



THE CHILDREN'S MERCY HOSPITAL

Uniform Guidance Single Audit Report

June 30, 2020

(With Independent Auditors' Reports Thereon)

THE CHILDREN'S MERCY HOSPITAL

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| The Children's Mercy Hospital and Affiliates' audited consolidated financial statements, as of and for the years ended June 30, 2020 and 2019, are separately attached hereto. | |



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

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

The Board of Directors
The Children's Mercy Hospital

Ladies and Gentlemen:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the consolidated financial statements of The Children's Mercy Hospital and Affiliates (the Hospital), which comprise the consolidated balance sheet as of June 30, 2020, and the related consolidated statements of operations, changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 23, 2020.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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



Purpose of this Report

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

KPMG LLP

Kansas City, Missouri
December 23, 2020



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

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

The Board of Directors
The Children's Mercy Hospital:

Report on Compliance for Each Major Federal Program

We have audited The Children's Mercy Hospital's (the Hospital) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Hospital's major federal programs for the year ended June 30, 2020. The Hospital's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Hospital's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Hospital's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on the Research & Development Cluster

In our opinion, the Hospital complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Research & Development Cluster for the year ended June 30, 2020.

Report on Internal Control Over Compliance

Management of the Hospital is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Hospital's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance



for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the consolidated financial statements of the Hospital as of and for the year ended June 30, 2020, and have issued our report thereon dated December 23, 2020, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Kansas City, Missouri
July 12, 2021

THE CHILDREN'S MERCY HOSPITAL
Schedule of Findings and Questioned Costs
Year ended June 30, 2020

(1) Summary of Auditors' Results

- (a) Type of report issued on whether the consolidated financial statements were prepared in accordance with generally accepted accounting principles: Unmodified
- (b) Internal control deficiencies over financial reporting disclosed by the audit of the financial statements:
 - Material weaknesses: No
 - Significant deficiencies: None reported
- (c) Noncompliance material to the financial statements: No
- (d) Internal control deficiencies over major programs disclosed by the audit:
 - Material weaknesses: No
 - Significant deficiencies: None reported
- (e) Type of report issued on compliance for major programs: Unmodified
- (f) Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): No
- (g) Major programs:
 - Research and Development Cluster – various CFDA numbers
- (h) Dollar threshold used to distinguish between Type A and Type B programs: \$750,000
- (i) Auditee qualified as a low-risk auditee: No

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

None

(3) Findings and Questioned Costs Relating to Federal Awards

None

THE CHILDREN'S MERCY HOSPITAL
Schedule of Expenditures of Federal Awards
Year ended June 30, 2020

| Federal grantor/pass-through grantor/program or cluster title | Federal CFDA number | Federal award number, contract or pass-through identifying number | Pass-through awards | Direct awards | Total federal expenditures | Amounts provided to subrecipients |
|---|---------------------|---|---------------------|---------------|----------------------------|-----------------------------------|
| Research and Development Cluster: | | | | | | |
| Uniformed Services University of the Health Sciences: | | | | | | |
| The Henry M. Jackson Foundation | 12.750 | HU0001-17-2-0001 | \$ (101) | — | (101) | — |
| Total Uniformed Services University of the Health Sciences | | | (101) | — | (101) | — |
| U.S. Food and Drug Administration: | | | | | | |
| Duke University | 93.103 | 5U18FD006298-02 | 38,851 | — | 38,851 | — |
| Total U.S. Food and Drug Administration | | | 38,851 | — | 38,851 | — |
| Centers for Disease Control: | | | | | | |
| Centers for Disease Control | | | | | | |
| The American Academy of Pediatrics | 93.185 | 6 U01IP001057-04-02 | — | 2,514 | 2,514 | — |
| | 93.185 | 772105-CMH | 9,880 | — | 9,880 | — |
| Subtotal 93.185 | | | 9,880 | 2,514 | 12,394 | — |
| The University of Alabama – Birmingham | | | | | | |
| Boston Children's Hospital | 93.RD | 200-2017-96217 | (130) | — | (130) | — |
| Boston Children's Hospital | 93.RD | 1758446 | 42,886 | — | 42,886 | — |
| | 93.RD | 75D30120C07725 | 2,548 | — | 2,548 | — |
| Subtotal 93.RD | | | 45,304 | — | 45,304 | — |
| Total Centers for Disease Control | | | 55,184 | 2,514 | 57,698 | — |
| Department of Health and Human Services: | | | | | | |
| Greater Kansas City LINC, Inc. | | | | | | |
| University of Colorado | 93.558 | 4316767300 | 102,624 | — | 102,624 | — |
| | 93.865 | R24HD098415-01 | 615 | — | 615 | — |
| Total Department of Health and Human Services | | | 103,239 | — | 103,239 | — |
| Health Resources and Service: | | | | | | |
| University of Texas Health Science Center at Houston | | | | | | |
| University of Texas Health Science Center at Houston | 93.110 | 0012728L | (288) | — | (288) | — |
| | 93.110 | 5 H30MC24051-08-00 | 25,622 | — | 25,622 | — |
| Total Health Resources and Service | | | 25,334 | — | 25,334 | — |
| National Cancer Institute: | | | | | | |
| University of Nebraska Medical Center | | | | | | |
| University of Nebraska Medical Center | 93.077 | 34-5410-2004-001 | 5,310 | — | 5,310 | — |
| | 93.077 | 34-5410-2004-002 | 9,813 | — | 9,813 | — |
| Subtotal 93.077 | | | 15,123 | — | 15,123 | — |
| Hackensack University Medical Center | | | | | | |
| National Cancer Institute | 93.393 | 2018-CA212189-CMH | 6,543 | — | 6,543 | — |
| | 93.393 | R21CA194492 | — | (2,637) | (2,637) | — |
| Subtotal 93.393 | | | 6,543 | (2,637) | 3,906 | — |
| University of Kansas Medical Center Research Institute, Inc. | | | | | | |
| Subtotal 93.394 | 93.394 | FY2017-099-M2 | 13,367 | — | 13,367 | — |
| | | | 13,367 | — | 13,367 | — |
| Children's Hospital of Philadelphia | | | | | | |
| Children's Hospital of Philadelphia | 93.395 | ALTE1621STUDY | 15,379 | — | 15,379 | — |
| Children's Hospital of Philadelphia | 93.395 | UG1CA189955 | 22,288 | — | 22,288 | — |
| Children's Hospital of Philadelphia | 93.395 | FP0026529_SUB35_01 | 46,760 | — | 46,760 | — |
| Children's Hospital of Philadelphia | 93.395 | 950080215-12C | (8,600) | — | (8,600) | — |
| Children's Hospital of Philadelphia | 93.395 | FP0026529_SUB212_01 | 59,130 | — | 59,130 | — |
| Children's Hospital of Philadelphia | 93.395 | U10CA180899 | 39,712 | — | 39,712 | — |
| Children's Hospital of Philadelphia | 93.395 | 2UG1CA189955-06 | (40) | — | (40) | — |
| Subtotal 93.395 | | | 174,629 | — | 174,629 | — |
| Total National Cancer Institute | | | 209,662 | (2,637) | 207,025 | — |

THE CHILDREN'S MERCY HOSPITAL
Schedule of Expenditures of Federal Awards
Year ended June 30, 2020

| Federal grantor/pass-through grantor/program or cluster title | Federal CFDA number | Federal award number, contract or pass-through identifying number | Pass-through awards | Direct awards | Total federal expenditures | Amounts provided to subrecipients |
|---|---------------------|---|---------------------|---------------|----------------------------|-----------------------------------|
| National Center for Advancing Translational Sciences: | | | | | | |
| Duke University | 93.350 | 203-8371 | \$ (400) | — | (400) | — |
| New York University School of Medicine | 93.350 | 0003979 | 64 | — | 64 | — |
| University of Kansas Medical Center Research Institute | 93.350 | ZAP00070 | 11,184 | — | 11,184 | — |
| University of Kansas Medical Center Research Institute | 93.350 | ZPBK00010 | 3,878 | — | 3,878 | — |
| University of Kansas Medical Center Research Institute | 93.350 | ZPBU0023 | 9,473 | — | 9,473 | — |
| University of Kansas Medical Center Research Institute | 93.350 | ZPBU0013 | (1,464) | — | (1,464) | — |
| University of Kansas Medical Center Research Institute | 93.350 | ZPBU0013-MILLER | 896 | — | 896 | — |
| University of Kansas Medical Center Research Institute | 93.350 | ZPBU0007 | (784) | — | (784) | — |
| University of Kansas Medical Center Research Institute | 93.350 | ZPBU0000 | 20,159 | — | 20,159 | — |
| University of Kansas Medical Center Research Institute | 93.350 | ZPBU-0017-YAN | 6,654 | — | 6,654 | — |
| Total National Center for Advancing Translational Sciences | | | 49,660 | — | 49,660 | — |
| National Center for Immunization and Respiratory Diseases: | | | | | | |
| National Center for Immunization and Respiratory Diseases | 93.185 | U01IP001057 | — | 1,053,601 | 1,053,601 | — |
| National Center for Immunization and Respiratory Diseases | 93.185 | U01IP001057-02-01 | — | (905) | (905) | — |
| Subtotal 93.185 | | | — | 1,052,696 | 1,052,696 | — |
| National Center for Immunization and Respiratory Diseases | 93.533 | U01IP001057 | — | 73,056 | 73,056 | — |
| Academic Pediatric Association | 93.733 | H23IP000950 | 19,407 | — | 19,407 | — |
| Total National Center for Immunization and Respiratory Diseases | | | 19,407 | 1,125,752 | 1,145,159 | — |
| National Center on Birth Defects: | | | | | | |
| Washington University | 93.283 | 5U01DD001216-03-01 | 17,520 | — | 17,520 | — |
| Washington University | 93.283 | WU-20-18 | 152,882 | — | 152,882 | — |
| Total National Center on Birth Defects | | | 170,402 | — | 170,402 | — |
| National Eye Institute: | | | | | | |
| Jaeb Center for Health Research | 93.867 | ATS20 | 10,323 | — | 10,323 | — |
| Jaeb Center for Health Research | 93.867 | IXT5 | 41,024 | — | 41,024 | — |
| Jaeb Center for Health Research | 93.867 | U10EY11751 | 5,178 | — | 5,178 | — |
| The Regents of the University of California, San Diego | 93.867 | 1UG1EY029658-01 | 13,129 | — | 13,129 | — |
| Total National Eye Institute | | | 69,654 | — | 69,654 | — |
| National Heart, Lung, and Blood Institute: | | | | | | |
| National Heart, Lung, and Blood Institute | 93.837 | R01HL126099 | — | 454,600 | 454,600 | 271,480 |
| National Heart, Lung, and Blood Institute | 93.837 | R01HL128374 | — | 325,139 | 325,139 | 20,460 |
| National Heart, Lung, and Blood Institute | 93.837 | 1R01HL148463-01 | — | 415,836 | 415,836 | 211,823 |
| New England Research Institutes, Inc. | 93.837 | PHN FUEL OLE | 1,245 | — | 1,245 | — |
| New England Research Institutes, Inc. | 93.837 | U24HL135691 | 46,974 | — | 46,974 | — |
| New England Research Institutes, Inc. | 93.837 | U10HL068270 | 25,035 | — | 25,035 | — |
| Seattle Children's Hospital | 93.837 | 7R01HL124053-02 | 1,003 | — | 1,003 | — |
| University of Kansas Medical Center Research Institute | 93.837 | ZAR00010 | 23,949 | — | 23,949 | — |
| Subtotal 93.837 | | | 98,206 | 1,195,575 | 1,293,781 | 503,763 |
| Children's Hospital of Los Angeles | 93.RD | PBMTC_SUP1701 | 1,456 | — | 1,456 | — |
| Seattle Children's Hospital | 93.838 | 10929SUB | (505) | — | (505) | — |
| RTI International | 93.838 | U24HL137729 | 5,655 | — | 5,655 | — |
| Subtotal 93.838 | | | 5,150 | — | 5,150 | — |

THE CHILDREN'S MERCY HOSPITAL
Schedule of Expenditures of Federal Awards
Year ended June 30, 2020

| Federal grantor/pass-through grantor/program or cluster title | Federal CFDA number | Federal award number, contract or pass-through identifying number | Pass-through awards | Direct awards | Total federal expenditures | Amounts provided to subrecipients |
|---|---------------------|---|---------------------|---------------|----------------------------|-----------------------------------|
| All Children's Research Institute | 93.839 | 1U01HL130048-01A1 | \$ 21,540 | — | 21,540 | — |
| RTI International | 93.839 | S00637-01 | 11,652 | — | 11,652 | — |
| Subtotal 93.839 | | | 33,192 | — | 33,192 | — |
| Total National Heart, Lung, and Blood Institute | | | 138,004 | 1,195,575 | 1,333,579 | 503,763 |
| National Human Genome Research: | | | | | | |
| National Human Genome Research | 93.172 | R25HG009651 | — | 47,311 | 47,311 | — |
| Total National Human Genome Research | | | — | 47,311 | 47,311 | — |
| National Institute of Environmental Health Sciences: | | | | | | |
| University of Kansas Medical Center Research Institute | 93.113 | ZAS000C0 | 244,273 | — | 244,273 | — |
| Total National Institute of Environmental Health Sciences | | | 244,273 | — | 244,273 | — |
| National Institute of Allergy and Infectious Diseases: | | | | | | |
| Benaroya Research Institute at Virginia Mason | 93.855 | FY201TN190 | 1,776 | — | 1,776 | — |
| Benaroya Research Institute at Virginia Mason | 93.855 | FY17ITN188 | 11,095 | — | 11,095 | — |
| Cellerant Therapeutics, Inc | 93.855 | R42AI108016 | 238,992 | — | 238,992 | — |
| Duke University | 93.855 | 5R01AI139032-02 | 30 | — | 30 | — |
| John Hopkins University | 93.855 | 2003954018 | 17,161 | — | 17,161 | — |
| John Hopkins University | 93.855 | 5UM1AI068632 | 70,688 | — | 70,688 | — |
| John Hopkins University | 93.855 | UM1 A1068632 | 23,098 | — | 23,098 | — |
| Massachusetts General Hospital | 93.855 | 225488 | 1,229 | — | 1,229 | — |
| Massachusetts General Hospital | 93.855 | 229712 | 2,810 | — | 2,810 | — |
| Vanderbilt University Medical Center | 93.855 | VUMC 59098 | 24,258 | — | 24,258 | — |
| National Institute of Allergy and Infectious Diseases | 93.855 | 1R56AI147778-01 | — | 170,381 | 170,381 | 32,073 |
| National Institute of Allergy and Infectious Diseases | 93.855 | 1R01AI147778-01A01 | — | 190,112 | 190,112 | 16,316 |
| Total National Institute of Allergy and Infectious Diseases | | | 391,137 | 360,493 | 751,630 | 48,389 |
| National Institute of Arthritis and Metabolic Diseases: | | | | | | |
| Children's Hospital of Philadelphia | 93.846 | 3210940919-XX | 5,966 | — | 5,966 | — |
| Cincinnati Children's Hospital | 93.846 | 138708 | 137,689 | — | 137,689 | — |
| Total National Institute of Arthritis and Metabolic Diseases | | | 143,655 | — | 143,655 | — |
| National Institute of Child Health and Human Development: | | | | | | |
| University of Kansas Medical Center Research Institute | 93.350 | 5UL1TR003266 | 11,139 | — | 11,139 | — |
| University of Kansas Medical Center Research Institute | 93.350 | ZPBU0004 | (531) | — | (531) | — |
| Subtotal 93.350 | | | 10,608 | — | 10,608 | — |
| Cincinnati Children's Hospital | 93.865 | 139307 | 504 | — | 504 | — |
| Cornell University | 93.865 | 16091646-04 | 11,140 | — | 11,140 | — |
| Duke University | 93.865 | 200405 | (4,784) | — | (4,784) | — |
| Duke University | 93.865 | 203-7901 | (457) | — | (457) | — |
| National Institute of Child Health and Human Development | 93.865 | 1K23HD098229-01A1 | — | 18,769 | 18,769 | — |
| National Institute of Child Health and Human Development | 93.865 | K23HD083405 | — | 191,124 | 191,124 | — |
| National Institute of Child Health and Human Development | 93.865 | 5T32HD069038 | — | 239,963 | 239,963 | — |
| National Institute of Child Health and Human Development | 93.865 | 2UG1HD068284-06 | — | (120) | (120) | — |
| National Institute of Child Health and Human Development | 93.865 | U54HD090258 | — | 551,506 | 551,506 | 35,767 |
| National Institute of Child Health and Human Development | 93.865 | R03HD088776 | — | 40,591 | 40,591 | 14,797 |
| National Institute of Child Health and Human Development | 93.865 | R21HD094106-02 | — | 212,574 | 212,574 | 106,813 |
| National Institute of Child Health and Human Development | 93.865 | 1K23HD091362 | — | 211,102 | 211,102 | — |

THE CHILDREN'S MERCY HOSPITAL
Schedule of Expenditures of Federal Awards
Year ended June 30, 2020

| Federal grantor/pass-through grantor/program or cluster title | Federal CFDA number | Federal award number, contract or pass-through identifying number | Pass-through awards | Direct awards | Total federal expenditures | Amounts provided to subrecipients |
|---|---------------------|---|---------------------|------------------|----------------------------|-----------------------------------|
| National Institute of Child Health and Human Development | 93.865 | R03HD096097 | \$ — | 69,590 | 69,590 | — |
| National Institute of Child Health and Human Development | 93.865 | 1R03HD098604-01 | — | 64,800 | 64,800 | — |
| Pennsylvania State University | 93.865 | CMHHD089922DF | 15,000 | — | 15,000 | — |
| Children's Hospital of Philadelphia | 93.865 | 200896463-RSUB | 27,513 | — | 27,513 | — |
| Cincinnati Children's Hospital | 93.865 | 5R01HD089928-03 | 20,113 | — | 20,113 | — |
| Cornell University (Weill) | 93.865 | 86433-11269 | 43,213 | — | 43,213 | — |
| Rand Corporation | 93.865 | SCON-00000045 | 77,567 | — | 77,567 | 5,054 |
| Rand Corporation | 93.865 | SCON-00000297 | 51,315 | — | 51,315 | — |
| Rti International | 93.865 | U24HL143216 | 9,973 | — | 9,973 | — |
| University of Colorado Denver | 93.865 | FY19.965.001 | 10,320 | — | 10,320 | — |
| University of Kansas Medical Center Research Institute | 93.865 | PO#1000944163 | 60,494 | — | 60,494 | — |
| University of Kansas Medical Center Research Institute | 93.865 | QF862090 | (1,038) | — | (1,038) | — |
| University of Kansas Medical Center Research Institute | 93.865 | ZAM00030 | 112,026 | — | 112,026 | — |
| University of Kansas Medical Center Research Institute | 93.865 | QF862093 | (29) | — | (29) | — |
| University of Kansas Medical Center Research Institute | 93.865 | ZAD000B0 | 7,123 | — | 7,123 | — |
| Washington University | 93.865 | UWSC8373 | (17,771) | — | (17,771) | — |
| Rand Corporation | 93.865 | 9920170041 | (15,444) | — | (15,444) | — |
| Subtotal 93.865 | | | <u>406,778</u> | <u>1,599,899</u> | <u>2,006,677</u> | <u>162,431</u> |
| Children's Hospital of Philadelphia | 93.RD | HHSN-2752018000031 | 17,107 | — | 17,107 | — |
| Duke Clinical Research Institute | 93.RD | 210424 | (5,980) | — | (5,980) | — |
| Duke University | 93.RD | HHSN-2752010000031 | 27,736 | — | 27,736 | — |
| Duke University | 93.RD | 2496 | 6,438 | — | 6,438 | — |
| Duke University | 93.RD | 203-7531 | 7,500 | — | 7,500 | — |
| Duke University | 93.RD | 203-8476 | (628) | — | (628) | — |
| Duke University | 93.RD | HHSN-2752010000031 | 31,344 | — | 31,344 | — |
| Subtotal 93.RD | | | <u>83,517</u> | <u>—</u> | <u>83,517</u> | <u>—</u> |
| Total National Institute of Child Health and Human Development | | | <u>500,903</u> | <u>1,599,899</u> | <u>2,100,802</u> | <u>162,431</u> |
| National Institute of Diabetes and Digestive and Kidney Diseases: | | | | | | |
| Children's Hospital of Philadelphia | 93.847 | 27007-320037052 | (1) | — | (1) | — |
| Children's Hospital of Philadelphia | 93.847 | FP21264_SUB03_04 | 18,815 | — | 18,815 | — |
| National Institute of Diabetes and Digestive and Kidney Diseases | 93.847 | U01DK066143 | — | 1,352,834 | 1,352,834 | 551,618 |
| National Institute of Diabetes and Digestive and Kidney Diseases | 93.847 | U01DK106984 | — | 249,746 | 249,746 | — |
| National Institute of Diabetes and Digestive and Kidney Diseases | 93.847 | R01DK107490 | — | 362,397 | 362,397 | 183,799 |
| National Institute of Diabetes and Digestive and Kidney Diseases | 93.847 | 1K01DK119545-01 | — | 100,638 | 100,638 | — |
| National Institute of Diabetes and Digestive and Kidney Diseases | 93.847 | 1K23DK115827-01A1 | — | 67,540 | 67,540 | — |
| National Institute of Diabetes and Digestive and Kidney Diseases | 93.847 | 5R01DK117296-02 | — | 568,549 | 568,549 | 204,906 |
| Nationwide Children's Hospital | 93.847 | 700043-0519-00 | 651 | — | 651 | — |
| The Regents of the University of California, San Diego | 93.847 | 64,698,034 | 9,407 | — | 9,407 | — |
| The Regents of the University of California, San Diego | 93.847 | 110813118 (S9002134) | 67,263 | — | 67,263 | — |
| The Regents of the University of California, San Diego | 93.847 | 5R01DK106209-04 | 1,968 | — | 1,968 | — |
| The University of Michigan | 93.847 | 5U54DK083912-10 | 5,128 | — | 5,128 | — |
| The University of Michigan | 93.847 | SUBK00012116 | 4,782 | — | 4,782 | — |
| Tulane University | 93.847 | TUL-HSC-556621-19/20 | 82,669 | — | 82,669 | — |
| University of Kansas Medical Center Research Institute | 93.847 | ZAP00000 | 101,608 | — | 101,608 | — |
| University of Missouri Kansas City | 93.847 | 0064383/00048951 | 3,689 | — | 3,689 | — |
| Emory University | 93.847 | A245781 | 1,323 | — | 1,323 | — |
| University of Cali San Fran | 93.847 | 11848sc | 21,280 | — | 21,280 | — |
| University of South Florida | 93.847 | 6163-1082-00-BK | 44,675 | — | 44,675 | — |
| University of Kansas Medical Center Research Institute | 93.847 | QP865570 | 1,201 | — | 1,201 | — |

THE CHILDREN'S MERCY HOSPITAL
Schedule of Expenditures of Federal Awards
Year ended June 30, 2020

| Federal grantor/pass-through grantor/program or cluster title | Federal CFDA number | Federal award number, contract or pass-through identifying number | Pass-through awards | Direct awards | Total federal expenditures | Amounts provided to subrecipients |
|--|---------------------|---|---------------------|---------------|----------------------------|-----------------------------------|
| University of Kansas Medical Center Research Institute | 93.847 | 1R01DK118514-01A1 | \$ 31,863 | — | 31,863 | — |
| University of Kansas Medical Center Research Institute | 93.847 | 5P30DK106912-05 | 12,528 | — | 12,528 | — |
| University of Kansas Medical Center Research Institute | 93.847 | ZPC0003 | 30 | — | 30 | — |
| Subtotal 93.847 | | | 408,879 | 2,701,704 | 3,110,583 | 940,323 |
| University of South Florida | 93.RD | TN-01 | 70,617 | — | 70,617 | — |
| University of South Florida | 93.RD | TN-18 | 23,093 | — | 23,093 | — |
| University of South Florida | 93.RD | TN-22 | 5,741 | — | 5,741 | — |
| University of South Florida | 93.RD | TN01 PATHWAY | 55 | — | 55 | — |
| Subtotal 93.RD | | | 99,506 | — | 99,506 | — |
| Total National Institute of Diabetes and Digestive and Kidney Diseases | | | 508,385 | 2,701,704 | 3,210,089 | 940,323 |
| National Institute of General Medical Sciences: | | | | | | |
| University of Kansas Medical Center | 93.859 | Z9B000N0 | 2,932 | — | 2,932 | — |
| National Institute of General Medical Sciences | 93.859 | R24GM123930 | — | 644,970 | 644,970 | 272,619 |
| National Institute of General Medical Sciences | 93.859 | R01GM129783 | — | 352,433 | 352,433 | 34,298 |
| Total National Institute of General Medical Sciences | | | 2,932 | 997,403 | 1,000,335 | 306,917 |
| National Institute of Mental Health: | | | | | | |
| Rand Corporation | 93.242 | SCON-00000209 | 31,308 | — | 31,308 | — |
| The Brigham and Woman's Hospital | 93.242 | 5R34MH108393-03 | (207) | — | (207) | — |
| University of Kansas Medical Center Research Institute | 93.242 | ZAK00000 | (138) | — | (138) | — |
| University of Missouri Kansas City | 93.242 | 0075754/00051653 | (736) | — | (736) | — |
| University of Kansas Medical Center | 93.242 | ZAK00070 | 10,363 | — | 10,363 | — |
| Total National Institute of Mental Health | | | 40,590 | — | 40,590 | — |
| National Institute of Nursing Research: | | | | | | |
| Indiana University | 93.361 | 5R01NR015789-03 | 6,525 | — | 6,525 | — |
| Rand Corporation | 93.361 | 9920170072 | (906) | — | (906) | — |
| Rand Corporation | 93.361 | SCON-00000060 | 8,701 | — | 8,701 | — |
| University of Kansas Medical Center Research Institute | 93.361 | ZAP00070 | 41,788 | — | 41,788 | — |
| Wake Forest University Health Science | 93.631 | 100720-550114 | 89,907 | — | 89,907 | — |
| Total National Institute of Nursing Research | | | 146,015 | — | 146,015 | — |
| National Institute on Aging: | | | | | | |
| The University of Florida | 93.866 | UFDSP00011773 | 8,825 | — | 8,825 | — |
| Total National Institute on Aging | | | 8,825 | — | 8,825 | — |
| National Institute of Biomedical Imaging and Bioengineering: | | | | | | |
| Cincinnati Children's Hospital | 93.859 | 302547-FP | 1,600 | — | 1,600 | — |
| Total National Institute of Biomedical Imaging and Bioengineering | | | 1,600 | — | 1,600 | — |
| National Institute of Neurology: | | | | | | |
| University of California San Francisco | 93.853 | 11259sc | 5,168 | — | 5,168 | — |
| Total National Institute of Neurology | | | 5,168 | — | 5,168 | — |
| Office of the Director, National Institutes of Health: | | | | | | |
| Massachusetts General Hospital | 93.310 | 233284 | 9,500 | — | 9,500 | — |
| Women & Infants Hospital of Rhode Island | 93.310 | 5001441 | 367,912 | — | 367,912 | — |
| Subtotal 93.310 | | | 377,412 | — | 377,412 | — |

THE CHILDREN'S MERCY HOSPITAL
Schedule of Expenditures of Federal Awards
Year ended June 30, 2020

| Federal grantor/pass-through grantor/program or cluster title | Federal CFDA number | Federal award number, contract or pass-through identifying number | Pass-through awards | Direct awards | Total federal expenditures | Amounts provided to subrecipients |
|--|---------------------|---|---------------------|---------------|----------------------------|-----------------------------------|
| University of Arkansas System | 93.865 | 51460 | \$ 77,727 | — | 77,727 | — |
| Total Office of the Director, National Institutes of Health | | | 455,139 | — | 455,139 | — |
| US Department of Education: Boise State University | 84.305A | 6485-PO130288 | 6,080 | — | 6,080 | — |
| Total US Department of Education | | | 6,080 | — | 6,080 | — |
| National Institute on Deafness and Other Communication Disorders: Georgetown University | 93.865 | 413816_GR412554-CMH | 125,422 | — | 125,422 | — |
| Total National Institute on Deafness and Other Communication Disorders: | | | 125,422 | — | 125,422 | — |
| National Center for Complementary and Integrative Health: Duke University | 93.213 | A03-2244 | 6,649 | — | 6,649 | — |
| Total National Center for Complementary and Integrative Health: | | | 6,649 | — | 6,649 | — |
| Total Research and Development Cluster | | | 3,466,069 | 8,028,014 | 11,494,083 | 1,961,823 |
| Other Federal Programs: | | | | | | |
| Center for Disease Control: | | | | | | |
| The American Academy of Pediatrics | 93.161 | 771120_CMH | 96,871 | — | 96,871 | — |
| University of Texas Health Science Center at Houston | 93.080 | 0011472L | 26,296 | — | 26,296 | — |
| Total Center for Disease Control | | | 123,167 | — | 123,167 | — |
| Department of Health and Human Services: | | | | | | |
| American College of Med Toxicology | 93.161 | U61TS000238-0R7-05 | 45,518 | — | 45,518 | — |
| Greater KC LINC, Inc | 93.558 | 2001MOTANF | 18,604 | — | 18,604 | — |
| The Washington University | 93.349 | 19U18DP006425 | 134,154 | — | 134,154 | — |
| Total Department of Health and Human Services | | | 198,276 | — | 198,276 | — |
| Office of Population Affairs: | | | | | | |
| Missouri Family Health Council | 93.217 | FPHPA006455 | 189,061 | — | 189,061 | — |
| Missouri Family Health Council | 93.217 | FPHPA076285 | 39,361 | — | 39,361 | — |
| Total Office of Population Affairs | | | 228,422 | — | 228,422 | — |
| Health Resources and Services Administration: | | | | | | |
| Health Resources and Services | 93.110 | H98MC33239-01-00 | — | 217,523 | 217,523 | — |
| Kansas City Area Life Sciences | 93.870 | X10MC32192-X1031142 | 185,892 | — | 185,892 | 46,560 |
| Kansas Department of Health | 93.870 | 18-0001 | 383,979 | — | 383,979 | — |
| Subtotal 93.870 | | | 569,871 | — | 569,871 | 46,560 |
| Total Health Resources and Services Administration | | | 569,871 | 217,523 | 787,394 | 46,560 |
| Total Other Federal Programs | | | 1,119,736 | 217,523 | 1,337,259 | 46,560 |
| Grand total | | | \$ 4,585,805 | 8,245,537 | 12,831,342 | 2,008,383 |

See accompanying notes to schedule of expenditures of federal awards.

THE CHILDREN'S MERCY HOSPITAL

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2020

(1) General

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

(2) Basis of Accounting

The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance).

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

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

(3) Relationship to the Consolidated Financial Statements

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



THE CHILDREN'S MERCY HOSPITAL AND AFFILIATES

Consolidated Financial Statements

June 30, 2020 and 2019

(With Independent Auditors' Report Thereon)



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

Independent Auditors' Report

The Board of Directors
The Children's Mercy Hospital

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Children's Mercy Hospital and Affiliates (the Hospital), which comprise the consolidated balance sheets as of June 30, 2020 and 2019, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Children's Mercy Hospital and Affiliates as of June 30, 2020 and 2019, and the results of their operations, changes in their net assets, and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



Emphasis of Matter

As discussed in Note 2(s) to the consolidated financial statements, on July 1, 2019, the Hospital adopted new accounting guidance under Accounting Standards Update (ASU) ASU 2016-01, *Financial Instruments-Overall (Subtopic 825-10) - Recognition and Measurement of Financial Assets and Financial Liabilities* and ASU 2016-02 *Leases* (Topic 842) and related amendments. Our opinion is not modified with respect to these matters.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included in exhibits 1 and 2 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2020 on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

KPMG LLP

Kansas City, Missouri
December 23, 2020

THE CHILDREN'S MERCY HOSPITAL AND AFFILIATES

Consolidated Balance Sheets

June 30, 2020 and 2019

(In thousands)

| Assets | 2020 | 2019 |
|--|---------------------|------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 125,267 | 31,126 |
| Restricted cash | 3,865 | 2,607 |
| Patient accounts receivable | 208,265 | 214,558 |
| Other receivables | 25,336 | 35,827 |
| Inventories | 15,778 | 14,262 |
| Prepaid expenses | 26,017 | 26,074 |
| Current portion of pledges receivable | 39,454 | 37,750 |
| Total current assets | <u>443,982</u> | <u>362,204</u> |
| Property and equipment, net | 761,295 | 687,611 |
| Assets limited as to use: | | |
| Unexpended proceeds of debt issuance | — | 31,164 |
| Restricted investments | 125,819 | 114,759 |
| Held under self-insurance arrangements | 55 | 52 |
| Total assets limited as to use | <u>125,874</u> | <u>145,975</u> |
| Beneficial interest in the net assets of the Foundation | 220,216 | 216,567 |
| Pledges receivable, net of current portion | 35,653 | 42,413 |
| Investment in unconsolidated joint ventures | 5,282 | 5,513 |
| Long-term investments | 778,623 | 793,624 |
| Income beneficiary and charitable remainder trusts | 45,695 | 46,820 |
| Right-of-use asset | 56,598 | — |
| Other assets | 62,549 | 57,931 |
| Total assets | <u>\$ 2,535,767</u> | <u>2,358,658</u> |
| Liabilities and Net Assets | | |
| Current liabilities: | | |
| Current portion of long-term debt and other obligations | \$ 5,867 | 5,685 |
| Current portion of operating lease liability | 8,793 | — |
| Accounts payable and accrued expenses | 75,860 | 84,517 |
| Accrued payroll and related expenses | 92,617 | 83,922 |
| Total current liabilities | <u>183,137</u> | <u>174,124</u> |
| Reserve for professional liability claims | 41,898 | 30,196 |
| Long-term debt and other obligations, net of current portion | 310,094 | 315,131 |
| Long-term postretirement benefit | 49,516 | 45,958 |
| Operating lease liability | 48,552 | — |
| Other noncurrent liabilities | 21,797 | 12,122 |
| Total liabilities | <u>654,994</u> | <u>577,531</u> |
| Net assets: | | |
| Without donor restriction | 1,415,382 | 1,323,555 |
| With donor restriction | 465,391 | 457,572 |
| Total net assets | <u>1,880,773</u> | <u>1,781,127</u> |
| Total liabilities and net assets | <u>\$ 2,535,767</u> | <u>2,358,658</u> |

See accompanying notes to consolidated financial statements.

THE CHILDREN'S MERCY HOSPITAL AND AFFILIATES

Consolidated Statements of Operations

Years ended June 30, 2020 and 2019

(In thousands)

| | <u>2020</u> | <u>2019</u> |
|---|-------------------------|--------------------------|
| Revenues, gains, and other support without donor restriction: | | |
| Patient service revenue | \$ 1,343,011 | 1,325,965 |
| Capitation revenue | 166,162 | 144,884 |
| Other revenue and public assistance: | | |
| Net assets released from restrictions for use in operations | 24,063 | 21,152 |
| Contract revenue | 22,113 | 16,549 |
| Grant revenue | 17,636 | 20,600 |
| Other revenue | 41,085 | 14,895 |
| Total revenues, gains, and other support without donor restriction | <u>1,614,070</u> | <u>1,544,045</u> |
| Operating expenses: | | |
| Salaries, wages, and benefits | 910,426 | 853,280 |
| Supplies and pharmaceuticals | 178,755 | 156,484 |
| Purchased services | 181,465 | 164,986 |
| Other operating expenses | 160,405 | 174,252 |
| Depreciation | 65,101 | 66,072 |
| Insurance | 24,893 | 10,934 |
| Interest | 7,384 | 11,492 |
| Loss on sale of property and equipment | 3,657 | 169 |
| Total operating expenses | <u>1,532,086</u> | <u>1,437,669</u> |
| Operating income | <u>81,984</u> | <u>106,376</u> |
| Other income (loss): | | |
| Equity in losses of unconsolidated joint ventures | (231) | (313) |
| Gifts and bequests without donor restriction | 3,303 | 8,470 |
| Net investment (loss) income | (2,559) | 63,078 |
| Change in interest rate swap valuation | (2,328) | (6,209) |
| Loss on extinguishment of debt | — | (793) |
| Other nonoperating income | 1,326 | 77 |
| Total other (loss) income, net | <u>(489)</u> | <u>64,310</u> |
| Excess of revenues, gains, and other support over expenses | <u>81,495</u> | <u>170,686</u> |
| Other changes in net assets without donor restriction: | | |
| Net assets released from restrictions used for purchase of property and equipment | 3,452 | 1,823 |
| Net unrealized change in available-for-sale investments | 6,236 | (18,550) |
| Net defined postretirement benefit plan | 644 | 273 |
| Total other changes in net assets without donor restriction | <u>10,332</u> | <u>(16,454)</u> |
| Increase in net assets without donor restriction | \$ <u><u>91,827</u></u> | \$ <u><u>154,232</u></u> |

See accompanying notes to consolidated financial statements.

THE CHILDREN'S MERCY HOSPITAL AND AFFILIATES

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2020 and 2019

(In thousands)

| | <u>Without donor restriction</u> | <u>With donor restriction</u> | <u>Total</u> |
|--|--------------------------------------|-----------------------------------|------------------|
| Balance, June 30, 2018 | \$ 1,169,323 | 436,745 | 1,606,068 |
| Excess of revenues, gains, and other support over expenses | 170,686 | — | 170,686 |
| Contributions restricted by donor | — | 39,910 | 39,910 |
| Net assets released from restrictions for use in operations | — | (21,152) | (21,152) |
| Change in beneficial interest in net assets of the Foundation | — | 3,283 | 3,283 |
| Net assets released from restrictions used for purchase of property and equipment | 1,823 | (1,823) | — |
| Net unrealized change in available-for-sale investments | (18,550) | — | (18,550) |
| Net unrealized change in income beneficiary and charitable remainder trusts | — | 609 | 609 |
| Net defined postretirement benefit plan | 273 | — | 273 |
| | <u>154,232</u> | <u>20,827</u> | <u>175,059</u> |
| Balance, June 30, 2019 | <u>1,323,555</u> | <u>457,572</u> | <u>1,781,127</u> |
| Excess of revenues, gains, and other support over expenses | 81,495 | — | 81,495 |
| Contributions restricted by donor | — | 32,630 | 32,630 |
| Net assets released from restrictions for use in operations | — | (24,063) | (24,063) |
| Change in beneficial interest in net assets of the Foundation | — | 3,649 | 3,649 |
| Net assets released from restrictions used for purchase of property and equipment | 3,452 | (3,452) | — |
| Net unrealized change in available-for-sale investments | 6,236 | — | 6,236 |
| Net unrealized change in income beneficiary and charitable remainder trusts | — | (945) | (945) |
| Net defined postretirement benefit plan | 644 | — | 644 |
| | <u>91,827</u> | <u>7,819</u> | <u>99,646</u> |
| Balance, June 30, 2020 | <u>\$ 1,415,382</u> | <u>465,391</u> | <u>1,880,773</u> |

See accompanying notes to consolidated financial statements.

THE CHILDREN'S MERCY HOSPITAL AND AFFILIATES

Consolidated Statements of Cash Flows

Years ended June 30, 2020 and 2019

(In thousands)

| | <u>2020</u> | <u>2019</u> |
|---|-------------------|------------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ 99,646 | 175,059 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 65,101 | 66,072 |
| Loss on sale of property and equipment | 3,657 | 169 |
| Amortization of debt and investments | 840 | 1,210 |
| Equity in losses of unconsolidated joint venture | 231 | 313 |
| Change in beneficial interest in the net assets of the Foundation | (3,649) | (3,283) |
| Change in interest rate swap valuation | 2,328 | 6,209 |
| Settlement payment of interest rate swap | — | (17,105) |
| Net realized and unrealized loss (gain) | 21,754 | (19,174) |
| Change in income beneficiary and charitable remainder trusts | 1,125 | 92 |
| Contributions restricted by donor for long-term purposes | (5,423) | (12,651) |
| Changes in operating assets and liabilities: | | |
| Patient accounts receivable | 6,293 | 4,161 |
| Other receivables | 15,548 | (8,544) |
| Inventories | (1,516) | (836) |
| Prepaid expenses | 57 | (2,014) |
| Other assets | (1,627) | (8,507) |
| Right-of-use asset and lease liability | 747 | — |
| Accounts payable and accrued expenses | (10,429) | 2,501 |
| Accrued payroll and related expenses | 8,695 | 4,072 |
| Other noncurrent liabilities | 24,935 | (7,541) |
| Net cash provided by operating activities | <u>228,313</u> | <u>180,203</u> |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (140,754) | (136,676) |
| Proceeds from sale of property and equipment | 84 | 73 |
| Purchase of investments | (302,963) | (410,533) |
| Proceeds from sale of investments | 310,980 | 207,518 |
| Net cash used in investing activities | <u>(132,653)</u> | <u>(339,618)</u> |
| Cash flows from financing activities: | | |
| Repayments of long-term debt and capital leases | (5,684) | (48,106) |
| Issuance of long-term debt | — | 42,690 |
| Debt issuance costs incurred | — | (386) |
| Contributions restricted by donor for long term purposes | 5,423 | 50,526 |
| Net cash (used in) provided by financing activities | <u>(261)</u> | <u>44,724</u> |
| Net increase (decrease) in cash and cash equivalents | 95,399 | (114,691) |
| Cash and cash equivalents and restricted cash, beginning of year | <u>33,733</u> | <u>148,424</u> |
| Cash and cash equivalents and restricted cash, end of year | \$ <u>129,132</u> | \$ <u>33,733</u> |
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the year for interest, net of amounts capitalized | \$ 12,637 | 15,499 |

See accompanying notes to consolidated financial statements.

THE CHILDREN'S MERCY HOSPITAL AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

(1) Organization and Basis of Presentation

The Children's Mercy Hospital and Affiliates (collectively, the Hospital) includes a 315-bed teaching hospital for children located in Kansas City, Missouri, a 52-bed hospital for children located in Overland Park, Kansas, and various outpatient locations. The mission of the Hospital is to improve the health and well-being of children by providing comprehensive, family-centered healthcare and committing to the highest level of clinical and psychosocial care, and to research, academic, and service excellence. Patients and their families are treated with compassion in a family-centered environment that recognizes their physical, emotional, financial, social, and spiritual needs. The comprehensive healthcare environment provided by the Hospital includes clinical services, research, and teaching efforts, which are designed to serve today's and tomorrow's children, and the community in which they live.

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

The Hospital consolidates the following subsidiaries:

- *Children's Mercy Integrated Care Solutions (CMICS)* – CMICS brings together a network consisting of the Hospital and community-based physicians who together provide medical care to children in the greater Kansas City area. CMICS provides leadership and resources to support patient outreach, medical home development, care coordination, and disease management and prevention. CMICS has entered into multiple capitated risk agreements with third-party Medicaid insurers (Health Plans) to provide contractual services for in-network activities involving the Hospital. CMICS has contractually committed to be responsible for any gains or losses of the Health Plans for fee-for-service claim payment activities associated with the capitated membership.
- *CMH Insurance Company, LLC (CMHIC)* – CMHIC provides excess liability coverage for the Hospital (note 8).
- *Children's Research Institute, LLC (CRI)* – CRI was created to house the research activities of the Hospital. CRI had no income or assets as of June 30, 2020 or 2019. The Hospital's research activities continue to occur within the operations of the Hospital.
- *Children's Mercy Affiliated Practices (CMAP)* – CMAP consists of twelve separate taxable not-for-profit corporations for which the Hospital is the sole corporate member. The physician providers and staff are employees of the respective CMAP entities. CMAP was designed by management to better manage the continuum of care for the Hospital's patients by more closely aligning and integrating with pediatricians serving the greater Kansas City community. CMAP enables the Hospital to collaborate with pediatricians for changes in the delivery of medical services to better manage the health of the population in the surrounding community, improving outcomes and quality.

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- *Children’s Mercy’s Family Health Partners, Inc. (CMFHP)* – On January 1, 2012, CMFHP sold substantially all of its assets and transferred substantially all of its liabilities to an unrelated party. CMFHP was a safety-net, health maintenance organization. It operated an integrated care system that contracted with the states of Kansas and Missouri to provide health insurance benefits to children and adults who were eligible for Medicaid or the State Children’s Health Insurance Plan. As of June 30, 2020, the entity has transferred all equity to the Hospital and has ceased operations.

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

(2) Summary of Significant Accounting Policies

(a) Use of Estimates

The preparation of consolidated financial statements, in conformity with U.S. generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the useful lives of fixed assets, implicit price concession on patient service revenue and receivables, investment valuation, and professional liability reserves and loss recoverables.

(b) Cash and Cash Equivalents

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

(c) Restricted Cash

CMICS is contractually obligated to maintain restricted balances for the purpose of funding potential losses related to capitated risk agreements with third-party Medicaid insurers. At June 30, 2020 and 2019, CMICS recorded restricted deposits of \$3,865 and \$2,607, respectively.

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

| | <u>2020</u> | <u>2019</u> |
|---|-------------------|---------------|
| Cash and cash equivalents | \$ 125,267 | 31,126 |
| Restricted cash and cash equivalents | <u>3,865</u> | <u>2,607</u> |
| Total cash, cash equivalents and restricted cash and cash equivalents in the consolidated statement of cash flows | <u>\$ 129,132</u> | <u>33,733</u> |

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(d) Investments and Assets Limited to Use

(i) Long-Term Investments

Investments are measured at fair value in the accompanying consolidated balance sheets. Alternative investments are valued at net asset value (NAV) as a practical expedient to fair values. The fair value of alternative investments at NAV as determined by the respective funds' investment managers may differ significantly from the values that would have been used had ready markets existed. Net investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in excess of revenues, gains, and other support over expenses unless the income or loss is restricted by donor or law. For fiscal year 2019, the Hospital considered all investments as available-for-sale. Accordingly, in the 2019 consolidated statement of activities, unrealized gains and losses on investments are excluded from excess of revenues over expenses. Beginning July 1, 2019, upon adoption of ASU 2016-01, equity securities are no longer classified as available-for-sale and as such, unrealized gains and losses on equity securities are included in net investment income or loss within excess of revenues, gains, and other support over expenses. Debt securities continued to be classified as available-for-sale, and as such, unrealized gains and losses on debt securities continue to be excluded from excess of revenues, gains, and other support over expenses.

The Hospital reviews its investment portfolio to determine whether any unrealized losses on available-for-sale securities are other than temporary. To determine whether an impairment is other-than-temporary, the Hospital considers all available information relevant to the collectibility of the security, including past events, current conditions, and reasonable and supportable forecasts when developing estimates of cash flows expected to be collected. Evidence considered in this assessment includes the reasons for the impairment, the severity and duration of the impairment, changes in value subsequent to year-end, forecasted performance of the investee, and the general market condition in the geographic area or industry the investee operates in. During 2020 and 2019, no other-than-temporary impairments were recognized.

(ii) Assets Limited as to Use

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

Unexpended proceeds of bond issuance are held by a trustee in a bond project fund to be used on projects designated by the 2017A bond issuance (note 6). These funds were fully depleted as of June 30, 2020.

(e) Liquidity and Availability

The Children's Mercy Hospital Finance Committee Investment Policy stipulates that the Hospital maintains 30–40 days cash on hand in cash and cash equivalent accounts. Any amounts greater than this maximum are transferred to long-term investments and allocated based on the Hospital's existing investment mix. While these investments are classified as long-term investments based on management's intent, a majority of these investments are able to be liquidated in one business day.

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With the exception of private equity investments of \$728 as of June 30, 2020, all investments are able to be liquidated in less than one week. As of June 30, 2020, the Hospital has unfunded capital commitments of \$28,272 for private equity investments.

On April 28, 2020, the Hospital established a \$50,000 line of credit with Commerce Bank, N.A. This debt facility matures on April 27, 2021. There were not any draws on the line of credit during 2020. The balance at June 30, 2020 was \$0.

Days cash on hand is calculated as cash and long-term investments divided by total daily operating expenses adjusted for depreciation and other noncash adjustments. The Hospital held 225.9 and 219.2 days cash on hand with a working capital of \$269,639 and \$188,080 as of June 30, 2020 and 2019, respectively.

The following reflects the Hospital's financial assets expected to be available for general expenditures within one year of June 30, 2020 and 2019, respectively.

| | <u>2020</u> | <u>2019</u> |
|---|---------------------|------------------|
| Cash and cash equivalents | \$ 125,267 | 31,126 |
| Accounts receivable | 233,602 | 250,385 |
| Current portion of pledges receivable without restriction | 1,507 | 279 |
| Long-term investments | <u>777,895</u> | <u>793,624</u> |
| | <u>\$ 1,138,271</u> | <u>1,075,414</u> |

(f) Property and Equipment

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

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

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

Gifts of long-lived asset, such as buildings or equipment are reported as without donor restriction, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported with donor restriction. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

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When events or changes in circumstances indicate the carrying amount of property and equipment or intangible assets may not be recoverable, an evaluation of the recoverability of currently recorded costs is performed. The Hospital recorded an impairment of construction in progress assets of \$3,589 in the year ended June 30, 2020 for abandoned construction projects. This loss is included in losses on disposal of property and equipment. The Hospital did not recognize any impairment of long-lived assets in the year ended June 30, 2019.

(g) Income Beneficiary and Charitable Remainder Trusts

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

(h) Other Assets

Other assets include investment balances held to fund deferred compensation retirement liabilities, professional liability loss recoverables under third-party reinsurance contracts (note 8), and certain intangible assets. The Hospital offers a 457b retirement plan for highly compensated employees. The Hospital maintains investment balances under this deferred compensation retirement plan. The investment balances related to the 457b retirement plan were \$47,272 and \$43,174 as of June 30, 2020 and 2019, respectively. A corresponding liability for this 457b plan is recorded in long-term postretirement benefit.

Included in other assets is the noncurrent portion of prepaid assets related to the capitalization of certain cloud computing arrangements entered into beginning in FY18. The asset is amortized over a period of five years beginning at the inception of the project. These cloud computing arrangements primarily include an upgrade of the Patient Accounting System and Enterprise Resource Planning system. Total prepaid assets associated with these cloud computing arrangements, net of amortization, as of June 30, 2020 and 2019 respectively, were \$13,927 and \$14,265.

(i) Insurance and Self-Insurance Risks

The Hospital is exposed to various claims relating to its business, including those for which it retains portions of the losses through the application of deductibles and self-insured retentions. The Hospital is insured for general liability (including named patient perils and employee benefit liability), automobile liability, workers' compensation, nonowned aircraft and helipad liability, security guard liability, directors and officers liability, crime liability, fiduciary liability, professional liability, and managed care errors and omissions liability through a combination of self-insured retentions, third-party insurance coverage, and through its wholly owned captive, CMHIC, which is 100% reinsured. The Hospital is also self-insured for group medical claims, but purchases "stop loss" insurance to protect itself from any one significant loss. The Hospital accrues losses within the self-insured retention amounts based upon the aggregate liability for reported claims incurred, as well as an estimated liability for claims incurred but not yet reported. In the opinion of management of the Hospital, there are no known claims or incidents that will result in settlements in excess of amounts provided by insurance policies and/or established reserves for claims.

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

(j) Defined Contribution Pension Plans

The Hospital sponsors two defined contribution pension plans. The Hospital matches 50% of employees' individual contributions to a 403(b) plan, up to a maximum of 3% of the employee's eligible pay. Additionally, the Hospital makes contributions to a 401(a) plan of 3% to 6% of an employee's salary, based on the employee's age and years of service, for employees who have completed two years of service with 1,000 hours or more each year. The total retirement expense for the years ended June 30, 2020 and 2019 was \$36,006 and \$33,539, respectively, and are included in salaries, wages, and benefits expense in the consolidated statements of operations.

(k) Net Assets

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

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

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

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

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

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received, and expirations of those donor restrictions are reported when the acquired long-lived assets are placed in service and donor-imposed restrictions are satisfied.

The Hospital has elected the simultaneous release option to conditional contributions. Therefore, for conditional restricted contributions for which both the condition and restriction are met in the same period, the revenue is recognized as without donor restriction. This election primarily impacts federal grants accounted for as contributions. The Hospital has been awarded certain conditional federal contributions for which the condition has not yet been met and therefore these awards have not yet been recognized in revenue. As of the years ended June 30, 2020 and 2019, the Hospital had \$11,322 and \$4,687, respectively, in unrecognized revenue related to these contributions.

(m) Patient Service Revenue and Patient Accounts Receivable

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

Performance obligations are determined based on the nature of the services provided by the Hospital. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Hospital believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients receiving inpatient acute care services or patients receiving services in outpatient centers. The Hospital measures the performance obligation from admission into the hospital, or the commencement of an outpatient service, to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to patients and customers in a retail setting (e.g., pharmaceuticals and medical equipment) and the Hospital does not believe it is required to provide additional goods or services related to that sale.

Because all of its performance obligations for patient service revenue relate to contracts with a duration of less than one year, the Hospital has elected to apply the optional exemption provided in U.S. GAAP and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to previously are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

The Hospital determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Hospital's policy, and implicit price concessions provided to

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

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Hospital also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The Hospital estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

Consistent with the Hospital's mission, care is provided to patients regardless of their ability to pay. Therefore, the Hospital has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (e.g., copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the Hospital expects to collect based on its collection history with those patients. Patients who meet the Hospital's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue. The cost of charity care is determined utilizing a cost to charge ratio and applying this ratio to the gross charges associated with charity patients. The costs incurred for services and supplies furnished under the Hospital's charity care policy were \$22,852 and \$17,241 in 2020 and 2019, respectively.

Settlements with third-party payors for retroactive revenue adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the Hospital's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (i.e., new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations.

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

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

All capitated contracts with health plans are paid on a per member per month (PMPM) that have a term of one year that is automatically renewed unless terminated by CMICS or the health plans. All capitated contracts have a single performance obligation that constitutes a series for the provision of managed healthcare services for a population of enrolled members for the duration of the contract. The transaction price for PMPM contracts is variable as it primarily includes PMPM fees associated with unspecified membership that fluctuates throughout the contract. The majority of net PMPM transaction price relates specifically to efforts to transfer the service for a distinct increment of the series (e.g., day or month) and is recognized as revenue in the month in which members are entitled to service. Because all of its performance obligations for capitated revenue relate to contracts with a duration of less than one year, the Hospital has elected to apply the optional exemption provided in U.S. GAAP and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period.

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

During the years ended June 30, 2020 and 2019, CMICS recognized capitated revenue of \$166,162 and \$144,884, respectively. At June 30, 2020 and 2019, CMICS recorded payables of \$8,991 and receivables of \$117, respectively, representing the estimated settlements with the Health Plans for the net results of fee-for-service activities with non-Hospital providers and recorded receivables of \$2,569 and liabilities of \$1,217, respectively, due to Health Plans for overpayment of monthly capitation payments.

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

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

(p) Operating and Nonoperating Activities

The Hospital's primary mission is to meet the healthcare needs in its market areas through a broad range of general and specialized healthcare services, including inpatient acute care, outpatient services, physician services, and other healthcare services. Activities directly associated with the furtherance of this purpose are considered to be operating activities. Other activities that result in gains

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or losses peripheral to Hospital's primary mission are considered to be nonoperating. Nonoperating activities include investment earnings, equity in earnings of unconsolidated joint ventures, losses from extinguishment of debt, and changes in fair value of interest rate swaps.

(q) Derivative Instruments and Hedging Activities

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

(r) Income Taxes

The Internal Revenue Service has determined that the Hospital is a not-for-profit organization as described under Section 501(c)(3) of the Internal Revenue Code and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Internal Revenue Code. CMHIC, CMFHP, and CRI are all disregarded entities for tax purposes in 2020 and 2019.

CMICS is a not-for-profit Kansas corporation, subject to federal and state income taxes. CMAP entities are individual not-for-profit taxable corporations and are subject to federal and state income tax. For the tax years ended June 30, 2020 and 2019, CMICS and CMAP entities had no material taxable income.

At June 30, 2020 and 2019, there were no uncertain tax positions.

(s) Recently Adopted Accounting Standards

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, which makes targeted improvements to the accounting for, and presentation and disclosure of, financial instruments. ASU 2016-01 requires that most equity investments be measured at fair value, with subsequent changes in fair value recognized in net income. ASU 2016-01 does not affect the accounting for investments that would otherwise be consolidated or accounted for under the equity method. The new standard also affects financial liabilities under the fair value option and the presentation and disclosure requirements for financial instruments. The Hospital prospectively adopted the new standard as of July 1, 2019. The implementation of this standard resulted in the change in unrealized losses of equity securities of \$41,853 for the year ended June 30, 2020, to be presented in net investment income in the consolidated financial statements. Prior to adoption, this change in unrealized loss would have been presented in net unrealized change in investments, outside the performance indicator.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 requires the lessee to recognize assets and liabilities for both finance and operating leases with terms of more than twelve months. Further, the standard requires the lessee of a finance lease to recognize both an interest expense component and an amortization component of the associated expense. Operating leases generally require recognizing the associated expense on a straight-line basis. For leases with a term of twelve months or less, the Hospital is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. The Hospital has chosen to elect this permitted policy. The Hospital adopted the new standard on July 1, 2019 using a modified retrospective transition approach as of the effective date as permitted. As a result, the Hospital was not required to adjust its comparative period financials information for effects of the standard or make the

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required lease disclosures for the periods before the date of adoption (i.e. June 30, 2019). The Hospital has elected to adopt the package of transition practical expedients and, therefore, has not reassessed (1) whether existing or expired contracts contain a lease, (2) lease classification for existing or expired leases or (3) the accounts for initial direct costs that were previously capitalized. Additionally, the Hospital has elected to use the risk free interest rate as the discount rate as allowed. As of July 1, 2019, the Hospital recognized a right-of-use asset of \$54,270 and a lease liability of \$53,835, with the difference representing the variance between the timing of cash payments and straight-line rent expense in the valuation model.

(t) Risks and Uncertainties

In March 2020, the World Health Organization declared the novel coronavirus (COVID-19) a pandemic. As a result of the pandemic, beginning in March 2020 through May 2020, the Hospital suspended certain elective procedures subject to government mandate. To address the potential impacts on future revenues and expected incremental costs required as a result of COVID-19, the Hospital has taken budget actions to help stabilize operations. The CARES Act provides stimulus in the form of financial aid to cover extensive emergency fundings to hospitals and providers through existings mechanisms to prevent, prepare for, and respond to COVID-19. Through June 30, 2020, the Hospital received \$28,153 under the CARES Act in the form of grants as reimbursement through the Public Health and Social Services Emergency Fund for lost revenues attributable to COVID-19. These payments are treated as contributions and reflected in Other Revenue in the consolidated statements of activities. The Hospital continues to monitor the terms and conditions of the CARES Act funding and the impact of the pandemic on revenues and expenses. The Hospital has also deferred \$8,464 of employer payroll taxes through June 30, 2020, pursuant to the Paycheck Protection Program and Health Care Enhancement Act, which is reflected in other long-term liabilities. The severity of the continued impact due to COVID-19 on the Hospital's financial condition will depend on a numbers of factors, including, but not limited to, the duration and severity of the pandemic, the ability to continue to offer all services, and the impact on investment values, all of which are uncertain and cannot be predicted.

(3) Patient Services Revenue

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

(i) Medicaid

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

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to the Hospital is received through a combination of fee schedule and capitation for outpatient and physician services and per diem and capitation for inpatient services.

- *Supplemental Payments* – The Hospital participates in several supplemental payment programs, including the following recorded within patient service revenue on the Statement of Operations:
 - 1) The Federal Reimbursement Allowance (FRA) program is administered by MO HealthNet. Under this program, the state of Missouri and program participants take advantage of the government's Medicaid cost-sharing plan. The payments from this program are distributed to the participating hospitals through various payment streams for treating Medicaid and uninsured patients. The Hospital recorded revenue from the FRA program of \$177,326 and \$145,761 for the years ended June 30, 2020 and 2019, respectively. The Hospital recorded expense from the FRA program of \$56,317 and \$51,453 for the years ended June 30, 2020 and 2019, respectively.
 - 2) The Medicaid Disproportionate Share Hospital funding program for the states of Missouri and Kansas. The program supports hospitals providing a high volume of services to Medicaid and uninsured patients. The Hospital recorded revenue of \$11,555 and \$10,274 for the years ended June 30, 2020 and 2019, respectively.
 - 3) The Hospital participates in various other supplemental programs in both Missouri and Kansas. These programs support graduate medical education, electronic health record utilization, and provision of care for the medically indigent in the state of Kansas. The Hospital recorded revenue of \$21,690 and \$18,079 related to these programs for the years ended June 30, 2020 and 2019, respectively.

Revenue from the Medicaid programs accounted for approximately 43% and 42% of the Children's Mercy Hospital's patient service revenue for the years ended June 30, 2020 and 2019, respectively. Laws and regulations governing the Medicaid program are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Under the Missouri Code of State Regulations Section 13 CSR 70-15.010(7), hospitals are to be paid an outlier adjustment for care provided to children under the age of six that meets the specified criteria. These adjustments are supplemental reimbursements for patients with exceptionally high-cost care or very long lengths of stay. The Hospital has recorded outlier receivables of \$16,835 and \$19,275 as of June 30, 2020 and 2019, respectively recorded in patient accounts receivable in the consolidated balance sheets.

(ii) *Managed Care and Other*

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

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The Hospital's patient service revenue, recognized for the years ended June 30, 2020 and 2019 by payor and by service line, is as follows:

| | <u>2020</u> | <u>2019</u> |
|-------------------------|---------------------|------------------|
| Government | 40 % | 38 % |
| Commercial | 59 | 60 |
| Self-pay and other | <u>1</u> | <u>2</u> |
| | <u>100 %</u> | <u>100 %</u> |
| | | |
| | <u>2020</u> | <u>2019</u> |
| Inpatient | \$ 540,618 | 540,953 |
| Outpatient | 353,734 | 391,657 |
| Physician services | 150,586 | 160,886 |
| Third-party settlements | 232,945 | 186,833 |
| Retail pharmacy | 52,922 | 41,271 |
| Other | <u>12,206</u> | <u>4,365</u> |
| Total | \$ <u>1,343,011</u> | <u>1,325,965</u> |

The Hospital grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2020 and 2019 are as follows:

| | <u>2020</u> | <u>2019</u> |
|--------------------|--------------|--------------|
| Government | 40 % | 52 % |
| Commercial | 57 | 43 |
| Self-pay and other | <u>3</u> | <u>5</u> |
| | <u>100 %</u> | <u>100 %</u> |

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

THE CHILDREN'S MERCY HOSPITAL AND AFFILIATES

Notes to Consolidated Financial Statements

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(4) Investments and Assets Limited to Use

The carrying amount, gross unrealized holding gains, gross unrealized holding losses, and fair value of securities by major security type and class of security at June 30, 2020 and 2019 were as follows:

| | <u>Aggregate cost basis</u> | <u>Net unrealized holding gains (losses)</u> | <u>Aggregate fair value</u> |
|---|---------------------------------|--|---------------------------------|
| At June 30, 2020: | | | |
| Long-term investments and assets limited as to use: | | | |
| Money market funds | \$ 95 | — | \$ 95 |
| U.S. government: | | | |
| Agency bonds | 157,993 | 6,017 | 164,010 |
| Treasury notes | 49,427 | 2,390 | 51,817 |
| Mutual funds: | | | |
| Government and corporate bond | 134,282 | (4,214) | 130,068 |
| Domestic equity | 447,959 | (30,880) | 417,079 |
| International equity | 101,789 | 132 | 101,921 |
| Alternative investments ⁽¹⁾ | 37,226 | — | 37,226 |
| Mineral rights and investment | 528 | 1,753 | 2,281 |
| | <u>929,299</u> | <u>(24,802)</u> | <u>904,497</u> |
| Total long-term investments and assets limited as to use | \$ <u>929,299</u> | <u>(24,802)</u> | <u>904,497</u> |

⁽¹⁾ Certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient are presented in this table to permit reconciliation to the amounts presented in the statements of financial position. Investments in this category are mostly a private real estate fund that has quarterly redemptions.

THE CHILDREN'S MERCY HOSPITAL AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

| | <u>Aggregate cost basis</u> | <u>Net unrealized holding gains (losses)</u> | <u>Aggregate fair value</u> |
|---|---------------------------------|--|---------------------------------|
| At June 30, 2019: | | | |
| Long-term investments and assets limited as to use: | | | |
| Money market funds | \$ 649 | — | 649 |
| Commercial paper | 3,858 | — | 3,858 |
| U.S. government: | | | |
| Agency bonds | 160,533 | 2,252 | 162,785 |
| Treasury notes | 26,630 | 99 | 26,729 |
| Taxable municipals | 47,873 | 1,368 | 49,241 |
| Mutual funds: | | | |
| Government and corporate bond | 135,087 | (467) | 134,620 |
| Domestic equity | 433,768 | 2,094 | 435,862 |
| International equity | 120,105 | 4,976 | 125,081 |
| Mineral rights and investment | 649 | 125 | 774 |
| | <u>929,152</u> | <u>10,447</u> | <u>939,599</u> |
| Total long-term investments and assets limited as to use | \$ <u>929,152</u> | <u>10,447</u> | <u>939,599</u> |

Net investment income for assets limited as to use, cash and cash equivalents, and other investments is made up of the following components for the years ended June 30, 2020 and 2019:

| | <u>2020</u> | <u>2019</u> |
|---|-------------------|---------------|
| Net investment income: | | |
| Interest and dividend income | \$ 25,431 | 25,354 |
| Net realized gain on sale of investments | 13,862 | 37,724 |
| Net unrealized loss on equity investments | <u>(41,852)</u> | <u>—</u> |
| Total net investment (loss) income | \$ <u>(2,559)</u> | <u>63,078</u> |
| Other changes in net assets without donor restriction: | | |
| Net unrealized change in available-for-sale investments | \$ 6,236 | (18,550) |

THE CHILDREN'S MERCY HOSPITAL AND AFFILIATES

Notes to Consolidated Financial Statements

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(5) Property and Equipment

Property and equipment at June 30, 2020 and 2019 consisted of the following:

| | <u>2020</u> | <u>2019</u> |
|-------------------------------|-------------------|------------------|
| Land | \$ 27,579 | 27,590 |
| Buildings and fixed equipment | 718,658 | 692,986 |
| Movable equipment: | | |
| Owned | 510,363 | 480,279 |
| Leased under capital lease | — | 765 |
| | <u>1,256,600</u> | <u>1,201,620</u> |
| Accumulated depreciation | <u>(699,286)</u> | <u>(650,829)</u> |
| | 557,314 | 550,791 |
| Construction in progress | <u>203,981</u> | <u>136,820</u> |
| Property and equipment, net | <u>\$ 761,295</u> | <u>687,611</u> |

The Hospital capitalized \$3,637 and \$2,339 of interest cost during the years ended June 30, 2020 and 2019, respectively.

(6) Long-Term Debt and Other Obligations

Long-term Debt and Capital Lease

Long-term debt as of June 30, 2020 and 2019 consisted of the following:

| | <u>2020</u> | <u>2019</u> |
|---|----------------|----------------|
| Health and Facilities Revenue Bonds, Series 2019 A, interest at variable rate, .4863% at June 30, 2020, principal payments ranging from \$1,181 to \$3,106 through 2026 | \$ 12,776 | 15,700 |
| Health and Facilities Revenue Bonds, Series 2019 B, interest at variable rate, .7864% at June 30, 2020, principal payments ranging from \$1,596 to \$5,611 through 2032 | 24,750 | 24,750 |
| Health and Facilities Revenue Bonds, Series 2017A, interest rate of 4.00% at June 30, 2020, principal payments ranging from \$650 to \$16,100 through 2048 | 125,865 | 125,865 |
| Health and Facilities Revenue Bonds, Series 2016, interest at rates ranging from 2.00% to 5.00% at June 30, 2020 principal payments ranging from \$2,895 to \$12,240 through 2039 | <u>128,910</u> | <u>131,670</u> |
| Long-term debt | 292,301 | 297,985 |

THE CHILDREN'S MERCY HOSPITAL AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

| | <u>2020</u> | <u>2019</u> |
|---|-------------------|----------------|
| Less current maturities | \$ (5,867) | (5,685) |
| Plus premium on 2017 bonds | 4,845 | 5,049 |
| Plus premium on 2016 bonds | 11,253 | 12,709 |
| Less debt issuance costs | <u>(2,410)</u> | <u>(2,571)</u> |
| Long-term debt, net of current portion | 300,122 | 307,487 |
| Interest rate swap liability | <u>9,972</u> | <u>7,644</u> |
| Long-term debt and other obligations, net of current portion | \$ <u>310,094</u> | <u>315,131</u> |

On February 28, 2019, the Hospital issued \$42,690 in variable rate demand health facilities revenue bonds (Series 2019A and 2019B) with Northern Trust and TIAA Bank. The proceeds of the bonds were used to refund the Series 2008A, 2008B, and 2009 bonds. In 2019, a \$793 loss was recorded in connection with the refinancing.

On December 6, 2017, the Hospital issued \$125,865 in fixed rate bonds (Series 2017A Bonds) through the Health and Educational Facilities Authority of the State of Missouri to pay a portion of multiple new construction projects of hospital facilities. The Series 2017A bonds were issued with a \$5,362 premium. Costs incurred to issue the Series 2017A Bonds totaled \$1,225. The costs have been deferred and will be amortized over the life of the Series 2017A Bonds. The Hospital deposited the Series 2017A bond proceeds into a bond project fund with the Trustee. The Hospital pays the costs of building the facilities defined as the 2017A Bond Project and submits bond draw requests on a regular basis to reimburse itself for eligible bond project expenditures. On February 26, 2020, the final draw was completed on the bond project fund. As of June 30, 2020, \$0 remains in the bond project fund. It was previously classified as assets limited to use in the consolidated balance sheet from the issuance date until the final draw.

On October 13, 2016, the Hospital issued \$131,670 in fixed rate bonds (Series 2016 Bonds) through the Health and Educational Facilities Authority of the State of Missouri for the purpose of advance refunding \$131,440 of the Series 2009 Bonds outstanding principal. The Series 2016 Bonds were issued with a \$16,537 premium. Costs incurred to issue the Series 2016 Bonds totaled \$1,264. The costs have been deferred and will be amortized over the life of the Series 2016 Bonds. During 2019, the entirety of the outstanding amount due was transferred from the Escrow Trust established with the defeasance of this portion of the Series 2009 Bonds to the investors. No remaining amounts are due in connection with the Series 2009 Bonds.

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

The related trust indenture provides, among other things, for certain covenants related to the incurrence of additional indebtedness, the lease, sale, or disposition of property, and the maintenance of certain financial ratios. As of June 30, 2020 and 2019, the Hospital was in compliance with all financial covenants.

THE CHILDREN'S MERCY HOSPITAL AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

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

| | Long-term debt | |
|---|---------------------------|---------------------|
| | <hr/> | |
| Year ending June 30: | | |
| 2021 | \$ | 5,867 |
| 2022 | | 6,090 |
| 2023 | | 6,296 |
| 2024 | | 6,526 |
| 2025 | | 6,847 |
| Thereafter | | <hr/> 260,675 |
| Total aggregate future principal payments on long-term debt and other obligations | \$ | <hr/> <hr/> 292,301 |

Interest-rate swaps

The Hospital has entered into interest rate swap agreements to hedge against large fluctuations in the variable rate indebtedness. The amount outstanding at June 30, 2020 and terms of the agreements are as follows:

| Year initiated | Notional amount of swap | Interest rate |
|-----------------------|--|----------------------|
| <hr/> | <hr/> | <hr/> |
| 2002 | \$ 4,380 | 3.50 % |
| 2003 | 6,875 | 3.31 |
| 2007 | 26,271 | 4.01 |

The fair values of derivative instruments held as of June 30, 2020 and 2019 are as follows:

| | Liability derivatives | | | |
|--|-------------------------------------|-------------------|-------------------------------------|-------------------|
| | 2020 | | 2019 | |
| | Balance sheet location | Fair value | Balance sheet location | Fair value |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Derivatives designated as hedging instruments: Interest rate contracts | LT Debt and other obligations \$ | 9,972 | LT Debt and other obligations \$ | 7,644 |

THE CHILDREN'S MERCY HOSPITAL AND AFFILIATES

Notes to Consolidated Financial Statements

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On June 29, 2019, the Hospital partially terminated the 2007 Morgan Stanley swap. In connection with reducing the notional amount from \$83,500 to \$26,885, the Hospital made a payment of \$17,105. Changes in the fair value of the interest rate swaps resulted in \$2,328 and \$6,209 of losses, which are reflected in total other income (loss), net in the consolidated statements of operations in 2020 and 2019, respectively.

(7) Pledges Receivable

The Hospital has received certain pledges to support operations and other designated purposes. The present value of the pledges receivable has been computed utilizing rates that range from 0.16% to 2.94% and the remaining estimated life for each individual pledge, as of June 30, 2020 and 2019. At June 30, 2020 and 2019, pledges receivable consist of the following:

| | <u>2020</u> | <u>2019</u> |
|-----------------------------|------------------|----------------|
| Amounts due in: | | |
| Less than one year | \$ 39,454 | 37,750 |
| One to five years | 31,371 | 33,536 |
| More than five years | <u>6,381</u> | <u>11,631</u> |
| Total pledged contributions | 77,206 | 82,917 |
| Less discount | <u>(2,099)</u> | <u>(2,754)</u> |
| Net pledges receivable | <u>\$ 75,107</u> | <u>80,163</u> |

Pledges receivable as of June 30, 2020 and 2019 are intended for the following purposes:

| | <u>2020</u> | <u>2019</u> |
|---|------------------|---------------|
| Hospital operations | \$ 2,786 | 9,174 |
| Education, lectureships, and scholarships | 119 | 89 |
| Research | 45,546 | 43,353 |
| Building and equipment | <u>26,656</u> | <u>27,547</u> |
| Net pledges receivable | <u>\$ 75,107</u> | <u>80,163</u> |

(8) Reserve for Professional Liability Claims

The Hospital maintains a self-insured retention for healthcare professional liability, including medical malpractice exposures, for the Missouri hospital, all outpatient locations, and various healthcare professionals, including but not limited to nurses, various ancillary staff, and certain physicians based on the physician's state of licensure and state of residence. The Hospital's self-insurance retention for professional liability is limited to \$2,000 per occurrence. All professional liability claims against the Hospital or its employed professional or clinical staff over \$2,000 are insured through the Hospital's captive insurance program, which is fully reinsured through third-party carriers. For physicians licensed in and a resident of Kansas, the Kansas Health Care Stabilization Fund covers \$800 of the latter portion of the first \$1,000 per claim with a commercial carrier engaged by the Hospital covering the former \$200 in all states

THE CHILDREN'S MERCY HOSPITAL AND AFFILIATES

Notes to Consolidated Financial Statements

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in which the physician practices. For physicians licensed in, but not a resident of Kansas, this coverage applies when practicing in the state of Kansas. For claims in excess of \$1,000, the next \$1,000 is covered by the Hospital's self-insurance retention, with any remaining amount insured through the Hospital's captive insurance program.

The Hospital maintains claims made excess healthcare professional liability coverage through its wholly owned captive, CMHIC, which is 100% reinsured. CMHIC provides professional liability coverage for the Hospital's claims in excess of the underlying self-insured retention, subject to a \$6,000 each claim and \$10,000 per policy year inner aggregate deductible. CMHIC also provides coverage in excess of other nonprofessional liability policies at various attachment points. Effective June 1, 2017, the CMHIC increased its insurance and reinsurance coverage by an additional \$20,000, for a total of \$50,000. The Hospital is contingently liable for all reinsurance ceded to others; however, management only engages reputable reinsurers with strong financial ratings and monitors their financial condition. The Hospital has engaged a management company to manage the activities of CMHIC.

The Hospital has established reserves for possible losses on both asserted and unasserted professional liability claims based upon an independent actuarial study. The Hospital's reserve for professional liability claims was \$41,898 and \$30,196 as of June 30, 2020 and 2019, respectively. The Hospital has recognized \$18,881 and \$12,223 of expenses related to professional liability coverage during 2020 and 2019, respectively. Additionally, the Hospital recorded \$5,589 and \$1,543 of loss recoverables within other assets related to the estimated excess liability ceded to reinsurers at June 30, 2020 and 2019, respectively. The Hospital has recorded \$8,000 of loss recoverables as of June 30, 2019 within other receivables due to the lag in timing related to claims paid by the Hospital prior to June 30, 2019 for which reinsurance payments were not yet received. There were no loss recoverable receivables as of June 30, 2020.

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

(9) The Children's Mercy Hospital Foundation

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

THE CHILDREN'S MERCY HOSPITAL AND AFFILIATES

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Pursuant to U.S. GAAP, the Hospital recognizes its interest in net assets with and without donor restrictions of the Foundation. Accordingly, the Hospital has recorded its beneficial interest in the Foundation of \$220,216 and \$216,567 in 2020 and 2019, respectively. In addition, the Hospital has reflected the change in its beneficial interest in the Foundation for the years ended June 30, 2020 and 2019 as follows:

| | <u>2020</u> | <u>2019</u> |
|--|------------------|----------------|
| Change in beneficial interest: | | |
| Without donor restriction | \$ (529) | 1,277 |
| With donor restriction | 4,178 | 2,006 |
| | <u>3,649</u> | <u>3,283</u> |
| Cash transfers to the Hospital: | | |
| For operating fund support | (6,469) | (6,468) |
| For research and education | (1,402) | (1,980) |
| | <u>(7,871)</u> | <u>(8,448)</u> |
| Change in beneficial interest, net of cash transfers | \$ <u>11,520</u> | <u>11,731</u> |

A condensed summary of the Foundation's financial position at June 30, 2020 and 2019 and results of its activities for the years then ended is as follows:

| | <u>2020</u> | <u>2019</u> |
|--|-------------------|----------------|
| Total assets | \$ 220,498 | 216,851 |
| Total liabilities | \$ 282 | 284 |
| Net assets | <u>220,216</u> | <u>216,567</u> |
| Total liabilities and net assets | \$ <u>220,498</u> | <u>216,851</u> |
| Change in net assets without donor restriction | \$ (529) | 1,277 |
| Change in net assets with donor restriction | 4,178 | 2,006 |
| Total change in net assets | 3,649 | 3,283 |
| Net assets, beginning of year | <u>216,567</u> | <u>213,284</u> |
| Net assets, end of year | \$ <u>220,216</u> | <u>216,567</u> |

THE CHILDREN'S MERCY HOSPITAL AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

(10) Net Assets with Donor Restriction

Net assets with donor restriction consist of assets held by the Foundation to support Hospital operations, assets held by the Hospital to support construction, research, or other designated activities, and pledges as of June 30, 2020 and 2019 as follows:

| | <u>Held by Hospital</u> | <u>Held by Foundation</u> | <u>Total with donor restriction</u> |
|--|-----------------------------|-------------------------------|---|
| Net assets with donor restriction as of June 30, 2020: | | | |
| Hospital operations | \$ 45,221 | 153,586 | 198,807 |
| Chairs/professorships | 5,124 | 34,438 | 39,562 |
| Child abuse prevention/rehabilitation | — | 246 | 246 |
| Education, lectureships and scholarships | 1,474 | 5,622 | 7,096 |
| Indigent care | 279 | 1,678 | 1,957 |
| Other – department-specific | 4,503 | 8,327 | 12,830 |
| Research | 108,278 | 15,576 | 123,854 |
| Equipment | <u>80,296</u> | <u>743</u> | <u>81,039</u> |
| | \$ <u>245,175</u> | <u>220,216</u> | <u>465,391</u> |
| Subject to not-for-profit spending policy and appropriation | \$ 196,776 | 155,886 | 352,662 |
| Not subject to appropriation or expenditure | <u>48,399</u> | <u>64,330</u> | <u>112,729</u> |
| Total net assets with donor restrictions | \$ <u>245,175</u> | <u>220,216</u> | <u>465,391</u> |

THE CHILDREN'S MERCY HOSPITAL AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

| | <u>Held by Hospital</u> | <u>Held by Foundation</u> | <u>Total with donor restriction</u> |
|--|-----------------------------|-------------------------------|---|
| Net assets with donor restriction as of | | | |
| June 30, 2019: | | | |
| Hospital operations | \$ 51,225 | 154,116 | 205,341 |
| Chairs/professorships | 81 | 33,272 | 33,353 |
| Child abuse prevention/rehabilitation | — | 249 | 249 |
| Education, lectureships and scholarships | 1,366 | 5,471 | 6,837 |
| Indigent care | 1,024 | 1,667 | 2,691 |
| Other – department-specific | 6,041 | 7,500 | 13,541 |
| Research | 101,752 | 13,801 | 115,553 |
| Equipment | 79,516 | 491 | 80,007 |
| | <u>\$ 241,005</u> | <u>216,567</u> | <u>457,572</u> |
| Subject to not-for-profit spending policy and appropriation | \$ 191,557 | 156,083 | 347,640 |
| Not subject to appropriation or expenditure | 49,448 | 60,484 | 109,932 |
| | <u>241,005</u> | <u>216,567</u> | <u>457,572</u> |
| Total net assets with donor restrictions | <u>\$ 241,005</u> | <u>216,567</u> | <u>457,572</u> |

Uses of net assets released from restriction, by program, during the years ended June 30, 2020 and June 30, 2019 are as follows:

| | <u>2020</u> | <u>2019</u> |
|---|------------------|---------------|
| Hospital operations | \$ 13,343 | 15,854 |
| Chairs/professorships | 4 | 62 |
| Child abuse prevention/rehabilitation | — | 114 |
| Education, lectureships and scholarships | 72 | 130 |
| Indigent care | 299 | 443 |
| Other – department-specific | 1,739 | 228 |
| Research | 8,606 | 4,321 |
| | <u>24,063</u> | <u>21,152</u> |
| Net assets released for use in operations | 24,063 | 21,152 |
| Net assets released for employee assistance | 761 | — |
| Net assets released for equipment | 3,452 | 1,823 |
| | <u>28,276</u> | <u>22,975</u> |
| Total net assets released | <u>\$ 28,276</u> | <u>22,975</u> |

THE CHILDREN'S MERCY HOSPITAL AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

(11) Functional Expenses

The functional expenses of the Hospital at June 30, 2020 are as follows:

| | Program activities | | | General and administrative | Total |
|--|--------------------|----------|-----------|----------------------------|-----------|
| | Healthcare | Research | Education | | |
| Salaries, wages, and benefits | \$ 651,059 | 40,555 | 18,799 | 200,013 | 910,426 |
| Supplies and pharmaceuticals | 167,383 | 5,686 | 188 | 5,498 | 178,755 |
| Purchased services | 76,436 | 8,322 | 2,884 | 93,823 | 181,465 |
| Other operating expenses | 91,660 | 2,213 | 3,222 | 63,310 | 160,405 |
| Depreciation | 23,023 | 1,931 | 2,335 | 37,812 | 65,101 |
| Insurance | 20,620 | 300 | — | 3,973 | 24,893 |
| Interest | 5,081 | 1,397 | — | 906 | 7,384 |
| Loss on sale of property and equipment | 31 | 3 | — | 3,623 | 3,657 |
| Total | \$ 1,035,293 | 60,407 | 27,428 | 408,958 | 1,532,086 |

Functional expenses of the Hospital at June 30, 2019 are as follows:

| | Program activities | | | General and administrative | Total |
|--|--------------------|----------|-----------|----------------------------|-----------|
| | Healthcare | Research | Education | | |
| Salaries, wages, and benefits | \$ 629,624 | 45,400 | 21,131 | 157,125 | 853,280 |
| Supplies and pharmaceuticals | 150,089 | 3,427 | 185 | 2,783 | 156,484 |
| Purchased services | 64,440 | 7,933 | 2,947 | 89,666 | 164,986 |
| Other operating expenses | 77,316 | 3,300 | 7,468 | 86,168 | 174,252 |
| Depreciation | 24,802 | 1,686 | 562 | 39,022 | 66,072 |
| Insurance | 6,535 | 300 | 392 | 3,707 | 10,934 |
| Interest | 7,907 | 2,695 | — | 890 | 11,492 |
| Loss on sale of property and equipment | — | — | — | 169 | 169 |
| Total | \$ 960,713 | 64,741 | 32,685 | 379,530 | 1,437,669 |

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

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(12) Leases

The Hospital leases office and clinical space under long-term operating leases. The leases expire at various dates during the next 13 years. The weighted average remaining lease term is 8.92 years. The Hospital's leases do not include at will termination options for either party to the lease or restrictive financial or other covenants. Payments due under the lease contracts include fixed payments plus, for some of the Hospital's leases, the Hospital's share of the building's property taxes, insurance, utilities, and common area maintenance. The Hospital has elected not to separate lease and non-lease components for building leases and as such non-lease components are included as a lease component.

The Hospital does not have any leases that are classified as finance leases. The Hospital's operating lease cost for the year ended June 30, 2020 was \$9,957. Cash paid for amounts included in the measurement of lease liability for the year ended June 30, 2020 was \$9,095.

Maturities of lease liabilities under noncancellable leases as of June 30, 2020 are as follows:

| | | |
|-----------------------------------|----|----------------------|
| 2021 | \$ | 9,908 |
| 2022 | | 9,325 |
| 2023 | | 8,672 |
| 2024 | | 7,434 |
| 2025 | | 6,016 |
| Thereafter | | <u>22,002</u> |
| Total undiscounted lease payments | | 63,357 |
| Less imputed interest | | <u>(6,012)</u> |
| Total lease liabilities | \$ | <u><u>57,345</u></u> |

The weighted average discount rate for the Hospital's operating leases is 2.09%.

Rent expense for operating leases was \$13,210 in 2019.

THE CHILDREN'S MERCY HOSPITAL AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

(13) Commitments and Contingencies

Noncancelable Contracts

In 2019, the Hospital entered into a noncancelable contract for certain software services. At June 30, 2020, the future minimum payments under this noncancelable contract were as follows:

| | | |
|------------|----|--------|
| 2021 | \$ | 15,088 |
| 2022 | | 15,225 |
| 2023 | | 15,377 |
| 2024 | | 15,531 |
| 2025 | | 15,270 |
| Thereafter | | 37,811 |

Legal Matters

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

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

(14) Fair Value Measurements

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

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

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

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

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Notes to Consolidated Financial Statements

June 30, 2020 and 2019

The following table presents the placement in the fair value hierarchy of assets and liabilities that are measured at fair value on a recurring basis (including items that are required to be measured at fair value and items for which the fair value option has been elected) at June 30, 2020 and 2019:

| 2020 | Fair value | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
|---|---------------------|---|---|--|
| Assets: | | | | |
| Cash and cash equivalents | \$ 125,267 | 125,267 | — | — |
| Restricted cash | 3,865 | 3,865 | — | — |
| Total cash and cash equivalents | <u>129,132</u> | <u>129,132</u> | <u>—</u> | <u>—</u> |
| Long-term investments and assets limited as to use: | | | | |
| Money market funds | 95 | 95 | — | — |
| U.S. government: | | | | |
| Agency bonds | 164,010 | — | 164,010 | — |
| Taxable municipals | 51,817 | — | 51,817 | — |
| Mutual funds: | | | | |
| Government and corporate bond | 130,068 | 130,068 | — | — |
| Domestic equity | 417,079 | 417,079 | — | — |
| International equity | 101,921 | 101,921 | — | — |
| Alternative investments ⁽¹⁾ | 37,226 | — | — | — |
| Mineral rights and investment | 2,281 | — | 2,281 | — |
| Total long-term investments and assets limited as to use | <u>904,497</u> | <u>649,163</u> | <u>218,108</u> | <u>—</u> |
| Other assets: | | | | |
| 457b retirement assets | 47,272 | 47,272 | — | — |
| Income beneficiary trusts | 37,337 | — | — | 37,337 |
| Charitable remainder trusts and life interest in real estate | 8,358 | — | 8,358 | — |
| Total assets | <u>\$ 1,126,596</u> | <u>825,567</u> | <u>226,466</u> | <u>37,337</u> |
| Liabilities: | | | | |
| Interest rate swaps | \$ 9,972 | — | 9,972 | — |

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

THE CHILDREN'S MERCY HOSPITAL AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

| 2019 | Fair value | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
|---|--------------|---|---|--|
| Assets: | | | | |
| Cash and cash equivalents | \$ 31,126 | 31,126 | — | — |
| Restricted cash | 2,607 | 2,607 | — | — |
| Total cash and cash equivalents | 33,733 | 33,733 | — | — |
| Long-term investments and assets limited as to use: | | | | |
| Money market funds | 649 | 649 | — | — |
| Commercial paper | 3,858 | — | 3,858 | — |
| U.S. government: | | | | |
| Agency bonds | 162,785 | — | 162,785 | — |
| Treasury notes | 26,729 | 26,729 | — | — |
| Taxable municipals | 49,241 | — | 49,241 | — |
| Mutual funds: | | | | |
| Government and corporate bond | 134,620 | 134,620 | — | — |
| Domestic equity | 435,862 | 435,862 | — | — |
| International equity | 125,081 | 125,081 | — | — |
| Mineral rights and investment | 774 | — | 774 | — |
| Total long-term investments and assets limited as to use | 939,599 | 722,941 | 216,658 | — |
| Other assets: | | | | |
| 457b retirement asset | 43,174 | 43,174 | — | — |
| Income beneficiary trusts | 38,271 | — | — | 38,271 |
| Charitable remainder trusts and life interest in real estate | 8,549 | — | 8,549 | — |
| Total assets | \$ 1,063,326 | 799,848 | 225,207 | 38,271 |
| Liabilities: | | | | |
| Interest rate swaps | \$ 7,644 | — | 7,644 | — |

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

THE CHILDREN'S MERCY HOSPITAL AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

Income beneficiary trusts are considered a Level 3 investment as the beneficial interest in the trust itself is considered the unit of measure. While the underlying investments are comprised of various Level 1 and 2 investments, as these are perpetual trusts, and a third party is the trustee, this instrument is considered unobservable. There were no additional trusts for which it is known that the Hospital is a named beneficiary of during the year ended June 30, 2020 or 2019.

(15) Subsequent Events

The Hospital has reviewed subsequent events through December 15, 2020, the date the financial statements were issued.

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

SUPPLEMENTARY INFORMATION

THE CHILDREN'S MERCY HOSPITAL AND AFFILIATES

Consolidating Balance Sheet

June 30, 2020

(In thousands)

| Assets | CMH Insurance Co., LLC | | | | | | Consolidated |
|--|------------------------|-------|--------|----------|--------|--------------|--------------|
| | Hospital | CMFHP | CMICS | Co., LLC | CMAF | Eliminations | |
| Current assets: | | | | | | | |
| Cash and cash equivalents | \$ 96,618 | — | 20,880 | 1,691 | 6,074 | 4 | 125,267 |
| Restricted cash | — | — | 3,865 | — | — | — | 3,865 |
| Patient accounts receivable | 204,291 | — | — | — | 3,974 | — | 208,265 |
| Other receivables | 9,350 | — | 11,781 | 5,615 | 2 | (1,412) | 25,336 |
| Inventories | 15,778 | — | — | — | — | — | 15,778 |
| Prepaid expenses | 24,475 | — | 870 | — | 697 | (25) | 26,017 |
| Current portion of pledges receivable | 39,454 | — | — | — | — | — | 39,454 |
| Total current assets | 389,966 | — | 37,396 | 7,306 | 10,747 | (1,433) | 443,982 |
| Property and equipment, net | 760,179 | — | 456 | — | 660 | — | 761,295 |
| Assets limited as to use: | | | | | | | |
| Restricted investments | 125,819 | — | — | — | — | — | 125,819 |
| Held under self-insurance arrangements | 55 | — | — | — | — | — | 55 |
| Total assets limited as to use | 125,874 | — | — | — | — | — | 125,874 |
| Beneficial interest in the net assets of the Foundation | 220,216 | — | — | — | — | — | 220,216 |
| Income beneficiary and charitable remainder trusts | 45,695 | — | — | — | — | — | 45,695 |
| Pledges receivable | 35,653 | — | — | — | — | — | 35,653 |
| Investment in joint venture | 5,282 | — | — | — | — | — | 5,282 |
| Investment in consolidated affiliates | 20,163 | — | — | — | — | (20,163) | — |
| Long-term investments | 778,623 | — | — | — | — | — | 778,623 |
| Right of use assets | 44,147 | — | — | — | 12,451 | — | 56,598 |
| Other assets | 56,419 | — | 526 | 5,589 | 15 | — | 62,549 |
| Total assets | \$ 2,482,217 | — | 38,378 | 12,895 | 23,873 | (21,596) | 2,535,767 |
| Liabilities and Net Assets | | | | | | | |
| Current liabilities: | | | | | | | |
| Current portion of long-term debt and other obligations | \$ 5,867 | — | — | — | 664 | (664) | 5,867 |
| Current portion of operating lease liability | 6,749 | — | — | — | 2,044 | — | 8,793 |
| Accounts payable and accrued expenses | 48,413 | — | 19,248 | 5,654 | 3,314 | (769) | 75,860 |
| Accrued payroll and related expenses | 84,884 | — | 625 | — | 7,108 | — | 92,617 |
| Total current liabilities | 145,913 | — | 19,873 | 5,654 | 13,130 | (1,433) | 183,137 |
| Long-term reserve for professional liability claims | 36,309 | — | — | 5,589 | — | — | 41,898 |
| Long-term debt and other obligations, net of current portion | 310,094 | — | — | — | — | — | 310,094 |
| Long-term postretirement benefit | 49,516 | — | — | — | — | — | 49,516 |
| Operating lease liability | 37,815 | — | — | — | 10,737 | — | 48,552 |
| Other noncurrent liabilities | 21,797 | — | — | — | — | — | 21,797 |
| Total liabilities | 601,444 | — | 19,873 | 11,243 | 23,867 | (1,433) | 654,994 |
| Net assets: | | | | | | | |
| Without donor restriction | 1,415,382 | — | 18,505 | 1,652 | 6 | (20,163) | 1,415,382 |
| With donor restriction | 465,391 | — | — | — | — | — | 465,391 |
| Total net assets | 1,880,773 | — | 18,505 | 1,652 | 6 | (20,163) | 1,880,773 |
| Total liabilities and net assets | \$ 2,482,217 | — | 38,378 | 12,895 | 23,873 | (21,596) | 2,535,767 |

See accompanying independent auditors' report.

THE CHILDREN'S MERCY HOSPITAL AND AFFILIATES

Consolidating Statement of Operations

Year ended June 30, 2020

(In thousands)

| | Hospital | CMFHP | CMICS | CMH Insurance Co., LLC | CMAP | Eliminations | Consolidated |
|---|--------------|-------|---------|------------------------------|--------|--------------|--------------|
| Revenues, gains, and other support without donor restriction: | | | | | | | |
| Patient service revenue | \$ 1,423,000 | — | — | — | 61,989 | (141,978) | 1,343,011 |
| Premium revenue | — | — | — | 112 | — | (112) | — |
| Capitation revenue | — | — | 166,442 | — | — | (280) | 166,162 |
| Other revenue and public assistance: | | | | | | | |
| Net assets released from restrictions for use in operations | 24,063 | — | — | — | — | — | 24,063 |
| Contract revenue | 22,415 | — | — | — | — | (302) | 22,113 |
| Grant and clinical trial revenue | 17,636 | — | — | — | — | — | 17,636 |
| Other revenue | 39,194 | — | — | — | 3,302 | (1,411) | 41,085 |
| Equity in gains (losses) of consolidated affiliates | 9,391 | — | — | — | — | (9,391) | — |
| Total revenues, gains, and other support without donor restriction | 1,535,699 | — | 166,442 | 112 | 65,291 | (153,474) | 1,614,070 |
| Operating expenses: | | | | | | | |
| Salaries, wages, and benefits | 860,820 | — | 7,784 | — | 43,001 | (1,179) | 910,426 |
| Supplies and pharmaceuticals | 164,852 | — | — | — | 13,903 | — | 178,755 |
| Purchased services | 177,086 | — | 1,874 | — | 2,657 | (152) | 181,465 |
| Other operating expenses | 150,807 | (25) | 147,149 | 113 | 5,001 | (142,640) | 160,405 |
| Depreciation | 64,816 | — | 204 | — | 81 | — | 65,101 |
| Insurance | 24,342 | — | 28 | — | 635 | (112) | 24,893 |
| Interest | 7,381 | — | — | — | 49 | (46) | 7,384 |
| Loss on sale of property and equipment | 3,657 | — | — | — | — | — | 3,657 |
| Total operating expenses | 1,453,761 | (25) | 157,039 | 113 | 65,327 | (144,129) | 1,532,086 |
| Operating income (loss) | 81,938 | 25 | 9,403 | (1) | (36) | (9,345) | 81,984 |
| Other income (loss): | | | | | | | |
| Equity in gains of unconsolidated joint ventures | (231) | — | — | — | — | — | (231) |
| Gifts and bequests without donor restriction | 3,303 | — | — | — | — | — | 3,303 |
| Net investment income | (2,796) | — | 261 | 22 | — | (46) | (2,559) |
| Change in interest rate swap valuation | (2,328) | — | — | — | — | — | (2,328) |
| Other nonoperating income | 1,381 | — | — | — | (55) | — | 1,326 |
| Equity in gains (losses) of consolidated affiliates | 228 | — | — | — | — | (228) | — |
| Total other income (loss), net | (443) | — | 261 | 22 | (55) | (274) | (489) |
| Excess of revenues, gains, and other support over expenses | 81,495 | 25 | 9,664 | 21 | (91) | (9,619) | 81,495 |
| Other changes in net assets without donor restriction: | | | | | | | |
| Net assets released from restrictions used for purchase of property and equipment | 3,452 | — | — | — | — | — | 3,452 |
| Equity in other changes of consolidated affiliates | (32) | — | — | — | — | 32 | — |
| Net unrealized change in investments | 6,236 | — | — | — | — | — | 6,236 |
| Net defined postretirement benefit plan | 644 | — | — | — | — | — | 644 |
| Intercompany transfers | 32 | (32) | — | — | — | — | — |
| Increase (decrease) in net assets without donor restriction | \$ 91,827 | (7) | 9,664 | 21 | (91) | (9,587) | 91,827 |

See accompanying independent auditors' report.