from 2015 to the current year is \$186,307,903, net of a reserve of \$34,192,015 which could differ from actual settlements. Of the total net receivable of \$186,307,903 recorded as of June 30, 2021, \$48,257,391 is considered noncurrent and is therefore included in other noncurrent assets in the accompanying 2021 consolidated balance

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sheet. ACH's Medicaid cost reports have been audited by the Medicaid fiscal intermediary for the fiscal years ending June 30, 2015, 2016 and 2018. ACH Medicaid cost reports for fiscal years ending June 30, 2017, 2019, 2020, and 2021 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, 2022 and 2021, the net patient service revenue in the accompanying consolidated statement of operations increased (decreased) by approximately \$4,200,000 and \$(5,300,000), respectively, as a result of changes to prior year estimates from final Medicaid settlements and changes in management estimates for related reserves.

(c) Supplemental Medicaid Reimbursement

State Medicaid programs incur costs for payments to health care providers that provide medical services to Medicaid recipients, and the federal government pays a portion of those costs to each state based on a formula. Under these federal rules, states are permitted to pay hospitals up to a reasonable estimate of the amount that would have been paid using Medicare payment principles. This is known as the upper payment limit (UPL). The amount of supplemental Medicaid reimbursement recorded as revenue, gains and other support for the years ended June 30, 2022 and 2021, was approximately \$45,106,000 and \$43,087,000, 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 both the years ended June 30, 2022 and 2021, was approximately \$12,100,000. Subsequent to year end, Arkansas Children's performs a cost accounting analysis to calculate the cost of service per type of procedure. The 2022 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 2022 amount. Therefore, Arkansas Children's calculated the 2022 charity cost by using the 2021 actual allocated cost to charge ratio for charity care adjusted for overall changes in the current year cost profile and applying it to current year charity care charges.

Arkansas Children's applies the provisions of FASB ASU 2010-23, *Health Care Entities (Topic 954): Measuring Charity Care for Disclosure*, whereby cost is used as the measurement basis for charity care disclosure purposes.

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(6) Investments and Assets Limited as to Use

At June 30, 2022 and 2021, investments and assets limited as to use consisted of the following:

	<u>2022</u>	<u>2021</u>
Investments	\$ 534,366,311	518,249,823
Assets limited as to use:		
Board designated investments	\$ 269,126,693	285,940,026
Restricted cash for self-insurance funding arrangements	173,384	232,898
Restricted investments:		
Endowments with donor restrictions	121,603,173	126,471,525
Other investments with donor restrictions	909,783	955,538
Other investments for self-insurance funding arrangements	3,119,463	2,636,651
Investments held by trustee under bond agreements	<u>3,106,904</u>	<u>3,008,383</u>
Total assets limited as to use	398,039,400	419,245,021
Less amounts classified as current	<u>(5,029,175)</u>	<u>(4,652,525)</u>
Assets limited as to use – noncurrent	<u>\$ 393,010,225</u>	<u>414,592,496</u>

Included with the investments and assets limited as to use balances disclosed above are U.S. government obligations of approximately \$579,877,000 and \$548,053,000 which are considered available for sale as of June 30, 2022 and 2021, respectively. These investments are managed internally and are not actively traded. The remaining amounts within the investments and assets limited as to use above are externally managed and are actively traded.

The trust indentures related to the outstanding bonds (see 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, 2022 and 2021, were invested in federal government obligations, which are mutual funds backed by U.S. Treasury securities, State and Local Government Series (SLGS) and U.S. Treasury securities and consisted of the following:

	<u>2022</u>	<u>2021</u>
Series 2016 Refunding Bond Fund (ACH)	\$ 1,375,642	1,278,247
Series 2016 Bond Fund (ACNW)	<u>1,731,262</u>	<u>1,730,136</u>
Total	<u>\$ 3,106,904</u>	<u>3,008,383</u>

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Notes to Consolidated Financial Statements
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(7) Property, Plant, and Equipment, net

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

	<u>2022</u>	<u>2021</u>
Land and improvements	\$ 45,180,747	45,180,747
Buildings	537,090,833	528,270,618
Equipment	274,542,275	263,363,187
Construction in progress	<u>7,621,894</u>	<u>6,847,871</u>
Total property, plant and equipment	864,435,749	843,662,423
Less accumulated depreciation	<u>(475,953,435)</u>	<u>(432,534,547)</u>
Property, plant, and equipment, net	<u>\$ 388,482,314</u>	<u>411,127,876</u>

Construction in progress as of June 30, 2022 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, 2022 is approximately \$4,442,728. Depreciation expense was \$49,482,423 and \$48,688,337 in 2022 and 2021, respectively.

(8) Long-term Debt

A summary of long-term debt as of June 30, 2022 and 2021, is as follows:

	<u>2022</u>	<u>2021</u>
Arkansas Development Finance Authority Revenue Bonds Series 2013, due in amounts of \$45,947 on October 1 and November 1, 2013 and \$184,074 on the first day of each successive month thereafter through September 2023, bearing interest at a fixed rate of 1.95%, collateralized by certain equipment	\$ 2,384,761	4,251,003
Pulaski County, Arkansas Hospital Revenue Refunding Bonds, Series 2016, due in variable amounts through March 1, 2039, bearing interest at fixed rates ranging from 2% to 5%, collateralized by ACH revenues	85,080,000	85,190,000
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	<u>64,265,000</u>	<u>66,640,000</u>
	151,729,761	156,081,003

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	<u>2022</u>	<u>2021</u>
Plus unamortized premium on the 2016 revenue and 2016 revenue refunding bonds	\$ 7,934,056	8,346,151
Less unamortized bond issuance costs on the 2016 revenue refunding, and 2013 and 2016 revenue bonds	<u>(1,129,983)</u>	<u>(1,191,125)</u>
Total	158,533,834	163,236,029
Less amounts due within one year	<u>(4,807,611)</u>	<u>(4,351,338)</u>
Long-term debt less current maturities	\$ <u>153,726,223</u>	\$ <u>158,884,691</u>

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

2023	\$ 4,807,611
2024	6,712,150
2025	6,540,000
2026	6,865,000
2027	7,070,000
Thereafter	<u>119,735,000</u>
Total	\$ <u>151,729,761</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, 2022 and 2021, are available for the following:

	<u>2022</u>	<u>2021</u>
Health care services:		
Capital expenditures	\$ 1,084,683	1,019,703
Arkansas Children's Northwest	12,554,953	13,828,444
Research funding	10,250,250	10,558,794
Land receivable	6,590,000	6,590,000
Pine Bluff Clinic	1,940,510	1,673,618
Other spendable gifts, trusts and pledges	49,219,670	45,207,823
Endowments with donor restrictions	<u>121,603,173</u>	<u>126,471,525</u>
Total	\$ <u>203,243,239</u>	\$ <u>205,349,907</u>

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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 2022 and 2021, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes in the amount of \$8,060,924 and \$6,048,978, respectively. In addition, net assets were released from donor restrictions and used for the purchase of property and equipment in the amount of \$4,613,105 and \$12,524,017 for June 30, 2022 and 2021, respectively.

(a) Endowment Net Assets

The following table summarizes the changes in endowment net assets for the fiscal years ended June 30, 2022 and 2021:

	Board designated	With donor restrictions	Total
Endowment net assets, June 30, 2020	\$ 230,805,441	103,843,843	334,649,284
Investment return:			
Investment income	3,864,042	1,466,060	5,330,102
Net gains (realized and unrealized)	47,356,072	19,323,290	66,679,362
Total investment return	51,220,114	20,789,350	72,009,464
Contributions	—	4,827,952	4,827,952
Transfers	7,615,936	1,061,833	8,677,769
Appropriation of endowment asset for expenditures	(3,701,465)	(4,051,453)	(7,752,918)
Endowment net assets, June 30, 2021	285,940,026	126,471,525	412,411,551
Investment return:			
Investment income	4,098,036	1,331,441	5,429,477
Net losses (realized and unrealized)	(33,496,506)	(10,401,884)	(43,898,390)
Total investment return	(29,398,470)	(9,070,443)	(38,468,913)
Contributions	—	7,618,908	7,618,908
Transfers	19,850,000	307,876	20,157,876
Appropriation of endowment asset for expenditures	(7,264,863)	(3,724,693)	(10,989,556)
Endowment net assets, June 30, 2022	\$ 269,126,693	121,603,173	390,729,866

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(10) Insurance and Legal

Arkansas Children's is self-insured with respect to claims paid for employee health care. Estimates of health claims incurred but unpaid as of June 30, 2022 and 2021, 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, 2022, and 2021, 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 \$1,857,000 and \$1,853,000, respectively. The expenses related to claims paid during the years ended June 30, 2022 and 2021, were approximately \$21,409,000 and \$20,256,000, respectively, and are included in employee benefits expense. Arkansas Children's maintains stop-loss insurance coverage with respect to the employer share of medical insurance claim costs. Under the terms of the stop-loss insurance plan, the stop-loss insurance carrier is to reimburse 100% of the cost of each covered person's paid claims in excess of \$750,000 for both plan years ended June 30, 2022 and 2021, 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, 2022 and 2021. The purpose of the aggregating specific deductible is to reduce annual fixed stop-loss premium costs during the plan year where the group medical insurance plan experiences low volume or no high dollar medical claims.

SCV, a captive insurance company, was formed to provide professional and general liability and workers' compensation insurance coverage to Arkansas Children's effective July 1, 2018. All claims incurred from July 1, 2018 forward are covered under the captive, and the tail liability for professional and general liability claims not reported prior to July 1, 2018 remains \$190,000. Under the terms of the captive, coverage for professional and general liability is \$1,000,000 indemnity and expense limit on a mature claims made basis. Workers' compensation coverage is limited to \$500,000 per claim. An estimated liability of \$2,145,000 and \$295,000 was accrued in the accrued expenses and other liabilities caption within the consolidated balance sheets as of June 30, 2022 for professional and general liability and workers' compensation insurance coverage, respectively. Arkansas Children's carries an umbrella liability policy in the amount of \$20,000,000 to cover professional and general liability claims in excess of \$1,000,000. Arkansas Children's also maintains excess worker's 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 \$46,000 and \$79,000 accrued at June 30, 2022 and June 30, 2021, 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.

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(11) Employee Benefit Plans

Arkansas Children's has a 403(b) plan for the benefit of substantially all of its employees. Employer contributions are made based on the employee's respective contributions, and are vested based on the years of service of the individual employees. Plan expense recorded in employee benefits expense in the accompanying consolidated statements of operations was approximately \$7,594,000 and \$6,555,000 for the years ended June 30, 2022 and 2021, 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 2022 and 2021. Contributions accrued for the plan for the years ended June 30, 2022 and 2021, were approximately \$4,730,000 and \$6,553,000, 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 \$3,842,000 and \$3,952,000 as of June 30, 2022 and 2021, 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 2022 and 2021 was approximately \$679,000 and \$484,000, respectively, with the related liability included in accrued expenses and other liabilities in the accompanying consolidated balance sheets. The expense is generally calculated based on a percentage of the annual base pay of the covered executive employees plus an amount for interest as determined in the plan.

(12) Related-Party Transactions

Several Arkansas Children's board members are employed by the University of Arkansas for Medical Sciences (UAMS). During the years ended June 30, 2022 and 2021, contracts for professional services between Arkansas Children's and UAMS resulted in Arkansas Children's incurring expenses of approximately \$101,445,000 and \$86,025,000, respectively, to UAMS. During the years ended June 30, 2022 and 2021, Arkansas Children's also recorded revenue of approximately \$5,300,000 and \$5,000,000, 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 \$25,740,000 of net revenue for the fees billed with approximately \$24,402,000 of collected fees, net of expenses, being remitted to UAMS for the year ended June 30, 2022, and approximately \$23,719,000 of net revenue for the fees billed with approximately \$22,415,000 of collected fees, net of expenses, being remitted to UAMS for the year ended June 30, 2021. As of June 30, 2022, and 2021, the Arkansas Children's payable due to UAMS was approximately \$7,700,000 and \$6,740,000, respectively. As of June 30, 2022, and 2021, the Arkansas Children's receivable due from UAMS was approximately \$277,000 and \$45,000, respectively.

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During the years ended June 30, 2022 and 2021, Arkansas Children's also paid approximately \$7,547,000 and \$8,370,000, respectively, to a company affiliated with a member of the ACF Board of Directors for construction projects. During the years ended June 30, 2022 and 2021, Arkansas Children's paid approximately \$1,426,000 and \$1,197,000, respectively, for goods and services from various other related parties.

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

(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.

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

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

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Pledge receivables are reported at the net present value of expected future cash flows. Pledge receivables were \$24,789,025 and \$27,795,938 as of June 30, 2022 and 2021, 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.

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, 2022 and 2021.

Fair value measurements at June 30, 2022				
	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Investments and assets limited as to use:				
Cash restricted for self-insurance	\$ 173,384	—	—	173,384
U.S. government obligations	—	595,926,488	—	595,926,488
Corporate stocks:				
Consumer staples	17,254,312	—	—	17,254,312
Consumer discretionary	15,448,037	—	—	15,448,037
Energy	17,142,735	—	—	17,142,735
Financials	30,828,329	—	—	30,828,329
Health care	35,898,992	—	—	35,898,992
Industrials	21,143,767	—	—	21,143,767
Information technology	52,118,376	—	—	52,118,376
Materials	22,864,742	—	—	22,864,742
Telecommunication services	19,137,734	—	—	19,137,734
Utilities	4,620,148	—	—	4,620,148
Real estate	2,947,160	—	—	2,947,160
Other	188,341	—	—	188,341
Mutual funds:				
Equities	40,352,146	—	—	40,352,146

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Fair value measurements at June 30, 2022				
	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Corporate debt:				
Banks	\$ —	9,851,027	—	9,851,027
Consumer goods	—	12,855,782	—	12,855,782
Energy power	—	3,691,128	—	3,691,128
Energy company	—	1,967,485	—	1,967,485
Industrials	—	1,353,967	—	1,353,967
Other financials	—	2,195,740	—	2,195,740
Technology	—	9,187,696	—	9,187,696
Telephone	—	3,860,797	—	3,860,797
Transportation	—	653,021	—	653,021
Health care	—	323,245	—	323,245
Other	—	1,524,804	—	1,524,804
Agencies	—	5,589,031	—	5,589,031
Certificates of deposit	—	200,393	—	200,393
Mutual funds	3,106,904	—	—	3,106,904
Total investments and assets limited as to use	\$ 263,225,107	649,180,604	—	932,405,711
Other noncurrent assets:				
Mineral interests	\$ —	588,000	—	588,000

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Fair value measurements at June 30, 2021				
	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	\$ 232,898	—	—	232,898
U.S. government obligations	—	561,563,196	—	561,563,196
Corporate stocks:				
Consumer staples	17,493,920	—	—	17,493,920
Consumer discretionary	19,607,136	—	—	19,607,136
Energy	11,852,481	—	—	11,852,481
Financials	35,426,875	—	—	35,426,875
Health care	35,479,969	—	—	35,479,969
Industrials	24,350,763	—	—	24,350,763
Information technology	60,448,097	—	—	60,448,097
Materials	22,990,096	—	—	22,990,096
Telecommunication services	22,628,552	—	—	22,628,552
Utilities	4,504,195	—	—	4,504,195
Real estate	385,652	—	—	385,652
Other	2,750,672	—	—	2,750,672
Mutual funds:				
Equities	52,922,493	—	—	52,922,493
Corporate debt:				
Banks	—	13,337,398	—	13,337,398
Consumer goods	—	5,893,852	—	5,893,852
Energy power	—	6,834,641	—	6,834,641
Energy company	—	3,606,120	—	3,606,120
Industrials	—	2,704,771	—	2,704,771
Other financials	—	1,615,075	—	1,615,075
Technology	—	2,835,201	—	2,835,201
Telephone	—	9,394,520	—	9,394,520
Transportation	—	4,642,883	—	4,642,883
Health care	—	728,923	—	728,923
Other	—	3,353,045	—	3,353,045

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Fair value measurements at June 30, 2021				
	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Agencies	\$ —	6,702,644	—	6,702,644
Certificates of deposit	—	200,393	—	200,393
Mutual funds	3,008,383	—	—	3,008,383
Total investments and assets limited as to use	\$ 314,082,182	623,412,662	—	937,494,844
Other noncurrent assets:				
Mineral interests	\$ —	296,058	—	296,058

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(14) Functional Expense

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

	2022							
	Program activities			Supporting activities				
	Healthcare services	Research	Total program	General and administrative	Non-Healthcare services	Fundraising	Total supporting	Total
Salaries and wages	\$ 309,252,467	19,771,797	329,024,264	16,944,681	24,533	4,325,417	21,294,631	360,318,895
Employee benefits	57,011,153	4,297,132	61,248,285	3,524,911	5,152	668,155	4,398,248	65,647,533
Supplies and pharmaceuticals	129,539,982	2,789,431	132,329,413	230,258	2,275	362,456	603,989	132,933,402
Professional fees	105,419,301	8,524	105,427,825	2,313	—	438	2,751	105,430,576
Purchased services	83,768,863	9,284,911	93,053,774	3,873,342	117,525	2,225,324	6,023,291	99,094,125
Depreciation	45,821,693	2,983,805	48,805,498	825,085	—	139,851	964,936	49,370,437
Interest	6,499,970	54,007	6,553,977	17,241	—	141,194	158,425	6,712,402
Utilities	6,827,736	799,890	7,627,625	187,822	—	59,691	246,513	8,074,138
Insurance	1,528,787	—	1,528,787	3,141,381	1,632,345	—	4,773,726	6,352,513
Other	10,526,574	776,821	11,303,395	1,177,571	21,385	582,023	1,760,979	13,064,174
Total	\$ 754,994,525	40,684,479	795,679,003	29,739,805	1,803,315	8,584,559	40,227,492	835,906,495

ARKANSAS CHILDREN'S
Notes to Consolidated Financial Statements
June 30, 2022 and 2021

	2021							
	Program activities			Supporting activities				
	Healthcare services	Research	Total program	General and administrative	Non-Healthcare services	Fundraising	Total supporting	Total
Salaries and wages	\$ 241,692,012	17,408,187	259,100,199	16,300,769	—	3,001,100	20,201,939	279,302,198
Employee benefits	51,211,652	3,669,147	54,880,799	5,276,940	—	764,154	6,031,094	60,911,893
Supplies and pharmaceuticals	103,710,938	60,530	103,771,468	205,082	2,100	237,582	444,744	104,216,212
Professional fees	104,858,507	1,823,309	106,681,812	115,146	—	320	115,466	106,797,292
Purchased services	67,246,779	3,874,887	71,121,666	3,837,713	107,026	1,387,463	5,043,137	76,167,803
Depreciation	44,444,432	3,030,500	47,483,032	1,138,751	—	193,906	1,253,657	48,736,689
Interest	6,685,476	33,861	6,719,337	24,463	—	114,210	138,673	6,788,110
Utilities	5,034,703	700,288	5,734,991	199,661	—	62,342	262,003	5,967,014
Insurance	489,286	—	489,286	2,673,220	809,028	—	3,482,248	3,971,534
Other	9,202,510	530,574	9,733,084	1,158,844	32,208	560,130	1,721,510	11,454,594
Total	\$ 834,479,495	31,148,448	865,627,944	30,511,577	1,061,689	7,171,327	38,734,403	704,362,437

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 \$985,686 and \$932,841 as of June 30, 2022 and 2021, respectively due to the aforementioned allocations.

ARKANSAS CHILDREN'S

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

(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

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842), which introduces a right of use model which requires lessees to recognize all leases, other than short term leases with a maximum possible term of one year or less, on their balance sheet. Also, the amortization of these leases will be dependent on the portion of the underlying asset being utilized during the lease term. In July 2018, the FASB issued 2018-11, *Leases Targeted Improvements*, which provides entities with an additional (and optional) transition method to adopt the new leases standard and a practical expedient for non lease components. In May 2020, the FASB issued ASU 2020-05, *Revenue from Contracts with Customers* (Topic 606) and *Leases* (Topic 842), which changed the effective date for the lease standard for certain companies. Arkansas Children's adopted ASU 2016-02, ASU 2018-11, and ASU 2020-05 effective July 1, 2020 using a modified retrospective approach. The primary effect of adopting the new standard is a \$5,101,562 increase in right of use assets and lease obligations for current operating leases as of July 1, 2020 which includes the fiscal 2021 recognized lease liability of \$1,814,482.

Arkansas Children's has entered into non-cancelable 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 twelve months or less are not recorded on the accompanying consolidated balance sheets.

Arkansas Children's has lease agreements which require payments for lease and non-lease components and has elected to account for these as a single lease component. For leases that commenced before the effective date of ASU 2016-02, Arkansas Children's elected the permitted practical expedients 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.

ARKANSAS CHILDREN'S

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Operating lease expense for the years ended June 30, 2022 and 2021 was approximately \$3,805,000 and \$2,694,000, respectively. The undiscounted future lease payments under non-cancelable operating leases and reconciliation to the corresponding liability included in the accompanying 2022 consolidated balance sheet follow:

Years ending June 30:		
2023	\$	2,301,773
2024		1,503,247
2025		1,157,663
2026		1,011,235
2027		735,682
Thereafter		<u>5,482,117</u>
Total lease payments		12,191,717
Less interest		<u>1,870,846</u>
Present value of lease liabilities	\$	<u>10,320,871</u>

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

(16) Donor-restricted Gifts and Pledges Receivable

Amounts of net pledges receivable (at net present value discounted at a rate of 3.25% for the years ended June 30, 2022 and 2021, respectively) as of June 30, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
	Net pledges receivable with donor restrictions	Net pledges receivable with donor restrictions
Due in less than one year	\$ 6,438,578	6,686,177
Due in one to five years	5,678,725	6,902,434
Due in more than five years	<u>1,688,931</u>	<u>2,249,537</u>
Total	<u>\$ 13,806,234</u>	<u>15,838,148</u>

Land receivable, valued at \$6,590,000 included in pledges receivable as of June 30, 2022 and 2021, is not shown above as the various properties are held in trust for an expected period of between 10 to 25 years.

ARKANSAS CHILDREN'S

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Maturities of trusts receivable are not shown above as the maturities of these receivables are dependent upon the life expectancies of the related income beneficiaries. Pledges receivable include donor-restricted trust receivables (at net present value), which totaled approximately \$4,373,000 and \$5,368,000 at June 30, 2022 and 2021, respectively.

The allowance for uncollectible pledges receivable totaled approximately \$609,000 and \$737,000 as of June 30, 2022 and 2021, respectively. The discount relating to pledges receivable totaled approximately \$667,000 and \$1,063,000 as of June 30, 2022 and 2021, respectively.

(17) Subsequent Events

Arkansas Children's has evaluated subsequent events through October 27, 2022, 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
Unaudited Consolidated Balance Sheet
and Statements of Operations

ARKANSAS CHILDREN'S
Consolidated Balance Sheet
March 31, 2023
(Unaudited)

Assets	2023
Current assets:	
Cash and cash equivalents	\$ 214,788,723
Net patient accounts receivable	135,735,593
Other current receivables	33,818,314
Investments – at fair value	471,641,047
Assets limited as to use – current	7,191,307
Estimated third-party payor settlements – current	103,228,652
Inventories	12,661,074
Prepays and other current assets	<u>14,291,858</u>
Total current assets	993,356,568
Assets limited as to use – noncurrent	403,239,761
Pledges receivable – noncurrent	16,624,938
Property, plant, and equipment – net	375,001,915
Operating right of use assets, net	8,812,870
Other noncurrent assets	<u>74,262,274</u>
Total assets	<u>\$ 1,871,298,326</u>
Liabilities and Net Assets	
Current liabilities:	
Accounts payable	\$ 46,543,640
Accrued interest	524,550
Accrued expenses and other liabilities	50,777,678
Operating leases – current	383,785
Current portion of long-term debt	<u>6,549,721</u>
Total current liabilities	104,779,374
Noncurrent liabilities:	
Other long-term payables	2,975,909
Operating leases – noncurrent	8,429,085
Grant carryover	7,585,403
Long-term debt – net of current portion	<u>147,223,435</u>
Total liabilities	<u>270,993,206</u>
Commitments and contingencies	
Net assets:	
Without donor restrictions	1,387,713,084
With donor restrictions	<u>212,592,036</u>
Total net assets	<u>1,600,305,120</u>
Total liabilities and net assets	<u>\$ 1,871,298,326</u>

ARKANSAS CHILDREN'S

Consolidated Statements of Operations

Interim periods ending March 31, 2023 and 2022

(Unaudited)

	<u>2023</u>	<u>2022</u>
Revenues, gains and other support:		
Net patient service revenue	\$ 624,796,202	551,205,758
Specific purpose grants	31,921,377	26,157,538
Supplemental Medicaid reimbursement	37,977,831	35,310,774
Other	28,012,978	26,741,065
Government grants	—	15,521,384
Net assets released from restrictions and used for operations	<u>6,537,970</u>	<u>5,158,107</u>
Total revenues, gains and other support	<u>729,246,358</u>	<u>680,094,626</u>
Expenses:		
Salaries and wages	296,517,426	249,441,470
Employee benefits	51,223,041	47,127,280
Supplies and pharmaceuticals	116,206,321	96,859,404
Professional fees	84,527,414	79,693,165
Purchased services	77,617,901	68,600,168
Depreciation	37,687,344	36,941,629
Interest	4,797,747	4,910,637
Utilities	5,322,198	5,208,891
Insurance	4,789,538	4,395,633
Other	<u>9,145,411</u>	<u>7,729,647</u>
Total expenses	<u>687,834,341</u>	<u>600,907,924</u>
Income from operations	<u>41,412,017</u>	<u>59,186,702</u>
Nonoperating revenues, gains, expenses and losses:		
Contributions	9,124,424	6,585,206
Investment income	13,688,008	9,157,945
(Loss)/gain on sales of investments	(1,071,155)	9,876,013
Other loss on investments	(4,356,784)	(26,333,652)
Other gain on revenue	412,117	334,287
Fundraising expenses	<u>(6,075,815)</u>	<u>(5,190,489)</u>
Net nonoperating revenues, gains, expenses and losses	<u>11,720,795</u>	<u>(5,570,690)</u>
Excess of revenues and gains over expenses and losses	53,132,812	53,616,012
Other changes in net assets without donor restrictions:		
Net unrealized gain (loss) on investments	10,181,615	(8,312,513)
Net assets released from restrictions used for purchase of property and equipment	2,508,067	4,228,788
Grant funds used to purchase capital assets	1,831,951	664,397
Gift Annuity reserve	(106,998)	(1,550)
Transfer of net assets	<u>735,832</u>	<u>(324,233)</u>
Increase in net assets without donor restrictions	<u>\$ 68,283,279</u>	<u>49,870,901</u>

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APPENDIX D

Form of Bond Counsel Opinion

Upon delivery of the Series 2023 Bonds in definitive form, Friday, Eldredge & Clark, LLP, Little Rock, Arkansas, Bond Counsel, proposes to deliver its approving opinion in substantially the following form:

_____, 2023

Bank OZK
Little Rock, Arkansas

Stephens Inc.
Little Rock, Arkansas

Re: \$128,150,000 Pulaski County, Arkansas Hospital Revenue Bonds
(Arkansas Children’s Hospital), Series 2023

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance by Pulaski County, Arkansas (the “Issuer”) of its Pulaski County, Arkansas Hospital Revenue Bonds (Arkansas Children’s Hospital), Series 2023 in the principal amount of \$128,150,000 (the “Series 2023 Bonds”). We have examined the law and such certified proceedings and other papers as deemed necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the Issuer and of Arkansas Children’s Hospital, an Arkansas nonprofit corporation (the “Hospital”), contained in the Indenture and in the Lease, both described below, the certified proceedings and other certifications of public officials furnished to us, and certifications by officials of the Hospital, without undertaking to verify the same by independent investigation.

The Series 2023 Bonds are being issued for the purpose of financing a portion of the costs of acquiring, constructing and equipping certain additions and improvements to the Hospital and paying certain expenses of issuing the Series 2023 Bonds. The Series 2023 Bonds are being issued pursuant to a Trust Indenture dated as of October 1, 1985, as amended and supplemented by a 1987 Supplemental Trust Indenture dated as of March 1, 1987, a 1993 Supplemental Trust Indenture dated as of March 15, 1993, a 2002 Supplemental Trust Indenture dated as of July 15, 2002, a 2005 Supplemental Trust Indenture dated as of December 1, 2005, a 2009 Supplemental Trust Indenture dated as of May 1, 2009, a 2010 Supplemental Trust Indenture dated as of November 1, 2010, a 2016 Supplemental Trust Indenture dated as of August 1, 2016 and a 2023 Supplemental Trust Indenture dated as of _____, 2023 (collectively, the “Indenture”), between the Issuer and Bank OZK, as trustee (the “Trustee”). The Series 2023 Bonds are payable solely from revenues derived by the Issuer under a Lease

Agreement dated as of October 1, 1985, as amended and supplemented by a 1987 Supplemental Lease Agreement dated as of March 1, 1987, a 1993 Supplemental Lease Agreement dated as of March 15, 1993, a 2002 Supplemental Lease Agreement dated as of July 15, 2002, a 2005 Supplemental Lease Agreement dated as of December 1, 2005, a 2009 Supplemental Lease Agreement dated as of May 1, 2009, a 2010 Supplemental Lease Agreement dated as of November 1, 2010, a 2016 Supplemental Lease Agreement dated as of August 1, 2016 and a 2023 Supplemental Lease Agreement dated as of _____, 2023 (collectively, the “Lease”), between the Issuer and the Hospital, from revenues derived by the Trustee under separate Guaranty Agreements dated as of _____, 2023 (the “Guaranty Agreements”), from the Hospital, Arkansas Children’s, Inc. (the “Parent”), Arkansas Children’s Northwest, Inc. (“ACNW”) and Arkansas Children’s Hospital Foundation, Inc. (the “Foundation”) and from other moneys held by the Trustee pursuant to the Indenture. Under the Lease, the Hospital has agreed to make payments sufficient to pay when due the principal of and premium, if any, and interest on the Series 2023 Bonds and all other Bonds now or hereafter issued under the Indenture and such payments are pledged and assigned by the Issuer to the Trustee as security for all Bonds issued pursuant to the Indenture. Under the Guaranty Agreements, the Hospital, the Parent, ACNW and the Foundation have guaranteed to the Trustee the prompt payment as due of the principal of and premium, if any, and interest on the Series 2023 Bonds.

The obligations of the Hospital under the Lease Agreement are secured by a pledge of the Gross Revenues of the Hospital (as defined in the Lease Agreement) on a parity with the pledge of the Gross Revenues of the Hospital in favor of the Pulaski County, Arkansas Hospital Revenue Refunding Bonds (Arkansas Children's Hospital), Series 2016 (the “Series 2016 Bonds”) and the City of Springdale Public Facilities Board Hospital Revenue Bonds, Series 2016 (Arkansas Children’s Northwest Project) (the “ACNW Bonds”).

The obligations of ACNW under its Guaranty Agreement (the “ACNW Guaranty”) are secured by a pledge of the Gross Receipts of the Guarantor (as defined in the ACNW Guaranty) on a parity with the pledge of the Gross Receipts of the Guarantor in favor of the Series 2016 Bonds and the ACNW Bonds.

With respect to (i) the incorporation and existence of the Hospital and Guarantors, (ii) the power of the Hospital to authorize, execute and deliver the documents and instruments to which the Hospital is a party, consisting of particularly, without limitation, the Lease and the Guaranty Agreement to which the Hospital is a party (the “Hospital Guaranty Agreement”), and to assume the obligations represented thereby, (iii) the execution and delivery by the Hospital of such documents and instruments, consisting of particularly, without limitation, the Lease and the Hospital Guaranty Agreement, (iv) the power of the Parent, ACNW and the Foundation (the “Affiliate Guarantors”) to authorize, execute and deliver the documents and instruments to which the Affiliate Guarantors are a party, consisting of particularly, without limitation, the Guaranty Agreements to which the Affiliate Guarantors are a party (the “Affiliate Guaranty Agreements”), and to assume the obligations represented thereby, (v) the execution and delivery by the Guarantors of such documents, consisting of particularly, without limitation, the Affiliate Guaranty Agreements, (vi) the tax-exempt status of the Hospital and the Affiliate Guarantors, and (vii) the enforceability of such documents and instruments, consisting of particularly, without limitation, the Lease and the Hospital Guaranty Agreement, against the Hospital, and the

enforceability of such documents and instruments, consisting of particularly, without limitation, the Affiliate Guaranty Agreements, against the Affiliate Guarantors, reference is made to the opinion as to such matters rendered by Friday, Eldredge & Clark, LLP, Little Rock, Arkansas, as counsel to the Hospital and the Affiliate Guarantors.

Based on our examination, we are of the opinion, as of the date hereof and under existing law, as follows:

1. The Issuer is duly created and validly existing as a political subdivision and county of the State of Arkansas with the corporate power to enter into the Lease and the Indenture, perform the agreements on its part contained therein, and issue the Series 2023 Bonds.

2. The Indenture has been duly authorized, executed and delivered by the Issuer and is a valid and binding obligation of the Issuer enforceable upon the Issuer in accordance with its terms.

3. The Lease has been duly authorized, executed and delivered by the Issuer and is a valid and binding obligation of the Issuer enforceable upon the Issuer in accordance with its terms.

4. The Series 2023 Bonds are secured by a pledge of the Gross Revenues of the Hospital and the Gross Receipts of the Guarantor, on a parity with the Series 2016 Bonds and the ACNW Bonds and any Bonds hereafter issued under the Indenture and with certain other obligations incurred or to be incurred by the Hospital as permitted under the Lease and by ANCW as permitted under the ACNW Guaranty.

5. The Series 2023 Bonds have been duly authorized, executed and delivered by the Issuer and are valid and binding special obligations of the Issuer, payable solely from the Gross Revenues of the Hospital.

6. The Lease and the Indenture create a valid lien on the Trust Estate (within the meaning of the Indenture).

7. The interest on the Series 2023 Bonds (including any original issue discount properly allocable to the Series 2023 Bonds) is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax; provided, however, that with respect to certain corporations, interest on the Series 2023 Bonds will be taken into account in determining annual adjusted financial statement income for the purpose of computing the federal alternative minimum tax. The opinions set forth in the preceding sentence are subject to the condition that the Issuer and the Hospital comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Series 2023 Bonds in order that interest thereon be (or continue to be) excludable from gross income for federal income tax purposes. Failure to comply with certain of such requirements could cause the interest on the Series 2023 Bonds to be so included in gross income retroactive to the date of issuance of the Series 2023 Bonds. The Hospital has covenanted to comply with all such requirements and has the power to carry out such covenants.

We express no opinion regarding other federal tax consequences arising with respect to the Series 2023 Bonds.

8. The Series 2023 Bonds and interest thereon are exempt from state, county, and municipal taxes in the State of Arkansas.

9. The Series 2023 Bonds are exempt from registration under the Securities Act of 1933 and State of Arkansas securities law, and the Indenture is exempt from qualification under the Trust Indenture Act of 1939.

It is to be understood that the rights of the holders of the Series 2023 Bonds and the enforceability of the Series 2023 Bonds, the Indenture, the Lease and the Guaranty Agreements may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Sincerely,

FRIDAY, ELDREDGE & CLARK, LLP



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