OFFICIAL STATEMENT

NEW ISSUE **RATINGS*: Moody's: "A1" (stable outlook)**
BOOK-ENTRY ONLY **S&P: "AA-" (stable outlook)**

In the opinion of Bond Counsel, under existing law and assuming compliance with certain covenants, interest on the Series 2016 Bonds is excludable from gross income for federal income tax purposes, and interest on the Series 2016 Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, with respect to corporations, interest on the Series 2016 Bonds will be taken into account in determining adjusted current earnings for the purpose of computing the federal alternative minimum tax. In Bond Counsel's further opinion, under existing law, the Series 2016 Bonds and interest thereon are exempt from all state, county and municipal taxation in the State of Arkansas. See the caption "TAX MATTERS" herein.

$85,395,000
PULASKI COUNTY, ARKANSAS
HOSPITAL REVENUE REFUNDING BONDS
(ARKANSAS CHILDREN'S HOSPITAL)
SERIES 2016

Dated: Date of Delivery **Due: March 1, as shown on inside cover**

The Hospital Revenue Refunding Bonds (Arkansas Children's Hospital), Series 2016 (the "Series 2016 Bonds"), are being issued by Pulaski County, Arkansas (the "Issuer") pursuant to Arkansas Code Annotated Sections 14-265-101 *et seq.* (the "Act") for the purpose of providing a portion of the funds needed for (i) the advance refunding of the Issuer's Hospital Revenue Bonds (Arkansas Children's Hospital Project), Series 2009 (the "Series 2009 Bonds"), and (ii) paying certain expenses in connection with the issuance of the Series 2016 Bonds. The Series 2009 Bonds were issued for the purpose of financing the costs of acquiring, constructing and equipping certain additions and improvements to Arkansas Children's Hospital, a pediatric hospital located in the City of Little Rock, Arkansas (the "Hospital"). See the captions "PLAN OF REFUNDING" and "SOURCES AND USES OF FUNDS" herein.

The Series 2016 Bonds are issuable as fully registered bonds and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, to which principal, premium, if any, and interest payments on the Series 2016 Bonds will be made so long as Cede & Co. is the registered owner of the Series 2016 Bonds. Individual purchases of the Series 2016 Bonds will be made only in book-entry form, in denominations of $5,000 and integral multiples in excess thereof. Individual purchasers of the Series 2016 Bonds ("Beneficial Owners") will not receive physical delivery of bond certificates. See the caption "BOOK-ENTRY ONLY SYSTEM" herein.

Interest on the Series 2016 Bonds is payable semiannually each March 1 and September 1, commencing March 1, 2017. All such interest payments shall be payable to the person in whose name such Series 2016 Bond is registered on the bond registration books maintained by Bank of the Ozarks (the "Trustee"), in Little Rock, Arkansas, as of the close of business on the fifteenth day of the calendar month immediately preceding the interest payment date on which interest is due. Principal of and premium, if any, on the Series 2016 Bonds shall be payable at the principal corporate trust office of the Trustee. So long as DTC or its nominee is the registered owner of the Series 2016 Bonds, disbursement of such payments to DTC or its nominee is the responsibility of the Trustee. Disbursement of such payments to DTC Participants is the responsibility of DTC, and disbursement of such payments to Beneficial Owners is the responsibility of DTC Participants or Indirect Participants, as more fully described herein.

The Series 2016 Bonds are limited obligations being issued and secured pursuant to a Trust Agreement dated as of October 1, 1985, as previously supplemented and as further supplemented by a 2016 Supplemental Trust Indenture dated as of August 1, 2016 (as supplemented, the "Indenture), between the Issuer and the Trustee. Pursuant to the Indenture, the Issuer will assign to the Trustee all of its right, title and interest in and to the Lease Agreement dated as of October 1, 1985, as previously supplemented and as further supplemented by a 2016 Supplemental Lease Agreement dated as of August 1, 2016 (as supplemented, the "Lease Agreement), between the Issuer and Arkansas Children's Hospital, an Arkansas nonprofit corporation (the "Corporation"), including the lease payments required to be made by the Corporation under the Lease Agreement, but excluding certain rights of the Issuer to the payment of its expenses and indemnification. The Series 2016 Bonds are payable (except to the extent payable from proceeds of the Series 2016 Bonds and the investment income therefrom and, in certain circumstances, from the proceeds of insurance and condemnation awards with respect to the Hospital) as to principal, premium, if any, and interest solely from the revenues and receipts to be derived by the Issuer under the Lease Agreement. The obligation of the Corporation to make payments under the Lease Agreement will be secured by the Gross Revenues of the Corporation (defined herein). Payment of principal and interest on the Series 2016 Bonds is guaranteed by (i) Arkansas Children's, Inc., the parent corporation of the Corporation, (ii) the Corporation, (iii) Arkansas Children's Northwest, Inc., and (iv) Arkansas Children's Hospital Foundation, Inc. (collectively, the "Guarantors") pursuant to separate Guaranty Agreements dated as of August 1, 2016 (the "Guaranty Agreements"). The Series 2016 Bonds rank on a parity of security with the Issuer's outstanding Hospital Revenue Refunding Bonds (Arkansas Children's Hospital), Series 2010, and any Additional Bonds issued under the Indenture. In addition, the Corporation's repayment obligation with respect to the Series 2016 Bonds is secured on a parity basis under the Lease Agreement with the Corporation's guaranty obligation relating to the Northwest Bonds (defined herein). See the caption "SECURITY FOR THE BONDS" herein.

The Series 2016 Bonds are special and limited obligations of the Issuer secured by and payable solely as described in the preceding paragraph. The Series 2016 Bonds shall not constitute or give rise to or impose upon the Issuer a general liability or a charge upon its general credit or property other than the Trust Estate (as defined in the Indenture). Neither the Series 2016 Bonds, the Indenture, the Lease Agreement nor any other agreement of the Issuer shall be construed to constitute an indebtedness for which the faith and credit of the Issuer or any of its revenues are pledged. See the captions "SECURITY FOR THE BONDS" and "RISK FACTORS" herein.

The Series 2016 Bonds are subject to optional, mandatory and extraordinary redemption prior to maturity as described under the caption "THE SERIES 2016 BONDS" herein.

The Series 2016 Bonds are offered, subject to prior sale, when, as, and if issued and received by the Underwriters, subject to the approval of validity by Friday, Eldredge & Clark, LLP, Bond Counsel, and subject to certain other conditions. Certain legal matters will be passed upon for the Underwriters by Kutak Rock LLP, counsel to the Underwriters, and for the Corporation and the Guarantors by Friday, Eldredge & Clark, LLP. It is expected that the Series 2016 Bonds will be available for delivery through the facilities of DTC in New York, New York, on or about August 24, 2016.

Stephens Inc. **BofA Merrill Lynch**

The date of this Official Statement is July 21, 2016.

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* See the caption "RATINGS" herein.

MATURITY SCHEDULE

$85,395,000
PULASKI COUNTY, ARKANSAS
HOSPITAL REVENUE REFUNDING BONDS
(ARKANSAS CHILDREN'S HOSPITAL)
SERIES 2016

Maturity (March 1)	Principal Amount	Interest Rate	Yield	CUSIP*
2020	$ 100,000	2.000%	1.050%	745392 HS2
2021	105,000	2.000%	1.210%	745392 HT0
2022	110,000	2.000%	1.400%	745392 HU7
2023	410,000	4.000%	1.550%	745392 HV5
2024	3,685,000	5.000%	1.640%	745392 HW3
2025	3,870,000	5.000%	1.780%	745392 HX1
2026	1,945,000	2.000%	1.890%	745392 HY9
2026	2,115,000	5.000%	1.890%	745392 HZ6
2027	4,210,000	5.000%	2.120%**	745392 JA9
2028	1,600,000	3.250%	2.270%**	745392 JB7
2028	2,820,000	5.000%	2.180%**	745392 JC5
2029	4,615,000	5.000%	2.230%**	745392 JD3
2030	2,550,000	2.625%	2.759%	745392 JE1
2030	2,290,000	5.000%	2.300%**	745392 JF8
2031	5,025,000	5.000%	2.380%**	745392 JG6
2032	5,275,000	5.000%	2.430%**	745392 JH4
2033	5,540,000	5.000%	2.480%**	745392 JJ0
2034	5,815,000	5.000%	2.530%**	745392 JK7
2035	6,105,000	5.000%	2.570%**	745392 JL5
2036	6,410,000	5.000%	2.580%**	745392 JM3

$20,800,000 3.000% Term Bond due March 1, 2039 – Yield: 3.093% CUSIP* 745392 JN1

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* CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by the CUSIP Global Services, operated by S&P Capital IQ, a business unit of Standard & Poor's Financial Services LLC. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services Bureau. CUSIP numbers have been assigned by an independent company not affiliated with the Issuer and are included solely for the convenience of the registered owners of the Series 2016 Bonds. The Issuer and the Underwriters are not responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the Series 2016 Bonds by the Issuer or by the Underwriters. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Series 2016 Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Series 2016 Bonds.

** Priced to the first optional redemption date of September 1, 2026.

NO DEALER, BROKER, SALESMAN OR OTHER PERSON HAS BEEN AUTHORIZED BY THE ISSUER, THE CORPORATION, THE GUARANTORS OR THE UNDERWRITERS TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS, OTHER THAN THOSE CONTAINED IN THIS OFFICIAL STATEMENT, AND IF GIVEN OR MADE, SUCH OTHER INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE FOREGOING. THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY, NOR SHALL THERE BE ANY SALE OF THE SERIES 2016 BONDS BY ANY PERSON IN ANY STATE IN WHICH IT IS UNLAWFUL FOR SUCH PERSON TO MAKE SUCH OFFER, SOLICITATION OR SALE. THE INFORMATION AND EXPRESSIONS OF OPINION HEREIN ARE SUBJECT TO CHANGE WITHOUT NOTICE, AND NEITHER THE DELIVERY OF THIS OFFICIAL STATEMENT NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE ISSUER, THE CORPORATION OR THE GUARANTORS SINCE THE DATE HEREOF.

NO REGISTRATION STATEMENT RELATING TO THE SERIES 2016 BONDS HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THE SERIES 2016 BONDS HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION, NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT.

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

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2016 BONDS OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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SUMMARY STATEMENT

This Summary Statement is subject in all respects to the more complete information contained in this Official Statement. The offering of the Series 2016 Bonds to potential investors is made only by means of the entire Official Statement, including the cover page and Appendices hereto. No person is authorized to detach this Summary Statement or otherwise to use it without the entire Official Statement. Definitions of certain words and terms used in this Summary Statement are set forth in Appendix B to this Official Statement.

The Offering

The offering consists of Hospital Revenue Refunding Bonds (Arkansas Children's Hospital), Series 2016, dated as of the date of their delivery (the "Series 2016 Bonds"), to be issued in the aggregate principal amount of $85,395,000 by Pulaski County, Arkansas (the "Issuer" or the "County). The Issuer is a political subdivision organized and existing under the laws of the State of Arkansas (the "State"). Pursuant to the provisions of Amendment 65 to the Constitution of the State and Act 175 of the General Assembly of the State for the year 1961, as amended, codified as Arkansas Code Annotated §§14-265-101 *et seq.* (the "Act"), the Issuer is authorized to acquire, own, construct, reconstruct, extend, equip, improve, maintain, operate, sell, lease or contract concerning facilities that can be used for hospitals, and to issue revenue bonds for such purposes. See the caption "THE ISSUER" herein.

The Corporation and the Hospital

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

Purpose

The proceeds of the sale of the Series 2016 Bonds, along with other available moneys, will be utilized (i) to effect an advance refunding of the Issuer's $95,805,000 outstanding Hospital Revenue Bonds (Arkansas Children's Hospital Project), Series 2009 (the "Series 2009 Bonds"), and (ii) to pay certain expenses in connection with the issuance of the Series 2016 Bonds. The Series 2009 Bonds were issued for the purpose of financing the costs of acquiring, constructing and equipping certain additions and improvements to the Hospital. See the captions "PLAN OF REFUNDING" and "SOURCES AND USES OF FUNDS" herein.

Security for the Bonds

The Series 2016 Bonds are limited obligations of the Issuer, payable from amounts due to the Issuer from the Corporation under the Lease Agreement. As security for its obligations under the Lease Agreement, the Corporation will pledge and grant a security interest in the Gross Revenues of the Corporation (as defined herein). As additional security, (i) Arkansas Children's, Inc., an Arkansas nonprofit corporation (the "Parent"), (ii) the Corporation, (iii) Arkansas Children's Northwest, Inc., an Arkansas nonprofit corporation ("ACNW"), and (iv) Arkansas Children's Hospital Foundation, Inc., an Arkansas nonprofit corporation (the "Foundation," and together with the Parent, the Corporation and ACNW, the "Guarantors"), will each execute and deliver a Guaranty Agreement dated as of August 1, 2016 (the "Guaranty Agreements"), to the Trustee (defined below), pursuant to which each of the Guarantors will severally and unconditionally guarantee payment of the debt service on the Series 2016 Bonds. ACNW will further guarantee the performance of the obligations of the Corporation under the

Lease Agreement. The obligations of ACNW under its Guaranty Agreement are secured by a pledge of and security interest in the Gross Receipts of ACNW. See the caption "SUMMARY OF PORTIONS OF THE GUARANTY AGREEMENTS" herein.

The Parent was organized in December, 2015, and is the sole member of the Corporation, ACNW and the Foundation. ACNW was organized in December, 2015, to own and operate a 24-bed pediatric hospital to be known as Arkansas Children's Northwest (the "Northwest Facility") currently under construction in the City of Springdale, Arkansas and being financed in part with proceeds of the Northwest Bonds (defined herein). The Foundation was created in 1985 with the mission of developing and implementing plans to meet fund-raising goals of the Corporation and its related institutions.

In the Trust Indenture dated as of October 1, 1985, as amended and supplemented (the "Indenture"), by and between the Issuer and Bank of the Ozarks, Little Rock, Arkansas, as trustee (the "Trustee"), pursuant to which the Series 2016 Bonds are issued and secured, the Issuer has reserved the power, upon the satisfaction of certain conditions, to issue Additional Bonds and the Corporation has reserved the right to incur Alternative Indebtedness, each on a parity of security with the Series 2016 Bonds and the Issuer's outstanding Hospital Revenue Refunding Bonds (Arkansas Children's Hospital), Series 2010 (the "Series 2010 Bonds") which were issued under the Indenture. See the subcaptions "THE SERIES 2016 BONDS – Additional Bonds" and " – Alternative Indebtedness" herein.

The Series 2016 Bonds are special and limited obligations of the Issuer secured by and payable solely as described herein. The Series 2016 Bonds shall not constitute or give rise to or impose upon the Issuer a general liability or a charge upon its general credit or property other than the Trust Estate (as defined in the Indenture). Neither the Series 2016 Bonds, the Indenture, the Lease Agreement nor any other agreement of the Issuer shall be construed to constitute an indebtedness for which the faith and credit of the Issuer or any of its revenues are pledged. See the captions "SECURITY FOR THE BONDS" and "RISK FACTORS" herein.

Redemption

The Series 2016 Bonds are subject to optional, mandatory and extraordinary redemption prior to maturity as set forth in the Official Statement under the caption "THE SERIES 2016 BONDS" herein.

Special Considerations

Payment of principal of, premium, if any, and interest on the Series 2016 Bonds will be primarily dependent upon revenues derived by the Corporation from the operation of the Hospital. See the captions "THE CORPORATION" and "RISK FACTORS" herein. See also "APPENDIX A – The Corporation and Arkansas Children's Hospital" for a description of the Corporation and the Hospital and its operations.

Pending Litigation and Other Potential Liability

There is not now pending, nor to the knowledge of the Issuer, the Corporation or the Guarantors, threatened, any litigation restraining or enjoining the validity of the Series 2016 Bonds or the proceedings or authority under which they are to be issued.

The Corporation is a party to various litigation described under the heading "Miscellaneous - *Litigation*" in Appendix A attached to this Official Statement.

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

OFFICIAL STATEMENT

$85,395,000
PULASKI COUNTY, ARKANSAS
HOSPITAL REVENUE REFUNDING BONDS
(ARKANSAS CHILDREN'S HOSPITAL)
SERIES 2016

INTRODUCTION

The purpose of this Official Statement, including the cover page and the Appendices hereto, is to provide certain information concerning the $85,395,000 Hospital Revenue Refunding Bonds (Arkansas Children's Hospital), Series 2016 (the "Series 2016 Bonds"), to be issued by Pulaski County, Arkansas (the "Issuer" or the "County"). Definitions of certain capitalized terms used in this Official Statement are set forth in Appendix B to this Official Statement.

The Issuer is a political subdivision organized and existing under the laws of the State of Arkansas (the "State"). Pursuant to the provisions of Amendment 65 to the Constitution of the State and Act 175 of the General Assembly of the State for the year 1961, as amended, codified as Arkansas Code Annotated §§14-265-101 *et seq.* (the "Act"), the Issuer is authorized to acquire, own, construct, reconstruct, extend, equip, improve, maintain, operate, sell, lease or contract concerning facilities that can be used for hospitals, and to issue revenue bonds for such purposes. The Series 2016 Bonds are being issued pursuant to the Act, an Order of the County Court of the Issuer entered on July 7, 2016 (the "Order'), and a Trust Indenture dated as of October 1, 1985, as previously supplemented and amended, and as further supplemented and amended by a 2016 Supplemental Trust Indenture dated as of August 1, 2016 (the "Indenture"), by and between the Issuer and Bank of the Ozarks, Little Rock, Arkansas, as trustee and paying agent (the "Trustee"). See the captions THE ISSUER" and "SUMMARY OF PORTIONS OF THE INDENTURE" herein.

Arkansas Children's Hospital, an Arkansas nonprofit corporation (the "Corporation"), and the Issuer have entered into a Lease Agreement dated as of October 1, 1985, as previously supplemented and amended, and as further supplemented and amended by a 2016 Supplemental Lease Agreement dated as of August 1, 2016 (the "Lease Agreement"), pursuant to which the Corporation leases and operates a 336-bed pediatric hospital known Arkansas Children's Hospital (the "Hospital") located at 1 Children's Way in the City of Little Rock, Arkansas. The Corporation is recognized as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, and, together with its predecessors, has operated a children's care facility in the City of Little Rock since 1912. See the caption "THE CORPORATION" herein and "APPENDIX A – The Corporation and Arkansas Children's Hospital" hereto.

Pursuant to the Lease Agreement, the Corporation is obligated to make Lease Payments in such amounts and at such times as sufficient to pay the principal, premium, if any, and interest requirements on the Series 2016 Bonds and on the Issuer's outstanding Hospital Revenue Refunding Bonds (Arkansas Children's Hospital), Series 2010 (the "Series 2010 Bonds"). To secure its payment obligations under the Lease Agreement, the Corporation has pledged and granted a security interest in the Gross Revenues of the Corporation (as defined herein). See the caption "SUMMARY OF PORTIONS OF THE LEASE AGREEMENT" herein.

The proceeds of the sale of the Series 2016 Bonds, along with other available moneys, will be utilized (i) to effect an advance refunding of the Issuer's $95,805,000 outstanding Hospital Revenue Bonds (Arkansas Children's Hospital Project), Series 2009 (the "Series 2009 Bonds"), and (ii) to pay certain expenses in connection with the issuance of the Series 2016 Bonds. The Series 2009 Bonds were

issued for the purpose of financing the costs of acquiring, constructing and equipping certain additions and improvements to the Hospital. See the captions "PLAN OF REFUNDING" and "SOURCES AND USES OF FUNDS" herein.

As additional security for the payment of the Series 2016 Bonds , (i) Arkansas Children's, Inc., an Arkansas nonprofit corporation (the "Parent"), (ii) the Corporation, (iii) Arkansas Children's Northwest, Inc., an Arkansas nonprofit corporation ("ACNW"), and (iv) Arkansas Children's Hospital Foundation, Inc., an Arkansas nonprofit corporation (the "Foundation," and together with the Parent, the Corporation and ACNW, the "Guarantors"), will each execute and deliver a Guaranty Agreement dated as of August 1, 2016 (the "Guaranty Agreements"), to the Trustee, pursuant to which each of the Guarantors will severally and unconditionally guarantee payment of the debt service on the Series 2016 Bonds. ACNW will further guarantee the performance of the obligations of the Corporation under the Lease Agreement. The obligations of ACNW under its Guaranty Agreement are secured by a pledge of and security interest in the Gross Receipts of ACNW. See the caption "SUMMARY OF PORTIONS OF THE GUARANTY AGREEMENTS" herein.

The Parent was organized in December, 2015, and is the sole member of the Corporation, ACNW and the Foundation. ACNW was organized in December, 2015, to own and operate a 24-bed pediatric hospital to be known as Arkansas Children's Northwest (the "Northwest Facility") currently under construction in the City of Springdale, Arkansas and being financed in part with proceeds of the Northwest Bonds (defined herein). The Foundation was created in 1985 with the mission of developing and implementing plans to meet fund-raising goals of the Corporation and its related institutions.

In the Indenture, the Issuer has reserved the right to issue additional bonds (the "Additional Bonds") upon satisfaction of the terms and conditions set forth in the Indenture. In addition, the Corporation may, under certain circumstances, issue or incur Alternative Indebtedness under the Lease Agreement. Payment of the Series 2010 Bonds, the Series 2016 Bonds and any Additional Bonds (collectively, the "Bonds") and any Alternative Indebtedness would be secured on a parity basis with respect to the Gross Revenues of the Corporation in accordance with the provisions of the Lease Agreement and the Indenture. See the subcaptions "THE SERIES 2016 BONDS – Additional Bonds" and " - Alternative Indebtedness" herein.

The Series 2016 Bonds are special and limited obligations of the Issuer secured by and payable solely as described herein. The Series 2016 Bonds shall not constitute or give rise to or impose upon the Issuer a general liability or a charge upon its general credit or property other than the Trust Estate (as defined in the Indenture). Neither the Series 2016 Bonds, the Indenture, the Lease Agreement nor any other agreement of the Issuer shall be construed to constitute an indebtedness for which the faith and credit of the Issuer or any of its revenues are pledged. See the captions "SECURITY FOR THE BONDS" and "RISK FACTORS" herein.

This Official Statement and the Appendices hereto contain brief descriptions of, among other things, the Issuer, the Corporation, the Guarantors, the Hospital, the Northwest Facility, the Series 2016 Bonds, the Lease Agreement, the Indenture, the Guaranty Agreements and a Continuing Disclosure Agreement to be dated as of August 1,2016 "Continuing Disclosure Agreement"), by and among the Corporation, the Guarantors and Bank of the Ozarks, Little Rock, Arkansas, as dissemination agent. Such descriptions do not purport to be comprehensive or definitive. All references in this Official Statement to documents are qualified in their entirety by reference to such documents, and references to the Series 2016 Bonds herein are qualified in their entirety by reference to the form of Series 2016 Bond contained in the Indenture. Information concerning the Issuer has been supplied by the Issuer, and information concerning the Corporation, the Guarantors, the Northwest Facility and the Hospital has been supplied by the Corporation and the Guarantors. Until the issuance and delivery of the Series 2016 Bonds, copies of the Lease Agreement, Indenture, Guaranty Agreements and Continuing Disclosure Agreement may be obtained at the offices of Stephens Inc., 111 Center Street, 23rd Floor, Little Rock,

AR 72201. Copies of these documents may be obtained from the Trustee after delivery of the Series 2016 Bonds at the expense of the requesting party.

THE SERIES 2016 BONDS

Description

The Series 2016 Bonds are being issued as fully registered bonds in minimum denominations of $5,000 or any integral multiple thereof. The Series 2016 Bonds will bear interest from their date at the rates and mature in the amounts and on the dates as set forth on the inside cover page of this Official Statement. Interest on the Series 2016 Bonds is payable semiannually on March 1 and September 1 of each year, commencing March 1, 2017. Principal of and premium, if any, on the Series 2016 Bonds are payable at the principal corporate trust office of the Trustee in Little Rock, Arkansas, or at the offices of any additional or successor paying agent. All principal, premium and interest payments on the Series 2016 Bonds shall be payable to the persons in whose names such Series 2016 Bonds are registered as of the applicable Record Date on the bond registration books maintained by the Trustee.

As used herein, "Record Date" is for all purposes that date which is the fifteenth day of the month then next preceding that date for payment of principal, premium, if any, or interest, whether by scheduled maturity or by optional or mandatory redemption, on the Series 2016 Bonds held by the Holder to which such Record Date is applicable.

All of the Series 2016 Bonds, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), to which principal, premium and interest payments on the Series 2016 Bonds will be made so long as DTC or its nominee is the registered owner of the Series 2016 Bonds. See the caption "BOOK-ENTRY ONLY SYSTEM" herein.

Optional Redemption

The Series 2016 Bonds are subject to redemption prior to maturity at the option of the Issuer (which option shall be exercised as directed by the Corporation), as a whole or in part, on September 1, 2026, or on any date thereafter, at a redemption price equal to 100% of the principal amount to be redeemed, plus accrued interest to the date fixed for redemption. If fewer than all of the Series 2016 Bonds shall be called for optional redemption, the particular maturities to be redeemed shall be selected by the Issuer, as directed by the Corporation, in its discretion. If fewer than all of the Series 2016 Bonds of any one maturity shall be called for optional redemption, the particular Series 2016 Bonds or portions thereof to be redeemed from such maturity shall be selected by lot by the Trustee.

Extraordinary Redemption

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

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

Service equivalent to at least 100% of the Total Principal and Interest Requirements of the Corporation for each subsequent Fiscal Year, the proceeds or award shall be deposited to the Redemption Account.

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

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

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

Mandatory Sinking Fund Redemption

The Series 2016 Bonds maturing on March 1, 2039, are subject to mandatory sinking fund redemption prior to maturity on March 1 in the years and amounts set forth below at a redemption price equal to the principal amount thereof and accrued interest to the date of redemption, and without premium, as follows:

Year	Principal Amount
2037	$6,730,000
2038	6,930,000
2039 (maturity)	7,140,000

At its option, to be exercised on or before the forty-fifth (45th) day next preceding any mandatory redemption date, the Issuer or the Corporation may (i) deliver to the Trustee for cancellation any Series 2016 Bonds maturing March 1, 2039 (the "Series 2016 Term Bonds"), or (ii) receive a credit in respect of its mandatory redemption obligation for any Series 2016 Term Bonds which prior to said date have been purchased or redeemed (other than through mandatory sinking fund redemption) and cancelled by the Trustee and theretofore applied as a credit against any mandatory redemption obligation. Each such Series 2016 Term Bond or portion thereof so delivered or previously purchased or redeemed and canceled by the Trustee shall be credited by the Trustee at 100% of the principal amount thereof on the obligation of the Issuer on such mandatory sinking fund redemption date and any excess over such amount shall be credited on future mandatory sinking fund redemption obligations in chronological order.

Selection of Bonds to be Redeemed

Except for optional redemption and mandatory sinking fund redemption of the Series 2016 Bonds as provided above, if fewer than all of the Outstanding Series 2016 Bonds shall be called for redemption, the particular Series 2016 Bonds or portions thereof to be redeemed shall be selected by lot by the Trustee, in inverse order of maturity, in such manner as it shall determine. However, in all cases of partial redemption, so long as DTC or its nominee is the sole registered owner of the Series 2016 Bonds, the particular Series 2016 Bonds or portions thereof to be redeemed within a maturity shall be selected by lot by DTC in such manner as DTC shall determine. See the caption "BOOK-ENTRY ONLY SYSTEM" herein. In case any outstanding Series 2016 Bond is in a denomination greater than

$5,000, each $5,000 of face value of such Series 2016 Bond shall be treated as a separate Series 2016 Bond in the denomination of $5,000.

Notice of Redemption

In the event any of the Series 2016 Bonds or portions thereof are called for redemption as aforesaid, notice thereof identifying the Series 2016 Bonds or portions thereof to be redeemed and the date on which they shall be presented for payment shall be given by Trustee by mailing a copy of the redemption notice by first class mail, postage prepaid, or by electronic communication (or, so long as DTC or its nominee is the sole registered owner of the Series 2016 Bonds, by any other means acceptable to DTC), not less than thirty (30) days nor more than sixty (60) days prior to the date fixed for redemption to the Holder of each Series 2016 Bond to be redeemed in whole or in part at the address shown on the registration books. Failure to give any such notice by mailing, or any defect therein, shall not affect the validity of the proceedings for the redemption of any Series 2016 Bond or portion thereof with respect to which no such failure has occurred.

After the date specified in such notice, the Series 2016 Bonds so called for redemption will cease to bear interest, provided funds for their payment have been deposited with the Trustee; and, except for the purpose of such payment, shall no longer be protected by the Indenture and shall not be deemed to be outstanding under the provisions of the Indenture.

Additional Bonds

Pursuant to the terms of the Indenture, so long as there shall be no event of default existing under the Indenture, the Issuer may, upon the request of the Corporation, authorize the issuance of Additional Bonds to provide funds for any lawful purpose. Any such Additional Bonds would be secured on a parity basis with the Series 2010 Bonds, the Series 2016 Bonds, any other Additional Bonds theretofore issued under the Indenture, and any Alternative Indebtedness incurred by the Corporation as permitted by the Lease Agreement.

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

Additional Bonds for General Purposes While Series 2010 Bonds are Outstanding. In the case of the issuance of Additional Bonds for any purpose other than (a) refunding outstanding Bonds or (b) providing funds for the completion of a Project, the Trustee shall receive one of the following:

> (i) The Corporation shall have delivered to the Trustee its certificate stating that the Additional Bonds, when combined with all other Outstanding Additional Bonds incurred in compliance with this paragraph (i) and all Alternative Indebtedness incurred in compliance with the provisions of the Lease Agreement, does not exceed 10% of the Operating Revenues; or
>
> (ii) The Corporation shall have delivered to the Trustee its certificate stating that the ratio of the Net Revenues Available for Debt Service (as of the end of the most recent Fiscal Year for which audited financial statements are available) to the Maximum Total Principal and Interest Requirements immediately after the issuance of the proposed Additional Bonds, including the Additional Bonds as if they had been issued at the beginning of such Fiscal Year, is at least 1.50 to 1.00; or
>
> (iii) The Corporation shall have delivered to the Trustee (A) its certificate stating that the ratio of Net Revenues Available for Debt Service to Total Principal and Interest Requirements was at least 1.10 to 1.00 for the most recent Fiscal Year for which audited financial statements are available and (B) a report of a Management Consultant stating that the ratio of Net Revenues Available for Debt Service to Maximum Total Principal and Interest Requirements is projected to be at least 1.20 to 1.00 during each of the two immediately succeeding Fiscal Years or, if the Additional Bonds are being issued to finance the construction

of a Project, such ratio shall be projected to be at least 1.20 to 1.00 during each of the two Fiscal Years immediately succeeding the completion of the Project.

Additional Bonds for Refunding Outstanding Bonds While Series 2010 Bonds are Outstanding. In the case of the issuance of Additional Bonds issued for the purpose of refunding Outstanding Bonds, the Trustee shall receive the following:

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

(ii) If the Maximum Total Principal and Interest Requirements on Outstanding Bonds shall be increased by more than 10% by such refunding during the life of any Bonds issued prior to such refunding and not refunded:

(A) the Corporation shall have delivered to the Trustee its certificate stating that the Additional Bonds when combined with all other Additional Bonds Outstanding that were issued pursuant to this clause (A) and Permitted Indebtedness (exclusive of Permitted Indebtedness incurred in compliance with the provisions of clauses (B) and (C) of this paragraph) does not exceed 10% of Operating Revenues; or

(B) the Corporation shall have delivered to the Trustee its certificate stating that the ratio of the Net Revenues Available for Debt Service (as of the end of the most recent Fiscal Year for which audited financial statements are available) to the Maximum Total Principal and Interest Requirements immediately after the issuance of the proposed Additional Bonds, including the Additional Bonds as if they had been issued at the beginning of such Fiscal Year, is at least 1.50 to 1.00; or

(C) the Corporation shall have delivered to the Trustee (1) its certificate stating that the ratio of Net Revenues Available for Debt Service to Total Principal and Interest Requirements was at least 1.10 to 1.00 for the most recent Fiscal Year for which audited financial statements are available and (2) a report of a Management Consultant stating that such ratio is projected to be at least 1.20 to 1.00 during the immediately succeeding two Fiscal Years.

Additional Bonds for Completion of a Project While Series 2010 Bonds are Outstanding. If Additional Bonds are issued for the purpose of providing funds for completion of a Project, such Additional Bonds may be issued and delivered without meeting the debt service coverage requirements outlined above.

At such time as the Series 2010 Bonds are no longer Outstanding and there are no obligations owed to the insurer of the Series 2010 Bonds, the requirements for the issuance of Additional Bonds shall be deemed to be revised as set forth below.

Additional Bonds for General Purposes When Series 2010 Bonds are not Outstanding. In the case of the issuance of Additional Bonds for any purpose other than (a) refunding outstanding Bonds or (b) providing funds for the completion of a Project, the Trustee shall receive one of the following:

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

(ii) The Corporation shall have delivered to the Trustee its certificate stating that the ratio of the Net Revenues Available for Debt Service calculated on a consolidated basis (as of the

end of the most recent Fiscal Year for which audited financial statements are available) to the Maximum Total Principal and Interest Requirements immediately after the issuance of the proposed Additional Bonds, including the Additional Bonds as if they had been issued at the beginning of such Fiscal Year, is at least 1.20 to 1.00; or

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

Additional Bonds for Refunding Outstanding Bonds While Series 2010 Bonds are not Outstanding. In the case of the issuance of Additional Bonds issued for the purpose of refunding Outstanding Bonds, the Trustee shall receive the following:

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

(ii) If the maximum annual Principal and Interest Requirements on Outstanding Bonds shall be increased by more than 10% by such refunding during the life of any Bonds issued prior to such refunding and not refunded, the Corporation shall have delivered to the Trustee either of the certificates described in clauses (i) or (ii) under the subcaption "THE SERIES 2016 BONDS – Additional Bonds – *Additional Bonds for General Purposes When Series 2010 Bonds are not Outstanding*."

Additional Bonds for Completion of a Project While Series 2010 Bonds are not Outstanding. If Additional Bonds are issued for the purpose of providing funds for completion of a Project, such Additional Bonds may be issued and delivered without meeting the debt service coverage requirements outlined above.

Alternative Indebtedness

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

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

Other Indebtedness

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

SECURITY FOR THE BONDS

General

The Series 2016 Bonds are special and limited obligations of the Issuer, payable from amounts due to the Issuer from the Corporation under the Lease Agreement, and under certain circumstances, from the proceeds of the Series 2016 Bonds and the proceeds of insurance and condemnation awards with respect to the Hospital. As security for its obligations under the Lease Agreement, the Corporation will grant a pledge of and security interest in the Gross Revenues of the Corporation. The payments due from the Corporation under the Lease Agreement and the Corporation's Guaranty Agreement are general corporate obligations of the Corporation, backed by its full faith and credit. The ability of the Corporation to make such payments is dependent primarily upon the results of operation of the Hospital. See the caption "RISK FACTORS" herein and "APPENDIX A – The Corporation and Arkansas Children's Hospital" hereto.

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

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

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

The Series 2016 Bonds are special and limited obligations of the Issuer secured by and payable solely as described herein. The Series 2016 Bonds shall not constitute or give rise to or impose upon the Issuer a general liability or a charge upon its general credit or property other than the Trust Estate (as defined in the Indenture). Neither the Series 2016 Bonds, the Indenture, the Lease Agreement nor any other agreement of the Issuer shall be construed to constitute an indebtedness for which the faith and credit of the Issuer or any of its revenues are pledged. See the caption "RISK FACTORS" herein.

Rate Covenant

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

The Corporation further covenants that if, in any Fiscal Year, Net Revenues Available for Debt Service shall not satisfy the Rate Requirement, it will, before the 60th day after receipt of the first available financial statement (audited or unaudited), employ a Management Consultant to make recommendations with respect to the methods of operation and the rates, rentals, fees and charges necessary to enable the Corporation to satisfy the Rate Requirement, and the Corporation shall follow such recommendations to the fullest extent allowed by law. If in the judgment of the Management Consultant it is not possible for the Corporation to satisfy the Rate Requirement, the report shall so indicate, and shall further indicate the projected ratio of Net Revenues Available for Debt Service to the Maximum Total Principal and Interest Requirements anticipated if the recommendations of the Management Consultant are followed. If the Corporation complies with the Management Consultant's recommendations, the Corporation shall be excused from compliance with the Rate Requirement so long as the Corporation's Net Revenues Available for Debt Service in each Fiscal Year shall be at least equal to 100% of Total Principal and Interest Requirements for such Fiscal Year.

Guaranty Agreements

As additional security for the Series 2016 Bonds, the Corporation, the Parent, ACNW and the Foundation (collectively, the "Guarantors"), will each execute and deliver a Guaranty Agreement dated as of August 1, 2016 (the "Guaranty Agreements"), to the Trustee pursuant to which the Guarantors will severally and unconditionally guarantee payment of the debt service on the Series 2016 Bonds. ACNW will further guarantee the performance of the obligations of the Corporation under the Lease Agreement. The obligations of ACNW under its Guaranty Agreement are secured by a pledge of and security interest in the Gross Receipts of ACNW. See the caption "SUMMARY OF PORTIONS OF THE GUARANTY AGREEMENTS" herein.

In order to establish parity security for the Series 2010 Bonds, the Series 2016 Bonds and the $75,465,000 City of Springdale Public Facilities Board Hospital Revenue Bonds, Series 2016 (Arkansas Children's Northwest Project) (the "Northwest Bonds"), the Corporation has executed and delivered a Guaranty Agreement dated as of June 1, 2016 (the "Northwest Guaranty Agreement"), to Bank of the Ozarks, as trustee for the Northwest Bonds, pursuant to which the Corporation has unconditionally guaranteed payment of the debt service on the Northwest Bonds. The obligations of the Corporation under the Northwest Guaranty Agreement are secured by a pledge of and security interest in the Gross Revenues of the Corporation.

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

Parity Pledges of Corporation and ACH

The obligations of the Corporation under the Lease Agreement are secured by a pledge of the Gross Revenues of the Corporation on a parity basis with the pledge of the Gross Revenues of the Corporation securing the Corporation's obligations under the Northwest Guaranty Agreement relating to the Northwest Bonds.

The obligations of ACNW relating to the Series 2016 Bonds under its Guaranty Agreement are secured by a pledge of the Gross Receipts of ACNW on a parity with the pledge of the Gross Receipts of ACNW in favor of the Northwest Bonds and the Series 2010 Bonds.

BOOK-ENTRY ONLY SYSTEM

The Series 2016 Bonds will be issued only as one fully registered Series 2016 Bond for each maturity, in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), as registered owner of all the Series 2016 Bonds. The fully registered Series 2016 Bonds will be retained and immobilized in the custody of DTC.

DTC (or any successor securities depository) or its nominee will be considered by the Issuer, the Corporation and the Trustee to be the owner or holder of the Series 2016 Bonds for all purposes under the Indenture.

Owners of any book entry interests in the Series 2016 Bonds (the "book entry interest owners") described below, will not receive or have the right to receive physical delivery of the Series 2016 Bonds, and will not be considered by the Issuer, the Corporation and the Trustee to be, and will not have any rights as, owners or holders of the Series 2016 Bonds under the bond proceedings and the Indenture except to the extent, if any, expressly provided thereunder.

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

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.6 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues and money market instruments (from over 120 countries and territories) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges among Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, the National Securities Clearing Corporation and the Fixed Income Clearing Corporation, all of which are registered agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The DTC Rules applicable to its Direct and Indirect Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Series 2016 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2016 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2016 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or

Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2016 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2016 Bonds, except in the event that use of the Book-Entry System for the Series 2016 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2016 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2016 Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2016 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2016 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Redemption notices shall be sent to DTC. If less than all of the Series 2016 Bonds within a maturity are to be redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Series 2016 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the Record Date. The Omnibus Proxy will assign Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2016 Bonds are credited on the Record Date (identified in a listing attached to the Omnibus Proxy).

Payment of debt service and redemption proceeds with respect to the Series 2016 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Issuer or the Trustee on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and debt service to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

The Trustee and the Issuer, so long as a book entry method of recording and transferring interest in the Series 2016 Bonds is used, will send any notice of redemption or of any Indenture amendment or supplement or other notices to Bondholders under the Indenture only to DTC (or any successor securities depository) or its nominee. Any failure of DTC to advise any Direct Participants, or of any Direct Participants or Indirect Participants to notify any Beneficial Owner, of any such notice and its content or effect will not affect the validity of the redemption of the Series 2016 Bonds called for redemption, the Indenture amendment or supplement, or any other action premised on notice given under the Indenture.

The Issuer, the Corporation and the Trustee cannot and do not give any assurances that DTC, Direct Participants, Indirect Participants or others will distribute payments of debt service on the Series 2016 Bonds made to DTC or its nominee as the registered owner of the Series 2016 Bonds, or any redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or that DTC will serve and act in a manner described in this Official Statement.

DTC may discontinue providing its services as securities depository with respect to the Series 2016 Bonds at any time by giving reasonable notice to the Issuer or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, bond certificates are required to be printed and delivered.

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

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SOURCES AND USES OF FUNDS

The proceeds of the Series 2016 Bonds will be used as follows:

Sources of Funds	
Series 2016 Bonds Par Amount	$ 85,395,000
Net Reoffering Premium	13,326,147
Series 2009 Debt Service Reserve	7,471,360
Series 2009 Bond Fund	3,165,968
Total:	$109,358,475
Uses of Funds	
Escrow Fund Deposit	$108,639,486
Underwriter's Discount and Other Costs of Issuance	717,264
Contingency	1,725
Total:	$109,358,475

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DEBT SERVICE REQUIREMENTS

The following table sets forth the amounts required to pay the combined scheduled principal and interest due on the (i) $13,280,000 outstanding principal amount of Pulaski County, Arkansas Hospital Revenue Refunding Bonds (Arkansas Children's Hospital), Series 2010 (the "Series 2010 Bonds"), (ii) $13,474,335 outstanding principal amount of Arkansas Development Finance Authority Revenue Bond (Arkansas Children's Hospital Project), Series 2013 (the "Series 2013 Bond"), (iii) $75,465,000 outstanding principal amount of the City of Springdale Public Facilities Board Hospital Revenue Bonds, Series 2016 (Arkansas Children's Northwest Project) (the "Northwest Bonds"), and (iv) the Series 2016 Bonds, during the fiscal years ending June 30 indicated below:

	Series 2010 Debt Service[1]	Series 2013 Debt Service[2]	Northwest Debt Service[3]	Series 2016 Principal[4]	Series 2016 Interest	Total Debt Service
2017	$ 2,396,200	$ 1,932,611	$ 2,239,490	$ --	$ 1,918,458	$ 8,486,759
2018	2,541,600	1,932,611	5,167,163	--	3,693,288	13,334,662
2019	2,553,200	1,932,611	5,164,462	--	3,693,288	13,343,561
2020	2,561,000	1,932,611	5,166,963	100,000	3,693,288	13,453,862
2021	2,580,000	1,932,611	5,164,162	105,000	3,691,287	13,473,060
2022	2,589,600	1,932,611	5,167,663	110,000	3,689,187	13,489,061
2023	--	1,932,611	5,168,912	410,000	3,686,987	11,198,510
2024	--	483,141	5,169,013	3,685,000	3,670,588	13,007,742
2025	--	--	5,166,762	3,870,000	3,486,337	12,523,099
2026	--	--	5,168,263	4,060,000	3,292,838	12,521,101
2027	--	--	5,167,162	4,210,000	3,148,187	12,525,349
2028	--	--	5,164,163	4,420,000	2,937,688	12,521,851
2029	--	--	5,164,162	4,615,000	2,744,687	12,523,849
2030	--	--	5,165,413	4,840,000	2,513,937	12,519,350
2031	--	--	5,163,912	5,025,000	2,332,500	12,521,412
2032	--	--	5,164,413	5,275,000	2,081,250	12,520,663
2033	--	--	5,166,412	5,540,000	1,817,500	12,523,912
2034	--	--	5,166,813	5,815,000	1,540,500	12,522,313
2035	--	--	5,167,312	6,105,000	1,249,750	12,522,062
2036	--	--	5,164,763	6,410,000	944,500	12,519,263
2037	--	--	5,166,562	6,730,000	624,000	12,520,562
2038	--	--	5,167,900	6,930,000	422,100	12,520,000
2039	--	--	5,164,988	7,140,000	214,200	12,519,188
2040	--	--	5,167,575	--	--	5,167,575
Total:	$15,221,600	$14,011,418	$121,064,403	$85,395,000	$57,086,345	$292,778,766

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[1] The Series 2010 Bonds are secured by the gross revenues of the Corporation and by the guarantees of the Corporation, the Foundation and ACNW.

[2] The Series 2013 Bond is secured by loan payments to be made by the Corporation and by the helicopters financed with the proceeds of the Series 2013 Bond.

[3] The Northwest Bonds are secured by the Gross Receipts of ACNW and by the guarantees of the Parent, the Corporation and the Foundation. The guarantee by the Corporation is secured by the Gross Revenues of the Corporation.

[4] Includes mandatory sinking fund redemption.

ESTIMATED DEBT SERVICE COVERAGE

	Fiscal Year 2014	Fiscal Year 2015
Net Revenues Available for Debt Service[1]	$81,327,326	$81,531,821
Maximum Total Principal and Interest Requirements on Series 2010 Bonds, Series 2013 Bond, Northwest Bonds and Series 2016 Bonds[2]	$13,489,061	$13,489,061
Estimated Coverage	6.03X	6.04X
Maximum Total Principal and Interest Requirements on the Series 2010 Bonds, Northwest Bonds and Series 2016 Bonds[3]	$12,525,349	$12,525,349
Estimated Coverage	6.49X	6.51X

(1) See "APPENDIX B – Definitions" for the meaning of "Net Revenues Available for Debt Service."

(2) See the fiscal year ending June 30, 2022, under the caption "DEBT SERVICE REQUIREMENTS" herein for the Maximum Total Principal and Interest Requirements on the Series 2010 Bonds, Series 2013 Bond, Northwest Bonds and Series 2016 Bonds.

(3) See the fiscal year ending June 30, 2027, under the caption "DEBT SERVICE REQUIREMENTS" herein for the Maximum Total Principal and Interest Requirements on the Series 2010 Bonds, Northwest Bonds and Series 2016 Bonds.

THE ISSUER

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

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

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

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

The economy of the County is primarily commercial, governmental and industrial. All but one major department of the State government are located in the City. For additional demographic information concerning the County, see the caption "Service Area" in "APPENDIX A—THE CORPORATION AND ARKANSAS CHILDREN'S HOSPITAL" hereto.

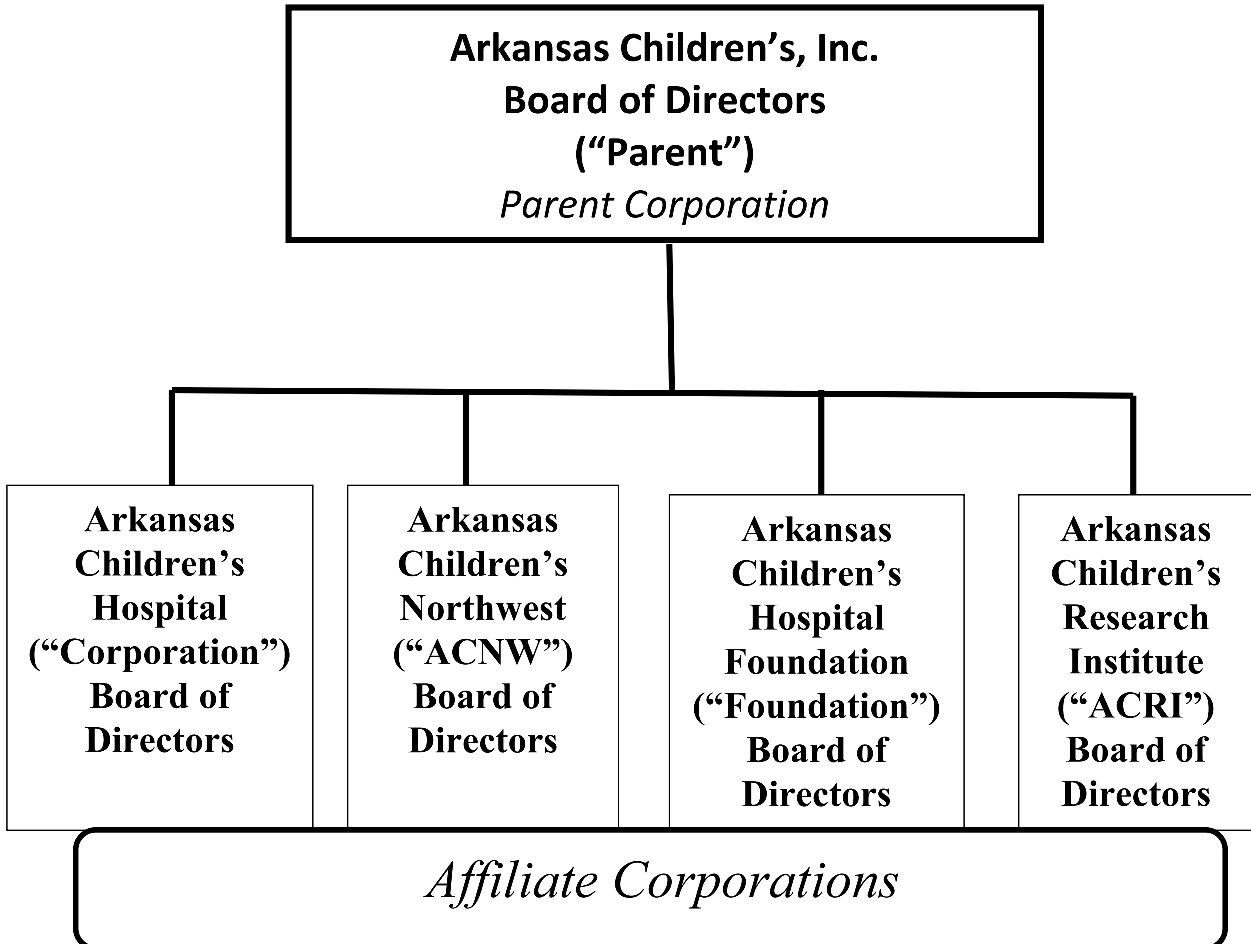
The Series 2016 Bonds are special and limited obligations of the Issuer secured by and payable solely as described herein. The Series 2016 Bonds shall not constitute or give rise to or impose upon the Issuer a general liability or a charge upon its general credit or property other than the Trust Estate (as defined in the Indenture). Neither the Series 2016 Bonds, the Indenture, the Lease Agreement nor any other agreement of the Issuer shall be construed to constitute an indebtedness for which the faith and credit of the Issuer or any of its revenues are pledged. See the captions "SECURITY FOR THE BONDS" and "RISK FACTORS" herein.

THE CORPORATION

The Corporation, an Arkansas nonprofit corporation, leases and operates Arkansas Children's Hospital, a 336-bed pediatric hospital located at 1 Children's Way near the State Capitol in the City of Little Rock, Arkansas. The Hospital is the only acute care tertiary healthcare facility operated exclusively for children in the State. See "APPENDIX A - THE CORPORATION AND ARKANSAS CHILDREN'S HOSPITAL" hereto.

The sole member of the Corporation is Arkansas Children's, Inc. (the "Parent"), also an Arkansas nonprofit corporation and one of the Guarantors of the Series 2016 Bonds. The other Guarantors, Arkansas Children's Northwest, Inc. ("ACNW") and Arkansas Children's Hospital Foundation, Inc. (the "Foundation"), are affiliates of the Corporation. By letter of the Internal Revenue Service dated April 16, 1993, the Corporation has been deemed a tax-exempt organization under Section 501(c)(3) of the Code.

Set forth below is the current organizational chart for the Parent and its affiliates:



PLAN OF REFUNDING

Purpose

A portion of the proceeds of the Series 2016 Bonds will be utilized, along with other available moneys, to effect an advance refunding of the entire $95,805,000 outstanding principal amount of the Series 2009 Bonds, thereby releasing the lien of the Indenture in favor of the Series 2009 Bonds and restructuring the debt of the Corporation.

Refunded Bonds

The Series 2009 Bonds will be called for redemption on March 1, 2019, and will be paid from funds deposited with Bank of the Ozarks, Little Rock, Arkansas, as escrow trustee (the "Escrow Trustee"), under the provisions of an Escrow Deposit Agreement to be dated as of the date of delivery of the Series 2016 Bonds (the "Escrow Agreement"), among the Issuer, the Corporation and the Escrow Trustee.

The Indenture provides that a portion of the proceeds from the sale of the Series 2016 Bonds, together with moneys released from the bond fund and reserve fund relating to the Series 2009 Bonds, will be held by the Escrow Trustee under the Escrow Agreement in an Escrow Fund and invested in Government Obligations. An accountant's verification will be provided at the time of delivery of the Series 2016 Bonds that the Escrow Fund is sufficient, with investment income thereon, to pay, when due and upon redemption on March 1, 2019, the principal of and interest on the Series 2009 Bonds.

Pursuant to the terms of the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Series 2009 Bonds.

By the deposit of the proceeds and other moneys described in the preceding paragraph with the Escrow Trustee pursuant to the Escrow Agreement, the Series 2009 Bonds will be defeased. In the opinion of Bond Counsel, the Series 2009 Bonds will no longer be payable from, or secured by a lien on, the Trust Estate, but will be payable solely from the moneys in the Escrow Fund held for such purpose by the Escrow Trustee, and the lien of the Series 2009 Bonds on the Trust Estate, together with all other obligations to the holders of the Series 2009 Bonds under the Indenture will be discharged.

RISK FACTORS

THE PURCHASE OF THE SERIES 2016 BONDS IS SUBJECT TO CERTAIN INVESTMENT RISKS AND MAY NOT BE SUITABLE FOR SOME INVESTORS. PROSPECTIVE INVESTORS ARE ENCOURAGED TO READ THIS OFFICIAL STATEMENT IN ITS ENTIRETY, INCLUDING THE APPENDICES HERETO. PARTICULAR ATTENTION SHOULD BE GIVEN TO THE FACTORS DESCRIBED BELOW WHICH, AMONG OTHERS, COULD AFFECT THE PAYMENT OF THE PRINCIPAL OF AND INTEREST ON THE SERIES 2016 BONDS, AND COULD ALSO AFFECT THE MARKET PRICE OF THE SERIES 2016 BONDS TO AN EXTENT THAT CANNOT BE DETERMINED. THE FOLLOWING LIST OF RISK FACTORS IS NOT INTENDED TO PROVIDE AN EXHAUSTIVE LIST OF THE GENERAL OR SPECIFIC RISKS RELATING TO THE PURCHASE OF THE SERIES 2016 BONDS. ADDITIONAL RISK FACTORS RELATING TO AN INVESTMENT IN THE SERIES 2016 BONDS ARE DESCRIBED THROUGHOUT THIS OFFICIAL STATEMENT, INCLUDING THE APPENDICES HERETO, WHETHER OR NOT SPECIFICALLY DESIGNATED AS RISK FACTORS.

General

The Series 2016 Bonds are special and limited obligations of the Issuer secured by and payable solely as described herein. The Series 2016 Bonds shall not constitute or give rise to or impose upon the Issuer a general liability or a charge upon its general credit or property other than the Trust Estate (as defined in the Indenture). Neither the Series 2016 Bonds, the Indenture, the Lease Agreement nor any other agreement of the Issuer shall be construed to constitute an indebtedness for which the faith and credit of the Issuer or any of its revenues are pledged. See the caption "SECURITY FOR THE BONDS" herein.

Except as otherwise noted herein, the Series 2016 Bonds are payable from the Lease Payments to be made by the Corporation under the Lease Agreement or by the Guarantors under the Guaranty Agreements. No representation can be made or assurance given that revenues will be realized by the Corporation and the Guarantors in amounts sufficient to pay maturing principal of and interest on the Series 2016 Bonds. The payments due under the Lease Agreement are general corporate obligations of the Corporation, and any payments due under the Guaranty Agreements are general corporate obligations of the Guarantors. The ability of the Corporation and the Guarantors to make such payments is dependent upon their general financial condition and upon many other factors and conditions which may change in the future to an extent and with effects that cannot be determined at this time. Such factors include, in addition to those mentioned below, the capabilities of the management of the Corporation and the Guarantors, the confidence of physicians in the Corporation and ACNW, the relationship between and among the Corporation and other health care providers, changes in the economic conditions of the Corporation's and ACNW's service areas, the demand for medical services, levels and methods of federal reimbursement under Medicare, federal and state reimbursement under Medicaid, reimbursement from other third-party payors, competition, rates, demographic changes, malpractice claims, natural disasters, governmental legislation, regulation and licensing requirements, and future economic and other conditions (including the impact of inflation) which may change in the future and which are not quantified or determinable at this time.

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

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

The following factors should be considered by prospective purchasers of the Series 2016 Bonds in evaluating the ability of the Corporation and the Guarantors to meet their respective obligations under the Lease Agreement and the Guaranty Agreements with respect to the Series 2016 Bonds. The discussion of risk factors is not, and is not intended to be, exhaustive.

Matters Relating to the Security for the Series 2016 Bonds

The payment obligations of the Corporation under the Lease Agreement with respect to the Series 2016 Bonds are secured by a security interest in the Gross Revenues of the Corporation. The

payment obligations of ACNW under its Guaranty Agreement are secured by a security interest in the Gross Receipts of ACNW. See the caption "SECURITY FOR THE BONDS" herein.

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

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

Risks of Repeal or Amendment of Affordable Care Act or Arkansas Works Medicaid Expansion

Any repeal or amendment of the Affordable Care Act or of the Arkansas Works Medicaid Expansion could have a negative impact on patient revenues of the Corporation and ACNW and their ability to satisfy their payment obligations under the Lease Agreement and ACNW's Guaranty Agreement, respectively, with respect to the Series 2016 Bonds.

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

On June 28, 2012, the U.S. Supreme Court upheld most provisions of the Health Reform Law, including the requirement that individuals purchase and maintain health insurance coverage. Since the Supreme Court's decision was issued, certain political leaders in both federal and state government have

announced their intention to proceed with legislation to repeal or amend provisions of the Health Reform Law and take action to defund its enforcement. Given the current highly charged political environment surrounding this issue, it is not possible to predict the outcome of legislative attempts to repeal, amend or defund the Health Reform Law or the result of additional legal challenges to the enforceability of certain of its provisions.

In the decision referred to in the previous paragraph, the U.S. Supreme Court also ruled that the federal government could not compel states to comply with the Health Reform Law's requirement to expand Medicaid by eliminating all federal funds a state receives for its existing Medicaid program. Under the relevant provisions of the Health Reform Law, Medicaid was expected to cover all individuals with incomes of less than 133% of the federal poverty level, expanding eligibility to approximately 16 million people. Beginning in 2014, states were also permitted to expand Medicaid eligibility to non-elderly, non-pregnant individuals who were not otherwise eligible for Medicare, if they have incomes of less than 133% of the federal poverty level. To assist states with the cost of covering such newly eligible individuals, the federal government will pay 100% of the additional cost to the states for a limited number of years. Thereafter, the cost share is expected to decrease to 90%. However, as stated above, the U.S. Supreme Court's decision made the decision to expand Medicaid optional to the states.

Instead of fully expanding the Arkansas Medicaid program as envisioned by the Health Reform Law, the State sought and obtained a waiver from the federal government to instead institute a hybrid approach commonly referred to as the "private option." Under the private option, individuals in Arkansas earning less than 138% of the federal poverty level income amount are eligible to receive a government subsidy to purchase private insurance through the Arkansas Health Insurance Exchange. The adoption of the State's private option program by the Arkansas General Assembly has resulted in insurance coverage to an estimated 200,000 previously uninsured persons and a corresponding decrease in the costs of uncompensated care to Arkansas hospitals. Although the "private option" expansion (now rebranded as "Arkansas Works") has primarily resulted in the expansion of the adult Medicaid population and the patient base of the Corporation is almost exclusively comprised of pediatric patients, management believes that the ramp-up of the Arkansas private option program has had a minimal positive impact on the Corporation's financial performance in Fiscal Years 2014 and 2015 and in the first nine months of Fiscal Year 2016. Any repeal or revision of the Health Reform Law could potentially invalidate the Arkansas private option program, which, in turn, could have some minor impact on patient revenues of the Corporation and ACNW.

Construction and Funding Risks Associated with the Northwest Facility

With respect to the design and construction of the 24-bed pediatric hospital to be known as Arkansas Children's Northwest (the "Northwest Facility") currently under construction in the City of Springdale, Arkansas, FKP Architects, Houston, Texas, and Polk Stanley Wilcox Architects, Little Rock, Arkansas, have been engaged as architects and Nabholz Construction, Little Rock, Arkansas, has been hired as general contractor. It is intended that the projected $167 million cost of the Northwest Facility will be funded with approximately $84 million of proceeds of the City of Springdale Public Facilities Board Hospital Revenue Bonds, Series 2016 (Arkansas Children's Northwest Project) (the "Northwest Bonds"), and investment earnings thereon, $70 million raised in an ongoing capital campaign (with approximately $32.3 million pledged to date), with the remainder of the cost to be funded from current cash flows and cash reserves. Although management believes that the capital campaign goal is achievable, if the actual amounts needed and collected are less than the stated $70 million target, the Corporation would be required to contribute additional money to complete the Northwest Facility or reduce its scope accordingly. In order to mitigate the risks of cost overruns with respect to the Northwest Facility, the Corporation has entered into a guaranteed maximum price construction contract in the amount of approximately $95.3 million.

There can be no assurances that the acquisition, construction and equipping of the Northwest Facility will be completed on schedule. A variety of factors could result in the delay of the completion of the Northwest Facility, including delays in obtaining the necessary permits, licenses and other government approvals, site difficulties, labor disputes, delays in delivery and shortages of materials, adverse weather conditions, fire and other casualties, contractor and subcontractor defaults, and unknown contingencies. If completion of the Northwest Facility is delayed beyond the date projected, the receipt of revenues with respect to operations of ACNW will likewise be delayed.

Fluctuations in Market Value of Investments

Investments provide the Corporation and will provide ACNW with important sources of funds to support their programs and services. Over the past several years, the market for such investments has been unstable and the value of the Corporation's investment securities has fluctuated and, in some instances, the fluctuations have been significant. Positive investment returns in Fiscal Year 2015 and through the first nine months of Fiscal Year 2016 have contributed approximately $10.96 million and $5.91 million, respectively, to the Corporation's Fiscal Year 2015 excess of revenues over expenses of $46.51 million, and the Corporation's excess of revenues over expenses of $40.11 million for the first nine months of Fiscal Year 2016. No assurances can be given that the market value of the Corporation's and ACNW's investments will not decline in the future. Any such decline could adversely affect the financial condition of the Corporation and ACNW and their ability to satisfy their respective payment obligations with respect to the Series 2016 Bonds.

In addition to risks of decline in the value of the Corporation's and ACNW's investments associated with fluctuations in market returns, it should be noted that the Corporation intends to fund approximately $13 million of the cost of the acquisition, construction and equipping of the Northwest Facility with its current cash flows and cash reserves. The total present estimated cost of acquiring, constructing and equipping the Northwest Facility is approximately $167 million. Such expenditures will result in a material reduction in the principal amount of the Corporation's investment securities.

Admissions

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

Possible Increases in Competition

The Hospital and the Northwest Facility could face increased competition in the future from other hospitals and from other forms of health care delivery that offer health care services to the population which the Hospital presently serves and the Northwest Facility will serve, which increased competition could affect the ability of the Corporation and ACNW to attract physicians or other staff and patients. The development of health maintenance organizations and preferred provider organizations which do not utilize the Hospital or the Northwest Facility or which are able to offer lower priced services could also result in decreased utilization of the services provided at the Hospital and the Northwest Facility and other medical facilities operated by the Corporation or ACNW. In addition, the State does not currently have a certificate of need program that directly limits the service areas of hospitals or similar provider categories. Consequently, entry of additional providers of similar health

care services in the Corporation's and ACNW's service areas is not limited by any State requirement of need determination. See the captions "Market Share" and "Service Area" in Appendix A hereto.

Significant Health Care Risk Areas Summarized

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

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

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

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

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

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

Government Enforcement. To ensure the integrity of federal health care programs, CMS, the U.S. Department of Health and Human Services ("HHS"), the Office of Inspector General ("OIG") and the Department of Justice ("DOJ") have paid close attention in recent years to the business practices and conduct of health care providers. Federal and state government impose a wide variety of extraordinarily complex and technical requirements intended to prevent over-utilization based on economic inducements, misallocation of expenses, overcharging and other potential acts of fraud and abuse against the Medicare and Medicaid programs, as well as other state and federally funded health care programs. See "Government Regulation of the Health Care Industry" below. This body of law and regulation impact a

broad spectrum of hospital operations and activity, including billing, accounting, recordkeeping, medical staff oversight, physician contracting and recruiting, cost allocation, clinical trials and discounts, among other functions and transactions. Enforcement actions may pertain not only to deliberate violations, but also frequently occur in circumstances in which management is unaware of the conduct in question as a result of mistake, or where the individual participants do not know that their conduct is a violation of law.

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

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

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

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

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

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

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

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

Employee Benefit Funds. As large employers, hospitals may incur significant expenses to fund benefit plans for employees and former employees and to fund required workers' compensation benefits. Funding obligations in some cases may be erratic or unanticipated and may require significant commitments of available cash needed or designated for other purposes. See "Note 7 – Insurance and Legal" and "Note 8 – Employee Benefit Plans" to the consolidated financial statements in Appendix C hereto and the caption "Miscellaneous – *Employees Benefits*" in Appendix A hereto for certain information regarding the Corporation's health insurance benefits and employee benefit plans.

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

reduction in reimbursements could have a material adverse impact on the economic condition of the Corporation and ACNW.

Nonprofit Health Care Environment

General. As nonprofit tax-exempt corporations, the Corporation and ACNW are subject to federal, state and local laws, regulations, rulings and court decisions relating to their organization and operation, including their operation for charitable purposes. In recent years, an increasing number of the operations or practices of nonprofit health care providers have been challenged or questioned to determine if they are consistent with the regulatory requirements of nonprofit tax-exempt organizations. Areas which have come under examination have included pricing practices, billing and collection practices, charitable care, executive compensation, exemption of property from real property taxation, sales and use taxes, and others. Such challenges have come from a variety of sources, including state attorneys general, the Internal Revenue Service (the "IRS"), labor unions, Congress, state legislatures and patients.

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

As a part of sequestration, Medicare payments were reduced by 2% of total program costs. These automatic spending cuts have become permanent and have been extended through 2024 to pay for the SGR fix and other budgetary items. Because Congress may make changes to the budget in the future, it is impossible to predict the future level of any spending cuts. Similarly, it is impossible to predict whether any automatic reductions to Medicare may be triggered in lieu of other spending cuts that may be proposed by Congress. Although the Corporation has not historically derived a significant portion of its patient revenues under the Medicare program, and the mix of revenue sources of ACNW is not expected to be materially different if and to the extent Medicare spending is reduced under either scenario, this may have some adverse effect upon the financial condition of the Corporation and ACNW.

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

A significant component of the Health Reform Law is the expansion of the base of health care consumers through the reformation of the sources and methods by which consumers pay for health care and by which employers procure health insurance for their employees and dependents of their employees. Beginning in 2014, with some exceptions, all United States citizens and legal residents must have a

minimum level of health insurance coverage or pay a penalty. The penalty is being phased in based on a preset schedule. Certain categories of individuals qualify for an exception from the penalty.

One of the primary drivers of the Health Reform Law is to provide, make available or subsidize the premium costs of health care insurance for some of the millions of currently uninsured (or underinsured) consumers who fall below certain income levels. An increase in utilization of health care services by those who are currently avoiding or rationing their health care can be expected. Associated with increased utilization will be increased variable and fixed costs of providing health care services, which may or may not be offset by increased revenues, and a risk of physician shortages, especially in specialties necessary to provide critical intervention or chronic disease management (e.g., primary care).

The Health Reform Law created state-based health insurance marketplaces, known as "exchanges." These were to be administered by either a governmental agency or a non-profit organization. States were required to submit plans for health insurance exchanges no later than January 1, 2013 or risk ceding management of the exchange to the federal government. Although the State of Arkansas initially opted to establish and operate its own state-based health insurance exchange, a decision was made in December 2015 to discontinue planning efforts toward a state-run benefits exchange and instead pursue a Federally-Facilitated Exchange Partnership model. Under the partnership exchange model, the exchange is federally operated, but states have the option of handling two functions: in-person customer assistance and plan management. Arkansas has opted to handle each of these functions.

It is not possible to predict what effect the changes the Health Reform Law will have on demand for services from the Corporation and ACNW or the amount of reimbursement available for those services.

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

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

Given the general complexity of the Health Reform Law, additional legislation is likely to be considered and enacted over time. The Health Reform Law will also require the promulgation of substantial regulations with significant effects on the health care industry and third-party payors. In response, third-party payors as well as suppliers and vendors of goods and services to health care providers are expected to impose new contractual terms and conditions. Thus, the health care industry will be subject to significant new statutory and regulatory requirements as well as contractual terms and conditions, and consequently to structural and operational changes and challenges, for a substantial period of time.

The Health Reform Law also imposes a 2.3 percent excise tax on medical devices. This tax is imposed on the gross sales revenues of (not profits from) medical devices. The tax is extremely broad

based and covers almost all FDA-registered devices that are intended for human use. To the extent that medical device manufacturers pass this tax along through the pricing of their products, it could have a material impact on the finances of the Corporation and ACNW. A moratorium on collection of the medical device tax is currently in effect through December 31, 2017.

Certain other provisions of the Health Reform Law encourage the creation of new health care delivery programs, such as accountable care organizations in which a group of providers is held jointly responsible for improving the quality and cost of health care of a certain population, with the opportunity to share in financial benefits that result, or combinations of provider organizations that voluntarily meet quality thresholds being able to share in the cost savings they achieve for the Medicare program. See "Medicare & Medicaid – "Medicare Shared Savings Program" below. The outcomes of these projects and programs, including their effect on payments to providers and financial performance, cannot be predicted. The effect, however, may result in reduction of net revenue of the Corporation and ACNW.

The Health Reform Law does not expressly require employers to offer health care coverage. In 2015, large employers became subject to a penalty if they did not offer heath care coverage and if any of their workers obtained subsidized coverage through the health care exchanges. Employers that offer coverage must provide a voucher equal to what the employer would have paid under the employer's plan to employees with incomes up to 400% of the federal poverty level who choose to enroll in the health care exchanges. Certain subsidies to purchase health insurance are made available to qualifying employers. For example, employers with fewer than 25 employees and with certain average worker annual wages that purchase health insurance for their employees qualify for a tax credit. It is not possible to predict what effect changes that the Health Reform Law imposes on employers will have on demand for services from the Corporation or ACNW or the amount of reimbursement available for those services.

The Health Reform Law also imposes new obligations on skilled nursing facilities, requiring them to disclose information regarding ownership, expenditures and certain other accountability requirements. This information will be disclosed to a website for comparison by members of the public.

The foregoing are some examples of the challenges facing nonprofit health care organizations due to the Health Reform Law. The challenges and any resulting legislation, regulations, judgments or penalties could have a material adverse impact on the financial condition of the Corporation and ACNW. Management continues to analyze the Health Reform Law in order to assess the effects of the legislation and/or regulations on current and projected operations, financial performance and financial condition. However, management cannot predict with any reasonable degree of certainty or reliability any interim or ultimate effects of the legislation or promulgated regulations.

Tax Exemption. In order for an organization to qualify for tax-exemption under Section 501(c)(3) of the Internal Revenue Code, it must be organized and operated for charitable purposes. Its earnings cannot inure to the benefit of a private shareholder or individual and any private benefit must be incidental to the accomplishment of its charitable purposes. Private inurement rules apply to a broad array of transactions and are not limited to "insiders." As the inurement prohibition is applied to a broader array of people, the distinction between the private benefit and private inurement doctrines becomes less clear.

In 1996, Congress enacted the Taxpayer Bill of Rights Act 2 establishing intermediate sanctions for violation of the prohibition against private inurement of their net earnings or excess private benefit. Intermediate sanctions are an effort by Congress to establish sanctions short of revocation of tax exemption in the form of excise taxes on certain disqualified persons receiving excess benefits in transactions with exempt organizations. Excise taxes may also be imposed on officers, directors, and senior managers of the exempt organization who participated in the transaction knowing there was excess benefit. Final regulations implementing the imposition of excise taxes on excess benefit transactions are now in effect.

The IRS has also reaffirmed, in the context of federal Medicare and Medicaid anti-kickback laws, the principle that violation of criminal statutes is inconsistent with continued recognition of an organization's exempt status. Thus, the exempt status of a nonprofit hospital could be subject to revocation if the entity were determined to have violated the Anti-Kickback Statute by providing illegal remuneration to physicians in exchange for the referral of Medicare or Medicaid patients. See "Government Regulation of the Health Care Industry – Anti-Kickback Statute" below.

At the federal level, the IRS ruled in Revenue Ruling 69-545 that the tax-exempt status of nonprofit hospitals is based on a variety of community benefit factors including the provision of emergency services without regard to ability to pay, but has not generally required specific levels of charity care. While the Health Reform Law did not impose a minimum requirement for charity care, it is possible that future administrative or judicial proceedings or legislation could have the effect of requiring nonprofit institutions to increase their services to indigent patients to retain their tax-exempt status. As described further below, the Health Reform Law added significant requirements to tax-exempt hospitals to show their continued eligibility for tax-exemption. However, it is uncertain whether Congress will pursue further investigations or will recommend legislative changes.

IRS Form 990 is used by 501(c)(3) exempt organizations to submit information required by the federal government for tax-exemption. Form 990 requires detailed public disclosure of compensation practices, corporate governance, loans to management and others, joint ventures and other types of transactions, political campaign activities and other areas the IRS deems to be compliance risk areas. Form 990 also requires the reporting of detailed community benefit information on Schedule H and establishes uniform standards for the reporting of charity care. Form 990 also contains a separate schedule (Schedule K) requiring detailed reporting of information relating to tax exempt bonds, including compliance with the arbitrage rules and rules limiting private use of bond-financed facilities. Form 990 allows for enhanced transparency as to the operations of exempt organizations. It is likely to result in enhanced enforcement, as Form 990 makes available a wealth of detailed information on compliance risk areas to the IRS and other stakeholders, including state attorneys general, unions, plaintiff's class action attorneys, public watchdog groups and others.

The Health Reform Law also imposed new requirements for tax-exempt hospitals. Specifically, tax-exempt hospitals must meet four new standards in order to continue to qualify for exemption. The new standards are as follows:

1. The hospital must conduct and publish a community health needs assessment at least once every three years and in doing so must take into account input from persons who represent the broad interests of the community served by the hospital facility, including those with special knowledge of or expertise in public health. The assessment must be made widely available to the public, and the hospital must adopt a written implementation strategy for meeting such community needs.

2. The hospital must have a written financial assistance policy which includes eligibility criteria for financial assistance, whether such assistance includes free or discounted care, the basis for calculating amounts charged to patients, and the method for applying for financial assistance. The policy must be widely publicized within the community.

3. The hospital must limit the amounts charged for emergency or other medically necessary care provided to individuals eligible for assistance under the financial assistance policy to not more than the lowest amounts generally billed to individuals who are covered either (i) under the Medicare fee-for-service program, (ii) under the Medicare fee-for-service program and under the schedules of all private health insurers that pay claims to the hospital, or (iii) under the Medicaid program alone or in combination with private health insurers.

4. The hospital cannot engage in extraordinary collection actions before the organization has made reasonable efforts to determine whether the individual is eligible for assistance under the financial assistance policy.

The Secretary of the Treasury has issued regulations regarding community health needs assessments, financial assistance policies and collection efforts. These regulations are complex and administratively burdensome and could materially impact the Corporation and ACNW.

The IRS has indicated that it intends to assess compliance with these requirements through desk reviews of hospitals' 990s. Each hospital's Form 990 will be reviewed once every three years. Hospitals will not know or be made aware that a desk review is taking place. The IRS has indicated that it may refer hospitals for further audit based upon responses to questions in the Form 990 intended to indicate compliance with 501(r) requirements.

The IRS has indicated that each and every hospital that is exempt under section 501(c)(3) of the Code is expected to comply with these requirements. Failure to meet the community health needs assessment requirements for any tax year may result in an excise tax of $50,000 being assessed against a hospital and failure to meet this or other requirements could jeopardize the status of a hospital's exemption. The IRS issued final 501(r) regulations with an effective date of December 29, 2014, and generally applicable to taxable years beginning after December 29, 2015. The final regulations modify the proposed regulations in some respects and clarify certain aspects of the proposed regulations. The effect of the final regulations on 501(r) compliance cannot be determined with any degree of certainty. Even though certain remedial measures are available for non-compliance, revocation of exemption is still possible if non-compliance is significant.

In addition, as a result of the increased scrutiny of community benefit activity by the IRS, tax-exempt hospitals may be required to increase resources spent on qualifying activities. On February 12, 2009, the IRS released its final report containing the results of a two-year study focusing on community benefit reporting practices and executive compensation practices of tax-exempt hospitals. The results are based on a compliance check survey the IRS sent to 500 hospitals in May 2006 and builds on the analysis of results first released by the IRS in its interim report in July 2007, and the results of a 2004 compliance check on executive compensation arrangements of 501(c)(3) tax-exempt organizations generally, a final report on which was issued in March 2007. The final report, however, does not reach specific conclusions concerning whether the existing community benefit standard is appropriate and whether tax-exempt hospital executives are being compensated appropriately.

Hospitals or other health care providers may be forced to forego otherwise favorable opportunities for certain joint ventures, recruitment and other arrangements in order to maintain their tax-exempt status.

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

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

Litigation Relating to Billing and Collection Practices. Lawsuits have been filed in both federal and state courts alleging, among other things, that hospitals have failed to fulfill their obligations to

provide charity care to uninsured patients and have overcharged uninsured patients. Likewise, national publications have highlighted inconsistent billing practices as to the uninsured. Cases are proceeding in various courts around the country with inconsistent results. While it is not possible to make general predictions, some hospitals and health systems have incurred substantial costs in defending such lawsuits and in some cases have entered into substantial settlements. Neither the Corporation nor ACNW is currently a defendant in litigation relating to general billing and collection practices.

Physician Medical Staff. The primary relationship between a hospital and physicians who practice in it is through the hospital's organized medical staff. Medical staff bylaws, rules and policies establish the criteria and procedures by which a physician may have his or her privileges or membership curtailed, denied or revoked. Physicians who are denied medical staff membership or certain clinical privileges or who have such membership or privileges curtailed or revoked often file legal actions against hospitals and medical staffs. Such actions may include a wide variety of claims, including antitrust claims, some of which could result in substantial uninsured damages to a hospital. Furthermore, from time to time, actions or decisions of hospital management may cause unrest among certain physician groups or members of the medical staff, which could result in legal or other actions, such as resignation from the medical staff. In addition, failure of the hospital governing body to adequately oversee the conduct of its medical staff may result in hospital liability to third parties. Management is unaware of any such actions at the present time.

Government Regulation of the Health Care Industry

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

Anti-Kickback Statute. The federal anti-kickback statute (the "Anti-Kickback Statute") makes it a felony to knowingly and willfully offer, pay, solicit or receive remuneration, directly or indirectly, overtly or covertly, in cash or in kind, in order to induce referrals for business that is reimbursable under any federal health care program. The Anti-Kickback Statute applies to many common health care transactions between entities and persons with which a hospital does business including hospital-physician joint ventures, medical director agreements, physician recruitment agreements, physician office leases and other transactions. The Anti-Kickback Statute has been interpreted to cover any arrangement where one purpose of the remuneration was to obtain or pay money for the referral of services or to induce further referrals. Violation of the Anti-Kickback Statute may result in imprisonment for up to five years and/or fines of up to $25,000 for each act. In addition, the OIG has the authority to impose civil assessments and fines of $50,000 per item or service (which may be each item or each bill sent to a federal program) and to exclude hospitals engaged in prohibited activities from the Medicare, Medicaid, TRICARE (a health care program providing benefits to dependents of active duty and retired members of the United States military services), and other federal health care programs for a period of not less than five years.

The Health Reform Law amended a number of provisions of the Anti-Kickback Statute. One such amendment provides that an Anti-Kickback Statute violation may be established without showing that an individual knew of the statute's proscriptions or acted with specific intent to violate the Anti-Kickback Statute. The new standard could significantly expand criminal and civil fraud exposure for transactions and arrangements where there is no intent to violate the Anti- Kickback Statute. The Health Reform Law further amended the Anti-Kickback Statute to explicitly provide that a violation of the statute constitutes a false or fraudulent claim under the federal False Claims Act ("FCA").

In addition to certain statutory exceptions to the Anti-Kickback Statute, the OIG has promulgated a number of regulatory "safe harbors" under the Anti-Kickback Statute designed to protect certain payment and business practices. However, these safe harbors are narrow and do not cover a wide range of common economic relationships. The regulations do not purport to comprehensively describe all lawful or unlawful economic arrangements or other relationships between health care providers and referral sources. While the failure to comply with a statutory exception or regulatory safe harbor does not mean that an arrangement is unlawful, such failure may increase the likelihood of a regulatory challenge or the potential for investigation.

The Health Insurance Portability and Accountability Act of 1996 ("HIPAA") created a new program operated jointly by HHS and DOJ to coordinate federal, state and local law enforcement with respect to fraud and abuse including the Anti-Kickback Statute. HIPAA also provides for minimum periods of exclusion from a federal health care program for fraud related to the federal health care programs, provides for intermediate sanctions, and expands the scope of civil monetary penalties. As stated above, pursuant to amendments to the Anti-Kickback Statute in the Health Reform Law, an action that violates the Anti-Kickback Statute constitutes a false or fraudulent claim under the FCA, which prohibits the knowing presentation of a false, fictitious or fraudulent claim for payment to the United States government. Actions under the FCA may be brought by the United States Attorney General or as a *qui tam* action brought by a private individual in the name of the government. As a result, an "assessment" of three times the amount claimed may be imposed for a violation of the FCA due to a violation of the Anti-Kickback Statute.

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

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

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

The failure to repay amounts billed to the Medicare program as a result of a Stark Law violation in a timely manner is also regarded as an FCA violation and may lead to civil monetary penalties, treble

damages and permissive exclusion. The types of financial arrangements between a physician (or a physician's immediate family member) and an entity that trigger the self-referral prohibitions of the Stark Law are broad and include ownership and investment interests and monetary and non-monetary compensation arrangements. Regulations promulgated under the Stark Law are subject to amendment. Depending upon whether any such amendments contain grandfathering provisions, any such amendment may require the Corporation and ACNW to amend or terminate certain arrangements with physicians to comply with new regulatory requirements.

The Health Reform Law instructed CMS to create a voluntary Self-Referral Disclosure Protocol ("SRDP") under which providers could disclose the facts and circumstances surrounding an actual or potential Stark Law violation with the intention of negotiating settlements of a violation for less than what was impermissibly billed to the Medicare program. While many thought the SRDP would give some certainty to the industry as to the resolution of actual or potential Stark Law violations, the SRDP process has been more cumbersome than originally anticipated. It is unclear what impact, if any, the Stark Law SRDP will have on the settlement of actual or potential Stark Law violations in the future. Any submission pursuant to the SRDP does not waive or limit the ability of the OIG or DOJ to seek or prosecute violations of the Anti-Kickback Statute or impose civil monetary penalties.

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

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

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

In addition, the Health Reform Law, among other changes to the civil FCA, eliminated the "public disclosure bar" (which previously required dismissal of a *qui tam* suit where the allegations were

publicly disclosed in (i) a criminal, civil or administrative proceeding, (ii) a congressional, administrative or U.S. Government Accountability Office report, hearing, audit or investigation, or (iii) news media) as a jurisdictional defense to *qui tam* suits.

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

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

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

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

HEAT Teams. The DOJ, OIG and CMS have worked together, through the criminal and civil systems, to secure thousands of criminal convictions and obtain civil administrative actions against individuals and organizations committing Medicare fraud. In 2009 alone, more than one billion dollars in health care fraud monies were recovered under the FCA. In May 2009, DOJ and HHS announced the creation of the Health Care Fraud Prevention and Enforcement Action Team ("HEAT"). With the creation of the HEAT team, Medicare fraud investigations and prosecutions will continue to increase.

Exclusions from Medicare or Medicaid Participation. As partially discussed above in connection with the Anti-Kickback Statute, the Stark Law and the FCA, the federal government has authority to exclude hospitals from Medicare/Medicaid program participation upon conviction of a criminal offense relating to the delivery of any item or service reimbursed under Medicare or a state health care program,

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

The American Recovery and Reinvestment Act of 2009. The American Recovery and Reinvestment Act of 2009 (the "Recovery Act") was signed into law in February 2009. The Recovery Act includes certain provisions which are intended to provide financial relief to health care providers. Title XIII of the Recovery Act, otherwise known as the Health Information Technology for Economic and Clinical Health Act (the "HITECH Act"), provided for an investment of almost $20 billion in public monies for the development of a nationwide health information technology ("HIT") infrastructure. The HIT infrastructure is intended to improve health care quality, reduce health care costs and facilitate access to necessary information. Among other things, the HITECH Act provides financial incentives, through the Medicaid and Medicare programs, loans and grants to encourage practitioners and providers to adopt and use qualified electronic health records. This is known as "meaningful use" of an approved electronic health record system. Providers are required to implement over time an approved electronic health record system and hit certain targets in various stages of their implementation plan. If a hospital qualifies and hits its targets, it may qualify for incentive payments from the federal government that are intended to offset the cost of implementation. While not required, if a hospital fails to implement an approved electronic health record system, the hospital's Medicare payments will be reduced in the future. Beginning in FY 2015 hospitals will be penalized with reduced payments if they do not qualify as a meaningful user of electronic medical records. The Corporation is in the process of satisfying the "meaningful use" requirements of the HITECH Act.

The Corporation has successfully attested to certain HITECH "meaningful use" requirements starting in 2011 with the achievement of Stage 1 Year 1 and achievement of Stage 1 Year 2 in 2014. Meaningful use incentive payments received to date are in excess of $4.8 million. Attestation for Stage 2 Year 1 has not yet been completed. Management anticipates implementation of proposed Meaningful Use Stage 3 in 2017.

HHS has begun a series of pre- and post-payment audits of meaningful use payments. Any such audit could result in an obligation to repay meaningful use payments, which would be material to the Corporation.

The HITECH Act also significantly increased fines, the scope of coverage, and the scope of remedies for violations of HIPAA and breaches of the security of electronic health records as is further discussed below.

Health Data Privacy. Federal privacy regulations require health care providers to protect the confidentiality of patient health information in any form, including electronically stored or transmitted information. The Health Insurance Portability and Accountability Act of 1996 ("HIPAA") includes a number of "administrative simplification" provisions designed to streamline the electronic transmission of health claims as well as to protect the privacy and security of patient health information.

The HITECH Act contains a number of provisions which affect the HIPAA privacy regulations. The HITECH Act establishes a temporary safe harbor for the amount of information that can be disclosed to third parties for non-treatment purposes to meet the "minimum necessary" standard, which is a requirement that the covered entity disclose only the amount of information necessary to accomplish the intended purpose of the disclosure. The safe harbor limits the information disclosed to the "limited data

set" as defined under existing HIPAA regulations, which is information that excludes names, postal address, telephone and fax numbers, e-mail address, social security and medical record numbers, and nine other identifiers. The Secretary is directed to publish guidance to covered entities on what constitutes "minimum necessary," and when such guidance is published, the safe harbor described above will no longer be applicable.

Covered entities that use an electronic health record will also be required to account for disclosures of information that are currently not subject to the accounting requirements, including disclosures for treatment, payment, and health care operations, depending on when the covered entity acquired the electronic health record technology. The covered entity will have the option of accounting for all disclosures, including disclosures made by its business associates, or providing an accounting of only the covered entity's disclosures, with a list of the names and contact information of its business associates, so that a patient may request the information directly from each business associate. In addition, if a covered entity maintains an electronic health record, individuals have a right to receive a copy of the protected health information maintained in the record in an electronic format. Again, the Secretary is charged with developing guidance and implementing regulations for these requirements.

The HITECH Act also includes provisions requiring covered entities to agree to a patient request to restrict disclosure of information to a health plan for the purposes of carrying out payment or health care operations, if the information pertains solely to an item or service for which the provider was paid out of pocket in full; a prohibition on the direct or indirect payment or receipt of remuneration in exchange for protected health information without specific patient authorization, except in limited circumstances, such as the sale of a business; and additional restrictions on the use and disclosure of protected health information for marketing communications and fundraising communications.

In January 2012, an omnibus final rule was issued which, except for the accounting requirement discussed above, implemented the privacy provisions of the HITECH Act, along with changes to the enforcement regulations and the breach notification regulations discussed below. HHS has withdrawn a proposed rule addressing the accounting provisions and has yet to publish a replacement rule. Compliance with the omnibus final rule was required by September 23, 2013.

Health Data Security. The HIPAA regulations also address the security of patient information. The requirements are directed toward assuring that electronic health information pertaining to patients remains secure. The regulations require organizations to evaluate existing security policies, as well as technical practices and procedures, including access controls, audit trails, physical security and disaster recovery, protection of remote access points, protection of external electronic communications, software discipline and system assessment.

Under current HIPAA security regulations, there is no prescribed form of technology or information system capability a covered entity must use to meet the security requirements. Under the provisions of the HITECH Act, the Secretary is required to issue annual guidance on the most effective and appropriate technical safeguards to be used by organizations in carrying out HIPAA security obligations. While the technical safeguards set forth in the HHS annual guidance will not be considered the only means through which to comply with the requirements, covered entities and business associates who choose not to use the safeguards included in the guidance should be prepared to justify the choice to use different processes and/or systems. Further, to encourage covered entities and business associates to use technology that will render information unusable, unreadable or indecipherable in the event of unauthorized access, organizations that fail to adopt prescribed technology are required to provide written notification of information breaches to the affected individual and to HHS. In some cases, notice of the information breach may be required to be posted on the organization's website and/or provided to major print or broadcast media. For calendar years 2013-2015, the Corporation reported 21, 29 and 23 HIPAA breaches, respectively, to HHS. The Corporation has not experienced a breach involving over 500 individuals, which would require individual notification, reporting to HHS, and notification of local

media outlets. On April 17, 2009, the Secretary published guidance specifying the technologies and methodologies that render protected health information unusable, unreadable or indecipherable.

Notification to Individuals of a Breach of Health Information. The omnibus final rule issued in January, 2013, replaced the prior interim final rule implementing the breach notification provisions of the HITECH Act. The term "breach" means the acquisition, access, use or disclosure of protected health information in a manner not permitted under the privacy regulations, which compromises the security or privacy of the protected health information. Except in limited circumstances, an acquisition, access, use or disclosure not permitted under the privacy regulations is presumed to be a breach, unless, after conducting a written risk assessment, there is a low probability the protected health information has been compromised. In conducting a risk assessment, a covered entity will need to address a number of factors, including the nature and extent of the protected health information involved, the unauthorized person who used the protected health information or to whom the disclosure was made, whether the protected health information was actually acquired or viewed, and the extent to which the risk to the protected health information has been mitigated. In some cases where notice to an individual is required, notice of the breach may also be required to be posted on the organization's website and/or provided to major print or broadcast media. Each covered entity must also maintain a log of breaches, which must be submitted to the Secretary annually, except in cases in which more than 500 individuals are affected, in which case the Secretary must be notified immediately.

Business Associates. Under existing HIPAA regulations, covered entities must include certain required provisions in their contractual relationships with organizations that perform functions on their behalf which involve use or disclosure of protected health information. These organizations are called business associates, and have been indirectly regulated by HIPAA through those contractual obligations. The HITECH Act and the omnibus final rule provide that all of the HIPAA security administrative, physical and technical safeguards, as well as security policies, procedures and documentation requirements now apply directly to all business associates. In addition, the HITECH Act and omnibus final rule make certain privacy provisions directly applicable to business associates. These changes are significant because business associates will now be directly regulated by HHS for those requirements, and as a result, will be subject to penalties imposed by HHS and/or state attorneys general. Further, as discussed below, to the extent a business associate is deemed to be an agent of the covered entity under the Federal common law, the covered entity will be liable for the breaches of the business associate.

HIPAA Penalties. The HITECH Act revises the civil monetary penalties associated with violations of HIPAA as well as provides state attorneys general with authority to enforce the HIPAA privacy and security regulations in some cases through a damages assessment of $100 per violation or an injunction against the violator. The revised civil monetary penalty provisions establish a tiered system, ranging from a minimum of $100 per violation for an unknowing violation to $1,000 per violation for a violation due to reasonable cause, but not willful neglect. For a violation due to willful neglect, the penalty is a minimum of $10,000 or $50,000 per violation, depending on whether the violation was corrected within 30 days of the date the violator knew or should have known of the violation. Maximum penalties may reach $1,500,000 for identical violations. The new levels of civil monetary penalties apply immediately for unknowing violations or violations due to reasonable cause.

Criminal penalties will be enforced against persons who obtain or disclose personal health information without authorization. HHS is also beginning to perform periodic audits of health care providers to ensure that required policies under the HITECH Act and omnibus final rule are in place. Finally, the HITECH Act allows for individuals harmed by violations to be able to recover a percentage of monetary penalties or a monetary settlement based upon methods to be established by HHS for this private recovery.

The omnibus final rule also amended the HIPAA enforcement rule to authorize the Secretary to impose penalties against a covered entity if the covered entity's business associate acting as an agent of

the covered entity (under the federal common law of agency) violates HIPAA. This places additional financial risk on the Corporation and ACNW if one of their many business associates is considered an agent and engages in a practice that violates HIPAA. The number of business associates contracted by the Corporation and ACNW would render it infeasible to monitor the security practices of all of such business associates to ensure no violations.

The Office for Civil Rights ("OCR") is the administrative office that is tasked with enforcing HIPAA. OCR has stated that it has now moved from education to enforcement in its implementation of the law. Recent settlements of HIPAA violations for breaches involving lost data and have reached the millions of dollars. Any breach of HIPAA, regardless of intent or scope, may result in penalties or settlement amounts that are material to the financial condition of the Corporation or ACNW. The Corporation is presently undertaking many compliance steps to meet its obligations under HIPAA. However, there can be no assurances that the Corporation will not be found to have violated HIPAA.

Other Regulatory Enforcement and Litigation of Health Data Privacy and Security. The health care industry has become a target of cyber attacks, both from domestic and international sources. The transition to largely digital medical records and the rising value of a medical record on the black market has dramatically increased the risk that health care organizations will be the subject of a security breach, even if good security practices are employed. The capital costs to protect a health care organization from a data breach are continuing to rise.

The HITECH Act authorized state attorneys general with the authority to enforce the HIPAA privacy and security regulations. In the wake of a security breach impacting residents of their state, state attorneys general have become active in imposing additional fines and corrective action on organizations, with significant settlement amounts being reached. Additionally, the FTC has taken the position that it has the authority to protect consumers' privacy by enforcing promises businesses make to their consumers. This enforcement posture has led to several large significant settlements with health care organizations. Challenges to the FTC's enforcement authority in this area are on-going.

In addition to regulatory enforcement, consumer litigation following a data breach has become increasingly prevalent. The majority of cases have failed to progress due to the plaintiff or class of plaintiffs being unable to show any actual injury following the breach. Plaintiffs' counsel are continuing to expand the theories on which a lawsuit could be sustained and a recent case established a recognizable claim for "unjust enrichment" against a health plan for retaining health premiums, a part of which was designed to protect the privacy of customers' data, yet failing to protect the customers from a data breach. Following the court decision, a settlement of several million dollars was reached. The Corporation and ACNW maintain insurance for privacy and security breaches, but there are no assurances that such insurance will cover a particular privacy or security incident, in whole or in part.

HIPAA Fraud Provisions. HIPAA adds additional criminal sanctions for health care fraud and applies to all health care benefit programs, whether public or private. HIPAA clarifies the Anti-Kickback Statute to reach inducements offered to Medicare and Medicaid beneficiaries themselves, such as free transportation, free or discounted services and other inducements. The Health Reform Law broadened certain exceptions regarding inducements to beneficiaries when doing so increases access to care. However, it is unclear at this time the extent to which the OIG will interpret this amendment to allow providers to provide incentives to beneficiary to receive care. HIPAA also provides for punishment of a health care provider for knowingly and willfully embezzling, stealing, converting or intentionally misapplying any money, funds or other assets of a health care benefit program. Enforcement is pursuant to the FCA and the Anti-Kickback Statute.

The Emergency Medical Treatment and Active Labor Act ("EMTALA"). In response to concerns regarding inappropriate hospital transfers of emergency room patients based on the patient's ability to pay for the services provided, Congress enacted EMTALA, known as the "anti-dumping" statute. This law imposes certain requirements on hospitals prior to discharging an emergency patient or

transferring such a patient to another facility. Failure to comply with EMTALA can result in exclusion from the Medicare and/or Medicaid programs as well as civil and criminal penalties. Failure of the Corporation or ACNW to meet their responsibilities under EMTALA could adversely affect the financial condition of the Corporation or ACNW. EMTALA and its implementing regulations are complex, and the Corporation's and ACNW's compliance is dependent, in part, upon the volition of independent medical staff members. EMTALA regulations are subject to ongoing revision and interpretive guidance. Management of the Corporation and ACNW has adopted policies that it believes achieve material compliance with the requirements of EMTALA. There is no assurance that no violation of EMTALA will be found or, if found, that any sanction imposed would not have a material adverse effect on the operations or financial condition of the Corporation or ACNW.

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

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

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

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

from such claims if certain requirements are met. Hospitals regularly have disputes regarding credentialing and peer review and therefore may be subject to liability in this area.

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

Medicare and Medicaid Programs; General

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

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

The Medicare Program

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

The Corporation receives, and ACNW will receive, a small portion of net patient service revenue from reimbursement under Medicare (approximately 1.8% for the fiscal year ended June 30, 2015). See the caption "Historical Financial Performance" in Appendix A attached hereto.

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

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

Physician Payments. Physicians may elect to "participate" or enroll in the Medicare program. Medicare Part B provides reimbursement for certain physician services, including employed and

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

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

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

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

Management of the Corporation does not anticipate that Medicare audits or cost report settlements for the Medicare program will materially adversely affect the financial condition or results of operations of the Corporation, nor does it believe that the Corporation has improperly submitted claims; however, in light of the complexity of the regulations relating to the Medicare program, and the threat of ongoing investigations as described above, there can be no assurance that a significant adverse impact will not occur in the future. While the Corporation believes its claims to the Medicare and Medicaid programs are in accordance with program requirements, the Corporation may be subject to challenge by one or more audit contractors at any time. If ever subject to audit, the result could have a material adverse effect on the Corporation as a result of any required repayment by the Corporation of funds received under Medicare and Medicaid.

The Medicaid Program

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

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

Payment for long-term care in nursing facilities comprises a significant portion of Arkansas' Medicaid expenditures and demographics indicate that this need and the resulting cost will increase in the future.

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

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

Approximately 64% of the Corporation's net patient service revenue came from Medicaid for the fiscal year ended June 30, 2015. See the caption "Historical Financial Performance" in Appendix A attached hereto.

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

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

Office of the Medicaid Inspector General. On April 23, 2013, Arkansas Act 1499 was signed into law creating the Arkansas Medicaid Inspector General's Office ("OMIG"), with a starting date for the new state agency of July 1, 2013. The legislative purpose of the law was to: create a new state agency in order to consolidate staff and other Medicaid fraud detection prevention and recovery functions into a single office; create a more efficient and accountable structure; reorganize and streamline the State's process for detecting and combating Medicaid fraud and abuse; and to maximize the recovery of improper Medicaid payments. With the creation of the OMIG, the Program Integrity Unit of the Arkansas Department of Human Services and its staff was transferred under the supervision and direction of the Arkansas Medicaid Inspector General. The Program Integrity Unit was formally a function of the Arkansas Department of Human Services as required by the Center for Medicaid Services ("CMS"). All states that participate in the federal Medicaid program and receive funding are required to have a program integrity division that conducts Medicaid fraud investigations and audits and the OMIG fulfills that federal requirement. The OMIG has been operating for nearly three (3) years, and the impact of its existence and operations on healthcare providers in the State, including the Corporation and ACNW, remains difficult to project.

Medicare/Medicaid Compliance and Reimbursement

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

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

Private Third Party Reimbursement

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

PPO to operate at a loss and expose the Corporation and ACNW to delays in payment or nonpayment of claims for services to plan participants.

Changes in sources of revenue and case mix intensity may also adversely affect the Corporation's and ACNW's operating revenue. For example, if patients formerly covered by commercial insurance programs that pay full hospital and physician charges shift to PPOs or other third-party payors that pay lower negotiated rates, the discounts reflected in the Corporation's and ACNW's financial statements as contractual allowances will proportionately increase and income will proportionately decrease.

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

Malpractice and General Liability Claims

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

Additional Bonds and Alternative Indebtedness

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

Damage or Destruction

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

Covenant to Maintain Tax-Exempt Status of the Series 2016 Bonds

The tax-exempt status of the Series 2016 Bonds is based on the continued compliance by the Issuer and the Corporation with certain covenants contained in the Lease Agreement and the Indenture. These covenants relate generally to arbitrage limitations, rebate of certain excess investment earnings to the federal government, restrictions on the amount of issuance costs financed with proceeds of the Series 2016 Bonds, and maintenance of the Corporation's tax-exempt status. Failure to comply with any of these covenants may cause interest on the Series 2016 Bonds to be includable in gross income retroactive to their date of issuance.

Event of Taxability

If the Corporation fails to comply with certain covenants set forth in the Lease Agreement, or if certain representations or warranties made by the Corporation in the Lease Agreement, or certain certifications of the Corporation are false and misleading, the interest payable on the Series 2016 Bonds may become subject to federal income taxation retroactive to the date of issuance of the Series 2016 Bonds, regardless of the date on which noncompliance or misrepresentation is ascertained. In the event that interest on the Series 2016 Bonds should become subject to federal income taxation, the Indenture does not provide for the redemption of the Series 2016 Bonds, the acceleration of the payment of debt service on the Series 2016 Bonds, or for the payment of any additional interest on the Series 2016 Bonds. Notwithstanding the foregoing, the Corporation's failure to comply with any of such covenants may constitute an event of default under the Lease Agreement with the effect of causing an acceleration of payments due with respect to the Series 2016 Bonds.

Risk of Redemption

The Series 2016 Bonds are subject to redemption or acceleration prior to maturity in certain circumstances. See the caption "THE SERIES 2016 BONDS – Extraordinary Redemption" herein. Bondholders may not realize their anticipated yield on investment to maturity because the Series 2016 Bonds may be redeemed or accelerated prior to maturity at par or at a redemption price that results in the realization of less than the anticipated yield to maturity.

Bond Ratings

There is no assurance that the ratings assigned to the Series 2016 Bonds at the time of issuance (see the caption "RATINGS" herein) will not be lowered or withdrawn at any time, the effect of which could adversely affect the market price for, and marketability of, the Series 2016 Bonds.

Secondary Market

Subject to prevailing market conditions and applicable securities laws, the Underwriters presently intend, but are not obligated, to make a market in the Series 2016 Bonds. Consequently, investors may not be able to resell the Series 2016 Bonds purchased should they wish to do so for emergency purposes or otherwise.

Environmental Risks

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

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

Other Factors Generally Affecting the Corporation

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

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

relationships with physicians, including medical staff credentialing. The application of antitrust laws to health care is still evolving, and enforcement activity appears to be increasing. Antitrust violations may be subject to criminal and/or civil enforcement actions by government agencies as well as by private litigants.

9. The inability of, or the cost to, the Corporation and ACNW to continue to insure or otherwise protect themselves against malpractice and general liability claims.

10. Increased unemployment or other adverse economic conditions, natural disasters and acts of war and terrorism, including bioterrorism, could result in the Corporation and ACNW providing significant unreimbursed services.

Forward-Looking Statements

This Official Statement (including the information in Appendix A hereto) contains statements relating to future results that are "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. When used in this Official Statement, the words "estimate," "intend," "expect" and similar expressions identify forward-looking statements. Any forward-looking statement is subject to uncertainty and risks that could cause actual results to differ, possibly materially, from those contemplated in such forward-looking statements. Inevitably, some assumptions used to develop forward-looking statements will not be realized or unanticipated events and circumstances may occur. Therefore, investors should be aware that there are likely to be differences between forward-looking statements and actual results; those differences could be material.

SUMMARY OF PORTIONS OF THE LEASE AGREEMENT

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

Lease Payments

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

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

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

(c) Into the Bond Reserve Fund, if any, commencing with the 28th day of the month following the month in which the amount in the Bond Reserve Fund, if any, is less than the Bond Reserve Fund Requirement, an amount equal to the required monthly deposit. The required monthly deposit shall be the amount necessary to restore in twenty-four (24) equal monthly deposits the amount in the Bond Reserve Fund, if any, to the Bond Reserve Fund Requirement. There is no Bond Reserve or Bond Reserve Fund Requirement for the Series 2010 Bonds or the Series 2016 Bonds.

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

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

Prepayment of Lease Payments; Credit for Bonds Surrendered

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

Negative Pledge

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

Taxes and Other Charges

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

Insurance

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

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

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

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

Removals from the Hospital; Gifts

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

(a) The Corporation, free of any obligation to make any replacement thereof, may demolish, remove, or dispose of any real property, structure, furnishing, machinery, equipment or other improvement now or hereafter existing as part of the Hospital, and may make any donation, gift or transfer of its cash without fair and adequate consideration or compensation to any individual, partnership, corporation or other entity, provided the aggregate net book value of all such demolitions and removals plus the donations, gifts or transfers of cash made pursuant to this provision during any Fiscal Year shall not exceed fifteen percent (15%) of the total assets of the Corporation (calculated on a consolidated basis following redemption or maturity of the Series 2010 Bonds) as shown on its books as of the beginning of such Fiscal Year. The net proceeds, if

any, arising from any such actions may be used by the Corporation as it shall in its sole discretion determine.

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

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

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

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

(ii) the Corporation must submit to the Trustee a copy of a report by a Management Consultant acceptable to the Trustee determining that the property to be demolished, removed or disposed of has become obsolete, inadequate, worn out, unsuitable, undesirable or unnecessary or its disposal is in the best interests of the Corporation's operation of the Hospital and that its demolition, removal or disposal will not impair the structural soundness, efficiency or economic value of the Hospital, and to the effect that the demolition, removal or disposal of the property to be demolished, removed, or disposed of or the donation, gift or transfer of cash, will not cause the Net Revenues Available for Debt Service (calculated on a consolidated basis following redemption or maturity of the Series 2010 Bonds) in the Fiscal Year following the Fiscal Year in which the demolition, removal or disposal of such property occurs to be less than 1.10 times the Maximum Total Principal and Interest Requirements for any subsequent Fiscal Year.

(c) Following redemption or maturity of the Series 2010 Bonds, the Corporation may transfer cash, real property, structures, furnishings, machinery, equipment or other improvements to the Parent or to an Affiliate without complying with any of the provisions of (a) or (b) above.

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

Leasing

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

Permitted Indebtedness

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

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

(b) Liabilities incurred by endorsement for collection or deposit of checks or drafts received by the Corporation in the ordinary course of its business and liabilities under leases used in the ordinary course of business, having a term (including any renewal period) of not more than two years (not more than five years following redemption or maturity of the Series 2010 Bonds) and which are true operating leases and not financing leases;

(c) Obligations pursuant to the Lease Agreement and the Indenture, as amended or supplemented pursuant to the Indenture;

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

(e) Other Obligations;

(f) Indebtedness incurred for any purpose, which indebtedness may not be secured by a lien on the Hospital facilities or on the Gross Revenues of the Corporation. Such indebtedness may be unsecured, or secured by other security as may be available, including a

pledge of the gross revenues of any Hospital facilities which may be financed with the proceeds of such indebtedness;

(g) Alternative Indebtedness (see the caption "THE SERIES 2016 BONDS — Alternative Indebtedness" herein);

(h) Interim Indebtedness in anticipation of long-term indebtedness and maturing within five years if one of the conditions under (A), (B), and (C) under the caption "THE SERIES 2016 BONDS — Additional Bonds " above is met and assuming that such Interim Indebtedness was being issued as Alternative Indebtedness with a term of twenty-five (25) years, level annual debt service payments, and an interest rate equal to the average prime rate charged by the Trustee for the past twelve (12) months or at a rate available to the Corporation as confirmed in writing by a financial institution;

(i) Existing indebtedness of the Corporation on November 13, 1985 (or on the date of issuance of the Series 2016 Bonds following the redemption or maturity of the Series 2010 Bonds);

(j) Secured Indebtedness, provided that the total of Secured Indebtedness outstanding at any one time shall never exceed ten percent (10%) of Operating Revenues (twenty-five percent (25%) of Operating Revenues calculated on a consolidated basis following redemption or maturity of the Series 2010 Bonds).

Indemnity

The Corporation agrees, at its expense, to indemnify and save the Issuer, the Trustee and their directors, officers, employees and agents harmless from and against any and all claims, damages, demands, expenses, liabilities and taxes of any character or nature whatsoever regardless of by whom imposed, and losses of every conceivable kind, character and nature whatsoever, including, but not limited to, claims for loss or damage to any property or injury to or death of any person asserted by or on behalf of any person, firm, corporation or governmental authority and arising out of, resulting from, or in any way connected with (i) the Hospital, or the conditions, occupancy, use, possession, conduct or management of or any work done in or about the Hospital, and (ii) any untrue statement or alleged untrue statement of any material fact or the omission or alleged omission to state a material fact necessary to make the statements made not misleading in any statement, information or material furnished to the Issuer, including, but not limited to, any feasibility study for use in any official statement utilized by the Issuer in connection with the sale of the Bonds.

Default by the Corporation

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

Upon the occurrence of an event of default under the Lease Agreement, the Issuer, or the Trustee on behalf of the Issuer, at any time thereafter and while such event of default shall continue, may declare

all unpaid Lease Payments to be immediately due and payable and may take any action at law or in equity to collect amounts then due and thereafter to come due, or to enforce performance and observance of any obligation or covenant of the Corporation under the Lease Agreement or the Indenture.

Tax and Corporate Status of the Corporation

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

Maintenance of Corporate Existence

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

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

(1) The Trustee shall have received a report of a certified public accountant or firm of certified public accountants determining that such Surviving Corporation will have a fund balance (excluding restricted fund balances), as determined in accordance with GAAP, of not less than 90% of the fund balances (excluding restricted fund balances), as determined in accordance with GAAP, of the Corporation prior to the consolidation, merger or sale of assets (calculated on a consolidated basis following redemption or maturity of the Series 2010 Bonds), and

(2) The Trustee shall have received a certificate of the Chief Executive Officer of the Corporation which indicates that the Surviving Corporation will be able to meet its obligations under the Lease Agreement and would meet the conditions required for the incurrence of one dollar in principal amount of Additional Bonds. See the caption "THE SERIES 2016 BONDS — Additional Bonds " herein.

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

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

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

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

No Liabilities of Individual Officers or Trustees

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

SUMMARY OF PORTIONS OF THE INDENTURE

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

Establishment of Funds

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

Subject to the terms and conditions set forth in the Indenture, moneys deposited in the Interest Account and Principal Account will be disbursed by the Trustee for the purpose of paying the interest on the Bonds as it shall become due and payable and for the purpose of paying the principal of the Bonds as it shall become due and payable by reason of the maturity or the Redemption Requirements of the Bonds; and moneys in the Redemption Account shall be applied by the Trustee to the payment of the principal of and premium, if any, and interest on the Bonds as it shall become due and payable by reason of call for redemption other than pursuant to the Redemption Requirements.

Investment of Funds

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

Any interest or profit on investments in the Principal Account, Interest Account, or Redemption Account shall be transferred to the Construction Fund during the construction period for any Project, and

thereafter shall be retained within such fund or account and shall constitute a credit to the Corporation on the next succeeding Lease Payments due or to become due under the Lease Agreement.

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

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

Defaults and Remedies

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

(a) default in the due and punctual payment of any principal of or premium, if any, or interest on any Bond when and as the same shall become due and payable, whether by acceleration or otherwise;

(b) default by the Issuer in the performance or observance of any other covenant, condition or agreement on its part contained in the Indenture or the Bonds, continued for a period of sixty (60) days after written notice given to the Issuer by the Trustee, or to the Issuer and the Trustee by the holders of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds at the time Outstanding; or

(c) an event of default under the Lease Agreement shall have happened and be continuing.

In each and every case during the continuance of such event of default, unless cured by the Issuer within thirty (30) days after written notice that an event of default has occurred (except for an event of default specified in subsection (a) above, in which case immediately), and, unless the principal of all the Bonds shall have already become due and payable, the Trustee, by notice in writing to the Issuer, may, and upon the written request of the owners of not less than twenty-five percent (25%) in principal amount of the Bonds at the time then Outstanding shall, declare the principal of the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Indenture or in the Bonds contained to the contrary notwithstanding. This provision, however, is subject to the condition that at any time after the principal of the Bonds shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered as provided in the Indenture, the Issuer or the Corporation shall pay to or shall deposit with the Trustee a sum sufficient to pay all principal on the Bonds matured prior to such declaration and all matured installments of interest (if any) upon all the Bonds and the reasonable expenses of the Trustee, and any and all other defaults known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured or provisions adequate shall have been made therefor, then, and in every such case, the holders of at least fifty-one percent (51%) in aggregate principal amount of the Bonds then Outstanding, by written notice to the Issuer and the Trustee, may, on behalf of the owners of all the Bonds, rescind and annul such declaration and its consequences, but no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any fight or power consequent thereon.

Notwithstanding any provision in the Indenture to the contrary or the occurrence and continuance of any event of default by the Issuer under the Indenture, so long as the Corporation is not in default

under the Lease Agreement, neither the Trustee nor any Bondholder(s) shall have any right to accelerate or otherwise declare due and payable the remaining unpaid installments under the Lease Agreement.

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

Supplemental Indentures

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

(a) to add to the covenants and agreements of the Issuer contained in the Indenture, such other covenants and agreements thereafter to be observed, or to surrender any right or power reserved or conferred upon the Issuer in the Indenture;

(b) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective or inconsistent provision contained in the Indenture, or in regard to matters or questions arising under the Indenture, as the Issuer may deem necessary or desirable and not inconsistent with the Indenture and which shall not adversely affect the interests of the holders of the Bonds;

(c) to subject, describe or re-describe any property subjected or to be subjected to the lien of the Indenture;

(d) to modify, amend or supplement the Indenture or any indenture supplemental thereto in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939 or any similar federal statute hereafter in effect, and, if so determined, to add to the Indenture or any supplemental indenture such other terms, conditions and provisions as may be permitted by the Trust Indenture Act of 1939 or similar federal statute;

(e) to provide for Alternative Indebtedness in accordance with the Lease Agreement; and

(f) to accomplish any other action authorized or required by the Lease Agreement or the Indenture.

In any event, no modification or amendment of the Indenture shall be made which will (i) extend the fixed maturity of the principal of the Bonds, reduce the rate of interest thereon, or extend the time of payment of interest, reduce the amount of the principal thereof, or reduce any premium payable on the redemption thereof, without the consent of the holder of each Bond so affected, or (ii) reduce the percentage of holders of Bonds required to approve any such supplemental indenture, or (iii) permit the creation of any lien on the properties assigned and conveyed under the Indenture prior to or on a parity with the lien of the Indenture except as permitted by the Indenture to secure Alternative Indebtedness (see the caption "THE SERIES 2016 BONDS — Alternative Indebtedness" herein), or deprive the holders of the Bonds of the lien created by the Indenture upon said properties, without the consent of the holders of all the Bonds then Outstanding.

Payment of Trustee's Compensation

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

No Personal Liability

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

Defeasance

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

SUMMARY OF PORTIONS OF THE GUARANTY AGREEMENTS

As additional security for the Series 2016 Bonds, the Parent, the Corporation, ACNW and the Foundation (collectively, the “Guarantors”) will each execute and deliver separate Guaranty Agreements dated as of August 1, 2016 (the “Guaranty Agreements”), to the Trustee pursuant to which the Guarantors will severally and unconditionally guarantee payment of the debt service on the Series 2016 Bonds. ACNW will further guarantee the performance of the obligations of the Corporation under the Lease Agreement. The obligations of ACNW under its Guaranty Agreement are secured by a pledge of and security interest in the Gross Receipts of ACNW.

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

Guarantee of Payment and Performance

Each Guarantor unconditionally guarantees to the Trustee for the benefit of the registered owners from time to time of the Series 2016 Bonds (i) the full and prompt payment of the principal of and premium, if any, on each of the Series 2016 Bonds when and as the same shall become due, whether at the stated maturity thereof, by acceleration, call for redemption or otherwise, and (ii) the full and prompt payment of the interest on each of the Series 2016 Bonds when and as the same shall become due. In each and every case, the Guarantor agrees, in the event of the failure of the Issuer to make such payments of principal, premium, if any, or interest, to make or cause to be made such payments to the Trustee. All

such payments shall be paid in lawful money of the United States of America. Each and every default in payment of the principal of, premium, if any, or interest on any Series 2016 Bond shall give rise to a separate cause of action under the Guaranty Agreement, and separate suits may be brought as each cause of action arises.

Each Guaranty Agreement is a guarantee of payment, as opposed to collection, of principal of and interest on the Series 2016 Bonds, and it shall not be necessary that any proceedings be instituted against the Corporation or any other Guarantor of the Series 2016 Bonds prior to the institution of proceedings against a particular Guarantor.

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

The obligations of each Guarantor under its Guaranty Agreement shall be absolute and unconditional and shall remain in full effect until the entire principal of, premium, if any, and interest on the Series 2016 Bonds shall have been paid or provided for under the Indenture, and such obligations shall not be affected, modified or impaired upon the happening from time to time of any event, including without limitation any of the following, whether or not with notice to, or the consent of, the Guarantor:

(a) the compromise, settlement, release or termination of any or all of the obligations, covenants or agreements of the Issuer under the Indenture or the Lease Agreement;

(b) the failure to give notice to the Guarantor of the occurrence of an event of default under the terms and provisions of the Guaranty Agreement, the Indenture or the Lease Agreement;

(c) the assignment or mortgaging or the purported assignment or mortgaging of all or any part of the Issuer's interest in the health care facilities leased to the Corporation or any failure of the Issuer's title;

(d) the waiver by the Trustee or the Issuer of the payment, performance or observance by the Issuer, the Corporation or the Guarantor of any of the obligations, covenants or agreements of any of them contained in the Lease Agreement, the Indenture or the Guaranty Agreement;

(e) the extension of the time for payment of any principal of, premium, if any, or interest on any Series 2016 Bond or of the time for performance of any obligation, covenant or agreement under or arising out of the Lease Agreement, the Indenture or the Guaranty Agreement or the extension or the renewal of any thereof;

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

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

(h) any failure, omission, delay or lack on the part of the Issuer or the Trustee to enforce, assert or exercise any right, power or remedy conferred on the Trustee in the Guaranty Agreement or the Indenture, or any other act or acts on the part of the Issuer, the Trustee or any of the owners from time to time of the Series 2016 Bonds;

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

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

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

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

(m) the invalidity or unenforceability of the Lease Agreement or the Series 2016 Bonds or any part thereof;

provided that the specific enumeration of the above-mentioned acts, failures or omissions shall not be deemed to exclude any other acts, failures or omissions, though not specifically mentioned above, it being the purpose and intent of this paragraph that the obligation of the Guarantor shall be absolute and unconditional and shall not be discharged, impaired or varied except by the payment of the principal, of premium, if any, and interest on the Series 2016 Bonds in accordance with the terms of the Indenture, and then only to the extent of such payments. Without limiting any of the other terms or provisions of the Guaranty Agreement, it is understood and agreed that, in order to hold the Guarantor liable thereunder, there shall be no obligation on the part of the Trustee or any holder of any Series 2016 Bond to resort in any manner or form for payment to the Issuer, the Corporation or to any other person, firm or corporation or to their properties or estates.

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

In the event of a default in the payment of principal of or premium, if any, on any Series 2016 Bond when and as the same shall become due, whether at the stated maturity thereof, by acceleration, call for redemption or otherwise, or in the event of a default in the payment of any interest on any Series 2016 Bond when and as the same shall become due, the Trustee may, and if requested so to do by the holders of not less than 25% in aggregate principal amount of the Series 2016 Bonds then Outstanding, and upon indemnification as provided below shall, proceed under a Guaranty Agreement, and the Trustee, in its sole discretion, shall have the right to proceed first and directly against any Guarantor under its Guaranty without proceeding against or exhausting any other remedies which it may have and without resorting to any other security held by the Issuer or the Trustee.

Before taking any action under a Guaranty Agreement, the Trustee may require that satisfactory indemnity be furnished by the owners of the Series 2016 Bonds for the reimbursement of all expenses and to protect the Trustee from all liability, except liability which is adjudicated to have resulted from its negligence or willful misconduct. The duties, obligations and rights of the Trustee under each Guaranty

shall be governed by Article VIII of the Indenture and any moneys received by the Trustee under a Guaranty Agreement shall be held and applied subject to Article VII of the Indenture.

Corporate Existence

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

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

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

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

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

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

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

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

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

ACNW Covenants

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

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

Rate Covenant. ACNW covenants that during each Fiscal Year, commencing with the Fiscal Year ending June 30, 2019, it will fix, charge and collect, or cause to be fixed, charged and collected, subject to applicable requirements or restrictions imposed by law, rates, rentals, fees and charges for the use of the Northwest Facility and for the services furnished or to be furnished by ACNW which will be sufficient in each Fiscal Year to produce Net Revenues Available for Debt Service equal to at least one hundred ten percent (110%) of Maximum Total Principal and Interest Requirements. It is understood and agreed that Net Revenues Available for Debt Service is calculated on a consolidated basis, and ACNW does not have to produce all revenues included in the Net Revenues Available for Debt Service calculation.

ACNW covenants that, from time to time and as often as shall be necessary, it will revise, or cause to be revised, subject to applicable requirements or restrictions imposed by law, the rates, rentals, fees and charges as may be necessary or proper so that the Net Revenues Available for Debt Service in each Fiscal Year shall be equal to at least one hundred ten percent (110%) of Maximum Total Principal and Interest Requirements. ACNW further covenants that if in any Fiscal Year the ratio of Net Revenues Available for Debt Service to Maximum Total Principal and Interest Requirements is less than 1.10:1.00, ACNW will, before the 60th day after receipt of the first available financial statement (audited or unaudited), employ a Management Consultant to report the rates, rentals, fees and charges, together with any recommendations regarding methods of operation and other factors affecting financial condition, the Management Consultant believes are necessary to enable ACNW to produce Net Revenues Available for Debt Service in such following Fiscal Year equal to at least one hundred ten percent (110%) of Maximum Total Principal and Interest Requirements. The recommendations of the Management Consultant shall be filed with the Trustee. ACNW covenants and agrees that promptly upon the receipt of such recommendations, subject to applicable requirements or restrictions imposed by law, it shall revise its rates, rentals, fees and charges or its method of operation and shall take such other action as shall be in conformity with such recommendations. If in the judgment of the Management Consultant it is not possible for ACNW to produce the required ratio of Net Revenues Available for Debt Service to Maximum Total Principal and Interest Requirements of 1.10:1.00, the report of the Management

Consultant shall so indicate and shall further indicate the ratio anticipated if the recommendations of the Management Consultant are followed.

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

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

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

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

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

(ii) ACNW shall demolish, remove or dispose of any such property from time to time at its own cost and expense, without any obligation on the part of ACNW to provide any property

in replacement of or substitution for that demolished, removed or disposed of, or may donate, gift or transfer such cash upon the following terms and conditions:

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

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

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

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

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

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

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

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

(5) Other Obligations.

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

(7) Alternative Indebtedness incurred for any purpose, which Alternative Indebtedness may share on a parity with and be entitled to the same benefit and security as the Issuer, the Trustee and the holders of the Series 2010 Bonds and Series 2016 Bonds in the Gross Receipts of ACNW, and be entitled to such other security as ACNW may deem necessary or desirable; provided, however, the Issuer, the Trustee, and the holders of the Series 2010 Bonds and Series 2016 Bonds shall share on a parity with and shall be entitled to the same benefit and security as the security for such Alternative Indebtedness, and the instruments evidencing such Alternative Indebtedness and the security therefor shall reflect the interest of the Issuer, the Trustee and the holders of the Series 2010 Bonds and the Series 2016 Bonds in such security; provided, however, ACNW covenants and agrees that it will not incur any Alternative Indebtedness unless in the case of any Alternative Indebtedness incurred for any purpose other than refunding Outstanding Bonds or refinancing Alternative Indebtedness:

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

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

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

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

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

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

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

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

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

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

Pledge of Gross Receipts of ACNW

In order to secure its obligations under its Guaranty Agreement, ACNW pledges and grants a security interest in all Gross Receipts of ACNW. Such pledge is on a parity of security with the pledge of Gross Receipts of ACNW in favor of the Northwest Bonds and the Series 2010 Bonds. ACNW has not heretofore made a pledge of or granted a security interest in the Gross Receipts of ACNW that ranks on a parity with or prior to the pledge granted by its Guaranty Agreement, except for the pledge and security interest securing the Northwest Bonds and the Series 2010 Bonds. ACNW shall not hereafter make or suffer to exist any pledge or security interest in the Gross Receipts of ACNW, except as permitted by its Guaranty Agreement.

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

If the Gross Receipts of ACNW are insufficient, along with other available funds, at any time to make both the payments due under the Northwest Loan Agreement with respect to the Northwest Bonds and the payments due with respect to its guaranty obligations relating to the Series 2010 Bonds and the Series 2016 Bonds, the Gross Receipts of ACNW shall be shared between the owners of the Northwest Bonds and the Northwest Trustee, and the owners of the Series 2010 Bonds and the Series 2016 Bonds and the Trustee, in a *pari passu* manner. Upon the occurrence of an event of default under either the Northwest Loan Agreement or the Lease Agreement, all realizations or proceeds derived from the Gross Receipts of ACNW shall be shared pro rata between the owners of the Northwest Bonds and the Northwest Trustee, and the owners of the Series 2010 Bonds and the Series 2016 Bonds and the Trustee, in accordance with the principal amounts of the respective indebtedness outstanding represented by the Northwest Bonds, the Series 2010 Bonds and the Series 2016 Bonds.

Defaults and Remedies under ACNW's Guaranty Agreement

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

(a) Any failure of ACNW to make payment of the principal of or interest on the Series 2016 Bonds as and when required by its Guaranty Agreement;

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

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

(c) The default by ACNW in the performance or observance of any of the other covenants, agreements or conditions on its part in its Guaranty Agreement and the continuance thereof for a period of ninety (90) days after written notice to ACNW by the Trustee, the Issuer or the holders of not less than 10% in aggregate principal amount of Series 2016 Bonds Outstanding under the Indenture; provided, however, that if such default be such that it cannot be corrected within ninety (90) days, it shall not constitute an event of default if corrective action is instituted within said ninety (90) day period and diligently pursued until the default is corrected; and

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

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

The Trustee may in its discretion waive any event of default under a Guaranty Agreement and its consequences and rescind any declaration of maturity of principal and shall do so upon the written request of the holders of fifty percent (50%) in principal amount of all Series 2010 Bonds and Series 2016 Bonds Outstanding under the Indenture; provided, however, that there shall not be waived any event of default in the failure of a Guarantor to make payment of the principal of or interest on the Series 2016 Bonds as and when required by its Guaranty Agreement; but no such waiver shall extend to any subsequent or other default, or impair any right consequent thereon.

SUMMARY OF PORTIONS OF THE CONTINUING DISCLOSURE AGREEMENT

The Corporation and the Guarantors have entered into an undertaking in the form of the Continuing Disclosure Agreement for the benefit of the Beneficial Owners of the Series 2016 Bonds to cause certain financial and operating information to be sent annually to the Municipal Securities Rulemaking Board (the "MSRB") through its Electronic Municipal Market Access system ("EMMA") and to cause notice to be sent to EMMA of certain specified events, pursuant to the requirements of Section (b)(5)(i) of Rule 15c2-12 of the Securities Exchange Act of 1934, as amended (the "Rule"). The Corporation, the Guarantors and the Dissemination Agent acknowledge that the Issuer has undertaken no responsibility with respect to any reports, notices or disclosures provided or required under the Continuing Disclosure Agreement, and has no liability to any person, including any Beneficial Owner, with respect to any such reports, notices or disclosures.

The Corporation is a party to prior undertakings pursuant to the Rule requiring that it file certain financial and operating information and financial statements and notice of the occurrence of certain listed

events with the MSRB through its EMMA system. During the past five years, the Corporation has identified certain instances in which filings were not made as required by such undertakings.

In connection with its undertaking with respect to a series of bonds issued in 2005 (which are no longer outstanding), the Corporation has identified certain instances during the years 2011 through 2014 when quarterly financial information was not filed timely (from 1 to 29 days late). Also within the last five years, rating agencies have periodically downgraded the long-term and short-term ratings on the municipal bond insurer that insures the Series 2009 Bonds and Series 2010 Bonds on which the Corporation is an obligated party. No notices of these downgrades were given to the Corporation, and the Corporation failed to make the appropriate listed event filings relating to such occurrences.

While the Corporation makes no representation as to the materiality of the instances set forth above, it has undertaken steps to ensure future compliance with its continuing disclosure responsibilities.

The Continuing Disclosure Agreement contains the following covenants and provisions:

(a) The Corporation and the Guarantors covenant that they will disseminate, or will cause the Dissemination Agent to disseminate, not later than 150 days after the end of each Fiscal Year (presently June 30 in each year), commencing with the Fiscal Year ending June 30, 2016, provide to the MSRB, through its continuing disclosure service portal provided through EMMA or any similar system that is acceptable to the Securities and Exchange Commission, an Annual Report containing the information described in paragraph (c) below. The Corporation and the Guarantors are required to deliver or cause delivery of such information in an electronic format as prescribed by the MSRB.

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

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

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

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

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

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

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

(4) Statistical information concerning the medical staff of the Hospital of the type presented under the caption "Medical Staff" in Appendix A to this Official Statement;

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

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

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

(iii) Commencing with the Annual Report filed for the Fiscal Year in which the Northwest Facility commences operations, the following general categories of financial information and operating data with respect to the Northwest Facility:

(1) Statistical information regarding the operating beds of the Northwest Facility as of the end of the prior Fiscal Year of the type presented with respect to the Hospital under the caption "History" in Appendix A to this Official Statement;

(2) Statistical information concerning the medical staff of the Northwest Facility of the type presented with respect to the Hospital under the caption "Medical Staff" in Appendix A to this Official Statement;

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

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

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

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

(d) After the occurrence of a Listed Event (excluding the event described in subsection (viii) of the definition of Listed Event below), Arkansas Children's, Inc., one of the Guarantors (the "Parent"), shall file (or cause the Dissemination Agent to file), in a timely manner not in excess of ten (10) Business Days after the occurrence of such Listed Event, a notice of such occurrence with the MSRB, through its continuing disclosure service portal provided through EMMA or any similar system that is acceptable to the Securities and Exchange Commission, with a copy to the Trustee (if the Trustee is not the Dissemination Agent). In the event of a Listed Event described in subsection (viii) of the definition of Listed Event below, the Trustee shall make the filing in compliance with the Indenture and notice thereof need not be given under the Continuing Disclosure Agreement any earlier than the notice for the underlying event is given to the registered owners of affected Series 2016 Bonds pursuant to the terms of the Indenture.

(e) The Continuing Disclosure Agreement has been executed in order to assist the Participating Underwriters in complying with the Rule; however, the Continuing Disclosure Agreement shall inure solely to the benefit of the Issuer, the Corporation, the Guarantors, the Dissemination Agent, if any, the Participating Underwriters and the Beneficial Owners of the Series 2016 Bonds, and shall create no rights in any other person or entity. In the event of a failure of the Corporation, the Guarantors or the Dissemination Agent (if the Trustee is not the Dissemination Agent) to comply with any provision of the Continuing Disclosure Agreement, any Beneficial Owner or the Trustee may (and, at the request of the holders of at least 25% aggregate principal amount of the Series 2016 Bonds shall), take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Corporation, the Guarantors or the Dissemination Agent, as the case may be, to comply with its respective obligations under the Continuing Disclosure Agreement. A default under the Continuing Disclosure Agreement shall not be deemed an event of default under the Indenture, the Lease Agreement or any other agreement, and the sole remedy under the Continuing Disclosure Agreement in the event of any failure of the Corporation, the Guarantors or the Dissemination Agent to comply with the Continuing Disclosure Agreement shall be an action to compel performance.

(f) The respective obligations of the Corporation and the Guarantors under the Continuing Disclosure Agreement shall terminate upon the defeasance, prior redemption or payment in full of all the Bonds. If such termination occurs prior to the final maturity of the Series 2016 Bonds, notice thereof shall be given in the same manner as for a Listed Event. If the obligations of the Corporation under the Lease Agreement are assumed in full by some other entity, such person shall be responsible for compliance with the Continuing Disclosure Agreement in the same manner as if it were the Corporation, and the Corporation shall have no further responsibility under the Continuing Disclosure Agreement. If the obligations of a Guarantor under a Guaranty Agreement are assumed in full by some other entity, such person shall be responsible for compliance with the Continuing Disclosure Agreement in the same manner as if it were such Guarantor, and the Guarantor shall have no further responsibility under the Continuing Disclosure Agreement.

(g) The Corporation, the Guarantors and the Dissemination Agent may amend the Continuing Disclosure Agreement, and any provision of the Continuing Disclosure Agreement may be waived, if (i) the amendment or waiver is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an "Obligated Person" (as defined in the Rule) with respect to the Series 2016 Bonds or the type of business conducted; (ii) the Continuing Disclosure Agreement, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Series 2016 Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstance; and (iii) the amendment or waiver either (1) is approved by the holders of the Series 2016 Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of holders of the Series 2016 Bonds, (2) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or the Beneficial Owners of the Series 2016 Bonds.

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

"Annual Report" shall mean any Annual Report provided by the Corporation and/or the Guarantors pursuant to, and as described in paragraphs (a), (b) and (c) above.

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

public accountants, in conformity with generally accepted auditing standards (except for departures from generally accepted auditing standards disclosed from time to time in the audit report).

"Beneficial Owner" of a Series 2016 Bond shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Series 2016 Bonds (including persons holding Series 2016 Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Series 2016 Bonds for federal income tax purposes.

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

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

"EMMA" means the Electronic Municipal Market Access system for municipal securities disclosure of the MSRB.

"Fiscal Year" means any period of twelve (12) consecutive months adopted by the Corporation and the Guarantors as their fiscal year for financial reporting purposes.

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

"Listed Event" means the occurrence of any of the following events with respect to the Series 2016 Bonds:

(i) Principal and interest payment delinquencies;

(ii) Nonpayment-related defaults, if material;

(iii) Unscheduled draws on debt service reserves reflecting financial difficulties;

(iv) Unscheduled draws on credit enhancements reflecting financial difficulties;

(v) Substitution of credit or liquidity providers, or their failure to perform;

(vi) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;

(vii) Modifications to rights of security holders, if material;

(viii) Bond calls (excluding mandatory sinking fund redemptions), if material;

(ix) Defeasances and tender offers;

(x) Release, substitution or sale of property securing repayment of the securities, if material;

(xi) Rating changes;

(xii) Bankruptcy, insolvency, receivership or similar event of the obligated person;

(xiii) The consummation of a merger, consolidation or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(xiv) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

"MSRB" shall mean the Municipal Securities Rulemaking Board.

"Participating Underwriter" shall mean any of the original underwriters of the Series 2016 Bonds required to comply with the Rule in connection with the offering of the Series 2016 Bonds.

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

UNDERWRITING

Under a bond purchase agreement entered into by and among the Issuer, the Corporation, the Guarantors and Stephens Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated (collectively, the "Underwriters"), the Series 2016 Bonds are being purchased at a purchase price of $98,315,520.30 (which represents the stated principal amount of the Series 2016 Bonds plus an original offering premium of $13,326,146.55 and less an underwriting discount of $405,626.25), for reoffering by the Underwriters. The bond purchase agreement provides that the Underwriters will purchase all of the Series 2016 Bonds if any are purchased. The obligation of the Underwriters to accept delivery of the Series 2016 Bonds is subject to various conditions contained in the bond purchase agreement, including the absence of pending or threatened litigation questioning the validity of the Series 2016 Bonds or any proceedings in connection with the issuance thereof, and the absence of material adverse changes in the financial or business condition of the Corporation or the Guarantors.

The Underwriters intend to offer the Series 2016 Bonds to the public initially at the offering prices set forth on the inside cover page of this Official Statement, which offering prices (or bond yields establishing such offering prices) may subsequently change without any requirement of prior notice. The Underwriters reserve the right to join with dealers and other underwriters in offering the Series 2016 Bonds to the public, and may offer and sell Series 2016 Bonds to such dealers and other underwriters at a price below the public offering price.

The Corporation and the Guarantors have agreed to indemnify the Underwriters against certain civil liabilities in connection with the offering and sale of the Series 2016 Bonds, including certain liabilities under federal securities laws.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. Under certain circumstances, the Underwriters and their affiliates may have certain creditor and/or other rights against the Corporation and its affiliates in connection with such activities. In the various course of their various business activities, the Underwriters and their respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of the Corporation and its affiliates (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with the Corporation and its affiliates. The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

Douglas Jackson, First Vice President and Wealth Management Advisor of Bank of America Merrill Lynch, one of the Underwriters, serves on the Board of Directors of the Corporation.

TAX MATTERS

Federal Tax Exemption

In the opinion of Friday, Eldredge & Clark, LLP, Bond Counsel, under existing law, the interest on the Series 2016 Bonds (including any original issue discount properly allocable to an owner thereof) is excludable from gross income for federal income tax purposes. Moreover, such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. It should be noted, however, that for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings. The opinions set forth in this paragraph are subject to the condition that the Issuer and the Corporation comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Series 2016 Bonds in order that interest thereon be, or continue to be, excludable from gross income for federal income tax purposes. The Issuer and the Corporation have covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Series 2016 Bonds in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2016 Bonds.

Bond Counsel expresses no opinion regarding other federal tax consequences arising with respect to the Series 2016 Bonds.

Purchasers of the Series 2016 Bonds, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States); property and casualty insurance companies, banks, thrifts or other financial institutions; certain recipients of Social Security or Railroad Retirement benefits; taxpayers otherwise entitled to claim the earned income tax credit; and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry tax-exempt obligations, should consult their tax advisors concerning their tax consequences of purchasing and holding the Series 2016 Bonds.

As shown on the inside front cover page of this Official Statement, certain of the Series 2016 Bonds are being sold at a premium (collectively, the "Premium Bonds"). An amount equal to the excess of the issue price of a Premium Bond over its stated redemption price at maturity constitutes premium on such Premium Bond. An initial purchaser of a Premium Bond must amortize any premium over such Premium Bond's term using constant yield principles, based on the purchaser's yield to maturity (or, in the case of Premium Bonds callable prior to their maturity, by amortizing the premium to the call date, based on the purchaser's yield to the call date and giving effect to the call premium). As premium is amortized, the amount of the amortization offsets a corresponding amount of interest for the period and the purchaser's basis in such Premium Bond is reduced by a corresponding amount resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Bond prior to its maturity. Even though the purchaser's basis may be reduced, no federal income tax deduction is allowed. Purchasers of the Premium Bonds should consult with their tax advisors with respect to the determination and treatment of amortizable premium for federal income tax purposes and with respect to the state and local tax consequences of owning a Premium Bond.

As shown on the inside front cover page of this Official Statement, certain of the Series 2016 Bonds are being sold at an original issue discount (collectively, the "Discount Bonds"). The difference between the initial public offering prices, as set forth on the inside cover page, of such Discount Bonds and their stated amounts to be paid at maturity constitutes original issue discount treated as interest which is excluded from gross income for federal income tax purposes, as described above.

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

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

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

Current or future legislative proposals, if enacted into law, may cause interest on the Series 2016 Bonds to be subject, directly or indirectly, to federal income taxation or otherwise prevent holders of the Series 2016 Bonds from realizing the full current benefit of the tax status of such interest. Recent legislative proposals include provisions that would limit the amount of exclusions (including tax-exempt interest) and deductions available to certain high income taxpayers. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, it would apply to bonds issued prior to enactment. The introduction or enactment of any such legislative proposals may also affect the market price for, or marketability of, the Series 2016 Bonds. Prospective purchasers of the Series 2016 Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

It is not an event of default on the Series 2016 Bonds if legislation is enacted reducing or eliminating the exclusion of interest on state and local government bonds from gross income for federal or state income tax purposes.

State Taxes

Bond Counsel is of the opinion that, under existing law, the Series 2016 Bonds and interest thereon are exempt from all state, county, and municipal taxes in the State of Arkansas and that the Series 2016 Bonds are further exempt from property taxation in the State of Arkansas.

RATINGS

Moody's Investors Service Inc. ("Moody's") has assigned a rating of "A1" (stable outlook) to the Series 2016 Bonds. S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P") has assigned a rating of "AA-" (stable outlook) to the Series 2016 Bonds. Such ratings reflect only the views of such rating agencies at the time such ratings were given, and the Issuer, the Corporation and the Guarantors make no representation as to the appropriateness of such ratings. An explanation as

to the significance of the above ratings may be obtained only from the respective rating agency furnishing the same.

The Corporation and the Guarantors have furnished the above rating agencies certain information and materials relating to the Series 2016 Bonds, the Issuer, the Corporation and the Guarantors, some of which have not been included in this Official Statement. Generally, rating agencies base their ratings on such information and materials and investigations, studies and assumptions furnished to and obtained and made by the rating agencies. There is no assurance that a particular rating will be maintained for any given period of time or that it may not be lowered, raised or withdrawn entirely by a rating agency if, in the judgment of such rating agency, circumstances so warrant. None of the Issuer, the Corporation, the Guarantors or the Underwriters have undertaken any responsibility to oppose any such revision or withdrawal. Any downward change in or withdrawal of a rating may have an adverse effect on the market price and marketability of the Series 2016 Bonds.

LEGAL MATTERS

Legal matters incident to the authorization and issuance of the Series 2016 Bonds and with regard to the tax-exempt status thereof are subject to the unqualified approving opinion of Friday, Eldredge & Clark, LLP, Little Rock, Arkansas, Bond Counsel, whose approving opinion will be delivered with the Series 2016 Bonds, and the form of which is attached as Appendix D to this Official Statement. Certain matters will be passed upon for the Corporation and the Guarantors by their counsel, Friday, Eldredge & Clark, LLP, Little Rock, Arkansas, and certain matters will be passed on for the Underwriters by their counsel, Kutak Rock LLP, Little Rock Arkansas.

Tom Baxter, a partner at Friday, Eldredge & Clark, LLP, Bond Counsel, is a member of and Chair of the Board of Directors of the Corporation and is a member of the Board of Directors of the Parent, a Guarantor of the Series 2016 Bonds.

LITIGATION

The Issuer

There is not now pending nor to the knowledge of the Issuer, threatened, any litigation restraining or enjoining the issuance or delivery of the Series 2016 Bonds or questioning or affecting the validity of the Series 2016 Bonds or the proceedings or authority under which they are to be issued. Neither the creation, organization or existence, nor the title of the present officers of the Issuer to their respective offices is being contested. There is no litigation pending or, to the knowledge of the Issuer, threatened which in any manner questions the right of the Issuer to enter into the Lease Agreement or the Indenture or to secure the Series 2016 Bonds in the manner provided in the Indenture.

The Corporation and the Guarantors

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

FINANCIAL STATEMENTS

The consolidated financial statements of Arkansas Children's Hospital, Arkansas Children's Hospital Foundation, Inc., Arkansas Children's Hospital Research Institute, Inc. and Arkansas Children's

Hospital Building Research Facility, Inc., as set forth in Appendix C to this Official Statement, have been audited by KPMG LLP, independent certified public accountants, for the period indicated in their report thereon, which report is also included in Appendix C. The notes set forth in Appendix C are an integral part of such consolidated financial statements, and the statements and notes should be read in their entirety. The consolidated financial statements of Arkansas Children's Hospital, Arkansas Children's Hospital Foundation, Inc., Arkansas Children's Research Institute, Inc. and Arkansas Children's Hospital Building Research Facility, Inc. for the nine-month period ended March 31, 2016, also appear in unaudited form in Appendix C. There was no request made to KPMG LLP to perform any updating procedures subsequent to the date of its audit report on the June 30, 2015 financial statements.

MISCELLANEOUS

The Corporation and the Guarantors have furnished the information in this Official Statement and in the Appendices hereto relating to the Corporation and the Guarantors and their operations and relating to the Hospital and the Northwest Facility. The Underwriters have furnished the information in this Official Statement with respect to the public offering prices of the Series 2016 Bonds and the information under the caption "UNDERWRITING."

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

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

The summaries in this Official Statement of certain provisions of the Indenture, the Lease Agreement, the Guaranty Agreements, the Series 2016 Bonds, the Continuing Disclosure Agreement and other documents do not purport to be complete, and reference is made to such documents for a complete statement of their provisions.

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

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The Issuer, the Corporation and the Guarantors have authorized and approved the execution and delivery of this Official Statement and its use by the Underwriters in connection with the offering and sale of the Series 2016 Bonds.

PULASKI COUNTY, ARKANSAS

By: /s/ Barry Hyde
County Judge

APPROVED BY:

ARKANSAS CHILDREN'S HOSPITAL

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

ARKANSAS CHILDREN'S, INC.

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

ARKANSAS CHILDREN'S NORTHWEST, INC.

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

ARKANSAS CHILDREN'S HOSPITAL FOUNDATION, INC.

By: /s/ Fred Scarborough
President

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APPENDIX A

THE CORPORATION AND ARKANSAS CHILDREN'S HOSPITAL

History

Arkansas Children's Hospital (the "Hospital") is a pediatric hospital located at 1 Children's Way near the State Capitol in Little Rock, Arkansas. It is the only acute care tertiary healthcare facility operated exclusively for children in the State of Arkansas (the "State"). The Hospital is operated by Arkansas Children's Hospital, an Arkansas not-for-profit corporation (the "Corporation").

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

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

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

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

Effective April 1, 2016, the Hospital is licensed for 336 routinely operational beds. The following table summarizes the Hospital's current operating bed complement:

Type of Service	Current Number of Beds Operating
Neonatal intensive care (NICU)	104
Pediatric intensive care (PICU)	26
Cardiovascular intensive care (CVICU)	40
Burn intensive care (BURN)	10
Total intensive care beds	180
Intermediate care beds	13
Medical/Surgical	143
Total operating beds	336

Affiliated Entities

Arkansas Children's Hospital Foundation, Inc. (the "Foundation") was incorporated in 1982, with the exclusive mission of developing and implementing plans to meet fund-raising requirements for the Corporation. Arkansas Children's Research Institute, Inc. ("ACRI") was incorporated in 1990 to conduct and promote medical research programs leading to improved prevention, treatment and care of childhood diseases through basic, clinical and applied research. See the caption "Arkansas Children's Research, Institute, Inc. and Arkansas Children's Hospital Foundation, Inc." below.

In 2015, two new Arkansas nonprofit corporations were formed – Arkansas Children's, Inc. (the "Parent") and Arkansas Children's Northwest, Inc. ("ACNW"). ACNW was organized to own and operate the proposed 24-bed Arkansas Children's Northwest hospital facility (the "Northwest Facility") to be located in Springdale, Arkansas, and being financed in part with proceeds of the Northwest Bonds.

The Parent will function as the parent corporation and sole member of the Corporation, ACNW, the Foundation and ACRI. The Parent, the Corporation, ACNW and the Foundation are guarantors of the Series 2016 Bonds. See the caption "SUMMARY OF PORTIONS OF THE GUARANTY AGREEMENTS" in the Official Statement to which this Appendix A is attached.

Education Programs and Affiliations

The Hospital serves as the pediatric teaching facility for the University of Arkansas for Medical Sciences ("UAMS"). In 1982, the Board of Directors of the Corporation and the Board of Trustees of the University of Arkansas, on behalf of UAMS, entered into an affiliation agreement to advance institutional academic programs as well as the health of the children of the State. The agreement recognizes that education and research programs comprise integral parts of a comprehensive healthcare program. The Corporation's Chief Executive Officer and the UAMS Chancellor serve as the responsible officials of the two institutions in the administration of the affiliation agreement. An Inter-Institutional Committee (the "IIC") is the formal mechanism for developing plans and establishing joint operational policies between the two institutions. Corporation members of the IIC include the Chief Executive Officer, Chief Financial Officer, Chief Counsel and Chief Strategy Officer. UAMS members include the UAMS Chancellor, the Dean of the College of Medicine, the President of the medical center and the UAMS Chief Financial Officer. The function of the IIC is the overall evaluation of the affiliation agreement and the development of procedures and guidelines for carrying out the agreement.

The Medical Director (aka Chief Medical Officer or CMO) of the Hospital is jointly appointed by the Corporation's Chief Executive Officer and the Dean of the UAMS College of Medicine and is a UAMS faculty member. The CMO is responsible to the Corporation's Board of Directors through the Chief Executive Officer for providing continuous overall medical perspective to operations of the Hospital. Medical perspective is the assessment and critique of patient care activities to determine whether the Hospital is achieving healthcare objectives, keeping scientifically competent and current, and evaluating medical staff performance within the context of meeting Hospital accreditation requirements. The CMO is accountable to the Corporation and UAMS for coordination of patient care programs with teaching and research programs within the Hospital in order to minimize any conflicts between these programs. The Corporation maintains a separate budget and independent control of its revenues and expenditures, including the solicitation of funds. All active members of the UAMS medical faculty who deal with professional services for children are encouraged to apply for Hospital privileges. Patients seen in the Hospital inpatient and outpatient facilities are the clients of the Corporation and not of UAMS. The Corporation has agreed to provide space and adequate support functions for the student teaching programs and for the office and research needs of the assigned faculty.

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

UAMS is the single major medical teaching institution in the State. In July 1975, the Medical Center was renamed the University of Arkansas for Medical Sciences and designated as one of the campuses within the

University of Arkansas System, including the University of Arkansas at Fayetteville, the University of Arkansas at Little Rock, the University of Arkansas at Pine Bluff, the University of Arkansas at Monticello, the University of Arkansas at Fort Smith, and the Clinton School of Public Service. In addition to working with area hospitals, UAMS has valuable educational affiliations with the Baptist Health System Hospitals, the St. Vincent Infirmary Medical Center, the Little Rock Hospital of the Arkansas Mental Health Services, and the Arkansas Rehabilitation Institute.

County Hospital Maintenance Tax Support

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

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

Fiscal Year	Revenues
2011	$3,486,708
2012	$3,767,693
2013	$3,738,668
2014	$3,823,871
2015	$3,947,453

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

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

State Support

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

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

Fiscal Year	Operating Revenues Received
2011	$3,533,600
2012	$3,533,600
2013	$3,533,600
2014	$3,533,600
2015	$3,533,600

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

Fiscal Year	Revenues Received For Indigent Care
2011	$1,875,029
2012	$1,853,592
2013	$1,855,519
2014	$1,856,320
2015	$1,858,131

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

Goals and Strategic Initiatives

In October 2014, the Corporation undertook an extraordinary strategic planning effort involving over one hundred administrative leaders, team members and physicians from across the enterprise. An aggressive timeline was established to align the strategic plan with the Corporation's budget process and to begin executing key initiatives as soon as possible. Set forth below is a description of the growth strategy adopted by the Corporation to respond to the rapid changes that are occurring in pediatric health care across the country, market changes within the State, and the specific needs of the Corporation.

The Corporation is committed to the strategic goals of improving child health, expanding its reach and achieving top-tier status among peer children's hospitals. In order to do this and address the complex changes occurring in the pediatric health care market, the Corporation's five-year strategic plan sets forth a bold vision filled with initiatives that can be summarized under four large pillars of work.

CHAMPIONING CHILDREN THROUGH CLINICAL EXCELLENCE

- Using specific criteria, the Corporation will develop clinical "Signature Programs" in order to address patient care, research and community impact.
- The Corporation will reimagine and execute an ambulatory surgical solution to improve patient health, enhance patient experience and lower cost.
- The Corporation will develop premier pediatric orthopedic capabilities to include a comprehensive sports medicine program, spine and hand surgery services and routine care such that the Corporation becomes the preferred orthopedic provider for children in Arkansas.
- The Corporation will develop a statewide neonatal/nursery network as well as labor and delivery capabilities on the Hospital campus to address care of the very high-risk infant.
- The Corporation will strengthen the linkages among the Corporation, ACRI and the Foundation to foster an environment conducive to innovative research.

REACHING THE FOUR CORNERS OF THE STATE

- The Corporation will develop a statewide network of care that will deliver culturally sensitive services as close as possible to where children live.
- The Corporation will assemble a statewide high-performance primary care delivery network by creating a compelling value proposition that attracts and retains the best primary care physicians and allied clinical team members.
- The Corporation will develop pediatric urgent care centers within the State as an integral part of the statewide primary care network.
- The Corporation will partner with additional school-based health centers to improve the health of children and to reach children who need a medical home or specialty care.
- The Corporation will form a statewide behavioral health coalition to define scope, conduct a statewide analysis, align incentives and develop a coordinated and collaborative triaged model of statewide care.
- The Corporation will immediately develop a solution to the pediatric health care needs of northwest Arkansas to include an inpatient facility.

- The Corporation will use telemedicine to expand its reach, improve access and the health status of Arkansas' children, advance patient satisfaction and lower costs for the Corporation and families.

ADDRESSING POPULATION HEALTH

- The Jonathan Bates, MD Center for Improving Children's Health will be the Corporation's source dedicated to addressing the complexities of continuum of care coordination in order to achieve the Triple Aim of better health, better patient experience and lower cost.
- The Bates Center will provide support for measurement and evaluation to assess the interventions' impact on quality, value and child health outcomes.
- The Corporation will develop and implement evidence-based pathways which are inclusive of the full continuum of care.
- The Corporation will include interventions that address social determinants of health in care pathways to improve health outcomes for Hospital patients.
- The Corporation will develop capacity to monitor and evaluate public health interventions to assure identified needs of children and their families are met.
- The Corporation will advance clinical excellence by providing data and analytics in order to deliver robust information needed for clinical decisions.
- The Corporation will identify and engage those organizations, providers and payers that can move in concert toward value-based care and value-based payment.
- The Corporation will use the Medical Home Clinic for Children with Special Health Care Needs as the pilot for addressing its population health capabilities with the intent to prove that the Triple Aim of better health, better patient experience and lower cost can be achieved. It will then scale these capabilities across the State.

EVOLUTION FROM HOSPITAL TO HEALTH SYSTEM

Finally, the fourth large domain involves positioning the organization's structure and governance to allow for the capability needed to support all of this work. Specifically, it requires moving deliberately from a hospital to a health system configuration.

- The Corporation will develop and institute a governance and management organizational structure that gives the flexibility and scalability to solve tomorrow's pediatric health care environment challenges.

Patient Care

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

Inpatient units consist of:

- Neonatal Intensive Care
- Pediatric Intensive Care
- Heart Center
- Burn Center
- Medical/Surgical Units

Surgical services consist of:

- Operating Rooms
- Ambulatory Surgery
- Post Anesthetic Care Unit

Outpatient services consist of:

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

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

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

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

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

** The Hospital transport system consists of three specialized ambulances designed for neonatal and pediatric transport, two Sikorsky S-76D helicopters which have been fitted out a mobile intensive care units, and access to fixed wing air ambulances as needed. The transport system serves a region with nearly a 300-mile radius and has transported patients from all over the United States for specialized treatment at the Hospital.

The Hospital contains specialized clinics which focus on particular areas of medicine. Each clinic is staffed by attending physicians and medical residents. The Hospital presently provides the following clinics:

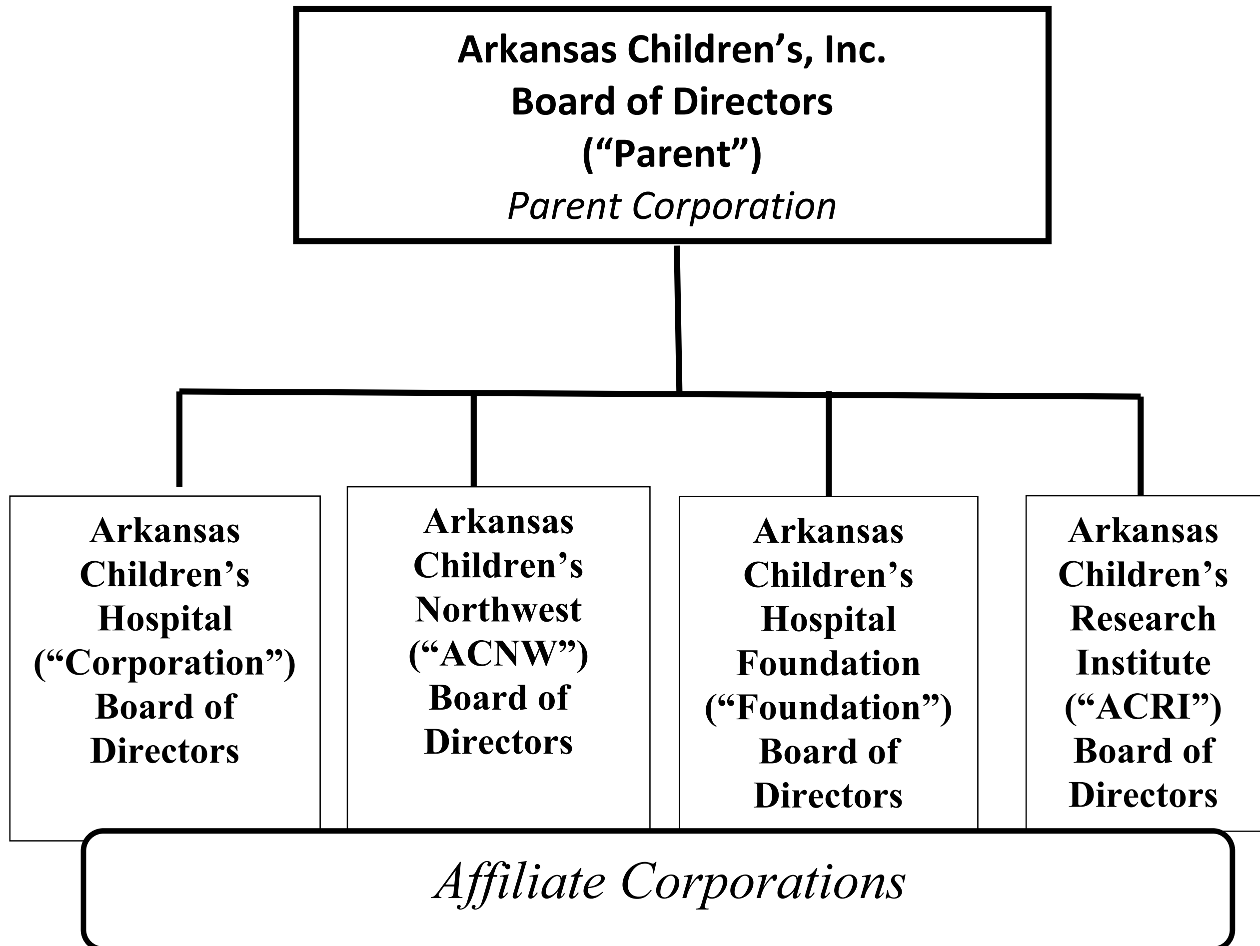
Adolescent Prenatal	Endocrine	Neurosurgery
Adolescent Psychology	Fitness	Newborn
Allergy	Gastroenterology	Nutrition
Arkansas Children's House	General Pediatric	Ophthalmology
Arthritis	Genetics	Optometry
Audiology	Growth & Development	Orthopedic
Autism	Gynecology	Pain Management
Bone Tumor	Habilitation	Palcare
Brain Tumor	Hand	Plastic Surgery
Burn Plastic	Hematology	Pulmonary
Cardiology	Hematology Long Term	Sickle Cell
Community Services	Hematology Drug Administration	Sleep Disorder
Contact Lens	Hemophilia	Spina Bifida
Concussion	Hypertension	Sports Medicine
Cranio Facial	Immunology	Surgery
Day Medicine	Infectious Disease	Tuberculosis Chest
Dental	Interventional Radiology	Urodynamics
Dental Orthodontia	Lowell Regional Clinics	Urology
Dental Outreach	Liver	Vascular Anomalies
Dermatology	Medical Home Clinic	West Little Rock Specialty
Ear Nose Throat	Nephrology	Youth
Emergency Department	Neurology	Youth Family Planning

Community Network

The Corporation interacts with various community organizations and State agencies involved with children, including the Arkansas Heart Association, Centers for Youth and Families, Cystic Fibrosis, Arthritis Foundation, Epilepsy Foundation, Diabetes Foundation, State Department of Human Services, Spinal Cord Commission, State Department of Health, most Arkansas School Districts, the City of Little Rock, and Arkansas Advocates for Children & Families.

Governing Body and Organization

The organizational chart below illustrates the governing structure of the Parent, the Corporation, ACNW, the Foundation and ACRI.



Arkansas Children's, Inc. (the "Parent")

The Articles of Incorporation and By-laws of the Parent provide that its business and affairs shall be conducted solely by a Board of Directors. The Board consists of 14 members, including the Chief Executive Officer of the Parent. Directors are elected annually from among the citizens of the State for three-year terms. The present members of the Board of Directors, their principal occupations, and their years of service on the Board are as follows:

Name	Occupation/Affiliation	Date of Joining Board[(1)]
R. Mark Saviers, Chair	Partner, Sage Partners	October 1, 1996
Ron Clark, Vice Chair	General Counsel, The Stephens Group, LLC	October 1, 2003
Mark McCaslin, Treasurer	Independent Consultant	October 1, 2009
Johnny Bale	Owner, Bale Automotive Group	October 1, 1974
Tom Baxter[(2)]	Partner, Friday, Eldredge & Clark, LLP	October 1, 1994
Harry C. Irwin, III	Partner, Erwin & Company	October 1, 1990
Sharilyn Gasaway	Public Company Board Member	August 1, 2012
Gary C. George	Chairman, George's Inc.	December 2, 2015
Paul Hart	Executive Vice Chairman, McLarty Auto Group; EVP/CFO, McLarty Companies	October 1, 2006
Jeff Nolan	President and CEO, Loutre Land and Timber Company	August 1, 2009
James L. "Skip" Rutherford, III	Dean, University of Arkansas Clinton School of Public Service	October 1, 1988
Patrick Schueck	President, Lexicon, Inc.	October 1, 2013
Charles Whiteside[(3)]	Self-employed (investments)	October 1, 1974
Marcella L. Doderer	President & CEO, Arkansas Children's, Inc.	July 15, 2013

(1) Including service on the Corporation Board of Directors.
(2) Mr. Baxter is a partner with Friday, Eldredge & Clark, LLP, which firm is serving as Bond Counsel in connection with the issuance of the Series 2016 Bonds.
(3) Recently retired, Mr. Whiteside was previously an officer of Bank of America Merrill Lynch, one of the underwriters of the Series 2016 Bonds.

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

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

Investment Committee. The Investment Committee consists of three or four members of the Board of Directors appointed annually by the Chair of the Board, subject to approval by the Board, or by the Board, as well as each of the Treasurers of the Corporation, ACNW, the Foundation and ACRI Boards of Directors. The Investment Committee performs the following functions: (1) advises the Board of Directors on setting investment policies that define risk and return objectives, identify permitted investments and asset classes and any restrictions thereon, and provide guidelines on asset allocation; (2) authorizes the purchase and sale of securities and other investments; (3) advises the Board of Directors on the selection of investment managers and advisors; and (4) monitors the

performance of investment managers and their compliance with policy. The Investment Committee also selects and monitors investment options and establishes investment policy for the employee pension plans of the Corporation and the other Affiliates.

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

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

Arkansas Children's Hospital (the "Corporation")

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

Name	Occupation/Affiliation	Date of Joining Board
Tom Baxter, Chair[(1)]	Partner, Friday Eldredge & Clark, LLP	October 1, 1994
Phillip Jett, Vice Chair	Central Arkansas President, IberiaBank	October 1, 2014
Dorsey Jackson, Treasurer	Retired Accountant	March 30, 2016
Johnny Bale	Owner, Bale Automotive Group	October 1, 1974
Haskell Dickinson	President & CEO, McGeorge Contracting Company, Inc.	October 1, 2000
Missy Graham, MD	Community Physician, Allergy & Immunology	October 1, 2013
Douglas Jackson[(2)]	First Vice President, Wealth Management Advisor, Merrill Lynch	March 30, 2016
Holly Marr	Retired	October 1, 2009
Pat McClelland	Professional Volunteer	October 1, 1993
Barbara Moore	Retired Accountant	October 1, 1986
Beverly Morrow	Owner, TLM Management	October 1, 2005
Marcella L. Doderer	President & CEO, Arkansas Children's, Inc.	July 15, 2013
Richard F. Jacobs, MD	Chairman, UAMS Department of Pediatrics	January 1, 2006
Dan Rahn, MD	Chancellor, UAMS	November 1, 2009
Steve Schexnayder, MD	Chief of Hospital Medical Staff	July 1, 2015

(1) Mr. Baxter is a partner with Friday, Eldredge & Clark, LLP, which firm is serving as Bond Counsel in connection with the issuance of the Series 2016 Bonds.
(2) Mr. Jackson is an officer of Bank of America Merrill Lynch, one of the Underwriters of the Series 2016 Bonds.

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

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

Business Transactions with Members of the Boards of Directors. The Parent, the Corporation and the other Affiliates may from time to time invest certain funds with, and procure goods and services from, institutions and companies affiliated with or controlled by various members of their Boards of Directors, where the Parent, the Corporation or an Affiliate has a need for the goods or services offered by any such persons, institutions or companies, and where the terms and conditions of such transactions and the compensation paid would be as favorable in all material respects as the Parent, the Corporation or the Affiliate could obtain from unaffiliated or unrelated persons. All members of the Boards of Directors disclose any conflicts of interest on an annual basis. All members of the Boards of Directors also abstain from discussing or voting on any matters in which they may have a conflict of interest. Determination of whether a listed conflict is material is determined by the corporate compliance officer, with advice from legal counsel if uncertain. During the year, while members of the Boards of Directors may participate in initial discussion, members who have a conflict are prohibited from participating in deliberations and decisions in related transactions and abstain from voting, which is noted in the Board minutes.

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

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

Over 190,000 square feet of space is currently available for research activities on the Hospital's campus. This space encompasses the ACRI building, the Arkansas Children's Nutrition Center (ACNC), approximately 5,340 square feet of research space in the Sturgis building, approximately 10,000 square feet in the South Campus building, approximately 3,000 in the East Campus, and approximately 4,700 square feet in the Hospital's Pediatric Clinical Research Unit. Animal research facilities, as well as laboratories and office space, are provided for research. There are presently over 125 investigators on the Hospital campus.

The Arkansas Children's Hospital Foundation, Inc. (the "Foundation") was incorporated in 1982 with the exclusive mission of developing and implementing plans to meet fund-raising requirements for the Corporation. The Foundation is responsible for raising private support for the Corporation, ACNW and ACRI, including restricted and unrestricted gifts for operations, capital needs and endowment. Over the last five fiscal years, the Foundation has raised approximately $113 million in donations to benefit the Corporation, ACNW and ACRI.

Administrative

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

Marcella L. Doderer, FACHE, is President and Chief Executive Officer of the Parent, the Corporation and ACNW. Ms. Doderer became President and Chief Executive Officer of the Corporation on July 15, 2013. Prior to her role at the Corporation, she served as a member of senior leadership for CHRISTUS Santa Rosa Health System in various capacities since 2002. She became Administrator for CHRISTUS Santa Rosa Children's Hospital in 2008 and led the effort to transform the facility into the free standing Children's Hospital of San Antonio. Her previous

leadership experience includes positions at CHRISTUS St. Joseph's Health System and McCuistion Regional Medical Center, both in Paris, Texas, and Presbyterian Hospital of Dallas, Dallas, Texas. Ms. Doderer is a Fellow in the American College of Health Care Executives (ACHE) and is active in many professional organizations. She has served on the boards of the Children's Hospital Association of Texas and the national Children's Hospital Association (CHA). She is currently a member of the Children's Hospital Solutions for Patient Safety Board of Directors. She obtained her BS in Finance from Trinity University, San Antonio, Texas, and her MA in Hospital and Health Administration from The University of Iowa.

Jayante K. Deshpande, MD, MPH, has served as Senior Vice President and Chief Medical Officer of the Corporation since 2014. Dr. Deshpande received an A.B. degree in Chemistry from Boston University and his M.D. from the University of Tennessee. He completed his pediatric residency training at LeBonheur Children's Medical Center in Memphis, Tennessee, and completed his residency in pediatric anesthesia at the Hospital of the University of Pennsylvania and his fellowship in pediatric anesthesia and critical care at the Children's Hospital of Philadelphia. He then served as a Research Fellow from the University of Pennsylvania Department of Anesthesia at the Laboratory for Experimental Brain Research at the University of Lund in Sweden. Dr. Deshpande has served in various positions on the faculty and as an attending physician at Johns Hopkins University, at Vanderbilt University Medical Center, and at the Monroe Carell Jr. Children's Hospital at Vanderbilt, where he served as Medical Director for Performance Management and Improvement, Anesthesiologist-in-Chief, and Executive Physician for Pediatric Quality and Safety before joining the Corporation as Chief Quality Officer. Dr. Deshpande is an active member of the American Academy of Pediatrics, the American Society of Anesthesiologists, the Society for Pediatric Anesthesia, the Society of Critical Care Medicine and American College of Physician Executives and Healthcare Executives. He is also an elected member of the American Pediatric Society.

Lee Anne Eddy, MSN, RN, NEA-BC, has been Senior Vice President and Chief Nursing of the Corporation since December 2013. Ms. Eddy joined the Corporation in 2011 as Vice President of Ambulatory Care Services. A registered nurse by training, she held a similar Ambulatory Care position with the Children's Hospital of Wisconsin in Milwaukee. Ms. Eddy holds a Bachelor's degree in Nursing from the University of Wisconsin-Eau Claire, a Master's degree in Nursing Administration from Marquette University, and is a Board Certified Nurse Executive, Advanced (NEA-BC).

Jon Goldberg, CHCIO, CPHIMS, has been Senior Vice President and Chief Information Officer of the Corporation since November 2015. Mr. Goldberg was Vice President/Information Services at St. Peter's Health Partners in Albany, New York from 2004 until joining the Corporation. He has also spent time in the consulting industry as well as leading operations for a health care technology startup in Palo Alto, California. Mr. Goldberg holds a BA degree from State university of New York at Albany and a Master of Health Administration degree from Long Island University. His certifications include Certified Healthcare CIO (CHCIO) from the College of Healthcare Information Management Executives (CHIME), and a Certified Professional in Healthcare Information and Management Systems (CPHIMS) from Health Information and Management Systems Society (HIMSS). A founder and board member of Hixny, a health information exchange, Mr. Goldberg served as the chair of its governance committee and served on its finance committee.

Greg Kearns, PharmS, PhD, has been President of ACRI and Chief Research Officer at the Corporation since June 2015. From 1983 until 1988, Dr. Kearns served as assistant professor of Pharmaceutics, College of Pharmacy, and assistant professor of Pediatrics, College of Medicine, at UAMS. From 1985 to 1988, he served the Corporation as director of its newly created Clinical Pharmacokinetics Service. In 1988, Dr. Kearns became the first chief of the Section of Pediatric Clinical Pharmacology at the Corporation and UAMS and additionally served as Co-PI and Associate Director of the Pediatric Pharmacology Research Unit at ACRI. Dr. Kearns left the Corporation and UAMS in 1996 to join the faculty of Children's Mercy Hospital in Kansas City, Missouri, to develop a new program in Pediatric Clinical Pharmacology, a position that he held until 2008. There, Dr. Kearns also served as the Chief Scientific Officer, Chairman of the Department of Research Development, and Associate Chairman of the Department of Pediatrics, holding professorial appointments at both the University of Missouri-Kansas City and the University Of Kansas School Of Medicine until returning to ACRI in June of 2015. He is a past member of the American Board of Clinical Pharmacology, former president of the American Society for Clinical Pharmacology and Therapeutics, and served two terms as a member of the Board of Regents of the American College of Clinical Pharmacology.

Trisha Montague, MSN, RN, NEA-BC, has served as Senior Vice President, Regional Services for the Corporation since November 2015, and has over 30 years' experience in executive leadership in patient care delivery and nursing practice. She will oversee the construction and will be the senior administrator of the Northwest Facility, scheduled to open in the first quarter of 2018. Ms. Montague joined the Corporation from Children's Hospital of San Antonio where she served as chief nursing officer. She previously served at the Corporation from 1997 to 2001, first as an assistant administrator in Inpatient Nursing, and later as vice president of Patient Care Services. At Children's of San Antonio, one of Ms. Montague's major responsibilities was serving as executive lead on a $150 million renovation project for inpatient units and services. She earned her Master of Science in Nursing Administration from the University of Colorado Health Sciences Center in Denver, and undergraduate degree (BS) in Nursing from Loretto Heights College, also in Denver. She is Nurse Executive Advanced-Board Certified (NEA-BC).

Fred Scarborough, CFRE, has been President of the Foundation and Chief Development Officer of the Corporation since 2012. A member of the fundraising profession since 1995, Mr. Scarborough has served as the Foundation's Senior Vice President for Major Gifts, as Director of Development for the Arkansas Symphony Orchestra, and as Director of Development for Meals on Wheels (CareLink). In 2002, he was named the Arkansas Symphony Orchestra's first Honorary Member and in 2004 was named Outstanding Fundraising Professional by the Arkansas Chapter of the Association of Fundraising Professionals (AFP). Mr. Scarborough holds a Bachelor of Arts degree in Communications from the College of the Ozarks, Point Lookout, Missouri, and a Masters of Arts degree from the Fulbright College of Fine Arts in the University of Arkansas at Fayetteville. He is currently serving as Adjunct Faculty for the Clinton School of Public Service where he teaches *Fundraising in the 21st Century*. Fred serves as a member of the Board of Directors for the Woodmark Group (a consortium of 26 free-standing children's hospitals), having co-chaired the International Woodmark Summit. Mr. Scarborough continues to be a frequent presenter at AFP, Association for Healthcare Philanthropy (AHP) and Woodmark Group Summit trainings, as well as regional fundraising conferences. A recipient of a National Endowment for the Arts citation for excellence in program development and a former member of Actor's Equity Association, he has been active with the Arkansas Chapter of AFP since 1995, having served in a variety of offices including President.

Robert W. Steele, MD, MBA, joined the Corporation in June 2014 as Senior Vice President and Chief Strategy Officer. Before joining the Corporation, Dr. Steele was the President of Mercy Springfield Communities which consists of Mercy Hospital Springfield, an 866 licensed-bed referral center, five regional hospitals (one PPS and for critical access), 600+ physicians, clinics with 70+ locations throughout the region, a medical research institute, and a foundation. He holds a Bachelor's degree in Biology from the University of North Carolina-Chapel Hill, and an M.D. from the Vanderbilt University School of Medicine.

Gena Wingfield, CPA, is Senior Vice President and Chief Financial Officer of the Corporation. Ms. Wingfield has been the Chief Financial Officer of the Corporation since 1998. She has been with the Corporation since 1985 and has held previous roles in finance, including Controller and was also Interim Chief Information Officer. She graduated from the University of Central Arkansas in 1983 with a B.B.A. in Accounting and began working in public accounting for Arthur Young & Co. (now Ernst & Young) until coming to work at the Corporation. Ms. Wingfield has served as a member of the Child Health Association audit/compliance committee and the CHA financial services committee, held a previous seat on the Board of QualChoice of Arkansas and served on the finance committee of the Women's Foundation of Arkansas. She is also a member of the American Institute of Certified Public Accountants, the Arkansas Society of Certified Public Accountants and the Healthcare Financial Management Association.

There is currently a vacancy in the position of Chief Operating Officer of the Corporation. An active recruiting process is underway to identify candidates to fill this position.

Medical Administration

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

Stephen Schexnayder, MD, is the elected Chief of the Medical Staff. Dr. Schexnayder is a Professor of Pediatrics and Internal Medicine at the University of Arkansas College of Medicine, the Chief of Pediatric Critical Care at the Hospital, and the Vice Chair of the Department of Pediatrics, overseeing its educational mission. He has

been involved in pharmaceutical research and is active internationally in pediatric resuscitation. He is a past chair of the American Heart Association's Pediatric Resuscitation Subcommittee, which writes international guidelines for resuscitation. Dr. Schexnayder is an active educator and has taught many teaching skills courses for faculty and trainees. He is a graduate of UAMS and performed his pediatric internship and residency of UAMS, as well as a pediatric critical care fellowship. Dr. Schexnayder is board certified in the areas of internal medicine, pediatric medicine and pediatric critical care.

Greg Sharp, MD, is the elected Vice-Chief of the Medical Staff. Dr. Sharp is Chief of Child Neurology and holder of the John H. Bornhofen, MD Endowed Chair in Child Neurology He is Professor of Pediatrics and Neurology at UAMS and serves as the Medical Director of the Neuroscience Center, Neuroscience Inpatient Unit, Neurophysiology Lab and Brain Tumor Clinic at the Hospital. Dr. Sharp received a B.S. in Zoology from Arkansas State Univeristy and earned his medical degree from UAMS. He completed a residency in Pediatrics at UAMS, followed by a residency in Child Neurology at the Mayo Clinic in Rochester, Minnesota with specialized training in Clinical Neurophysiology. Dr. Sharp is board ceritified by the American Board of Pediatrics and by the American Board of Psychiatry and Neurology with Special Competence in Child Neurology and Added Qualifications in Clinical Neurophysiology. He has been listed repetitively in *Best Doctors in Arkansas*, *Best Doctors in America* and *America's Top Doctors* and has been awarded the Red Sash Award by UAMS medical students as an outstanding teacher on mulitple occasions. He is a member of the American Academy of Neurology, Child Neurology Society and American Epilepsy Society.

Renee Bornemeier, MD, is the elected Secretary/Treasurer of the Medical Staff. Dr. Bornemeier is the Professor of Pediatric Cardiology at UAMS. She completed her doctorate of medicine at UAMS and performed her pediatric internship and residency at the Hospital and UAMS and a fellowship in pediatric cardiology at Children's Hospital of Philadelphia. Dr. Bornemeier is board certified by the American Board of Pediatrics as well as the sub board of Pediatric Cardiology. She is the Director of the Bale Fetal Heart Center at the Hospital. Her areas of focus and interest are Fetal Echocardiography, Cardiac Anatomy, and Pediatric Echocardiography. Her professional memberships include the American College of Cardiology, American Heart Association and the American Society of Echocardiogy.

Richard Jackson, MD, is the Immediate Past Chief of Staff. Dr. Jackson is a Professor of Surgery at UAMS and works in the Division of Pediatric Surgery at the Corporation. He is a graduate of the West Virginia University School of Medicine and completed his general surgery residency at West Virginia University and fellowships in Pediatric Trauma, Critical Care and Pediatric Surgery at Children's Hospital of Pittsburgh. He holds board certification in critical care, general surgery and pediatric surgery. Dr. Jackson has co-authored over 50 articles, a book chapter and given multiple local and national presentations on pediatric surgical topics. He is a member of many professional societies, including the American College of Surgeons, Children's Oncology Group – Surgical Section, Society of Laparoendoscopic Surgeons, and the American Pediatric Surgical Association.

Medical Staff

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

As of March 31, 2016, there were 505 physicians on the Hospital's medical staff with an average age of 48.

Staff Classification	Number of Physicians
Active	429
Courtesy	76
Leave of Absence	0
Temporary	0
Total:	505

Physicians on the Hospital's Medical Staff are classified by specialty and board certification as of March 31, 2016, and are as follows:

Physician Primary Specialty	Number of Physicians	Number of Board Certified Physicians
Adolescent Medicine	6	6
Anesthesiology	32	30
Burn Surgery	6	5
Cardiology	25	25
Cardiovascular Surgery	4	2
Clinical Pharmacology & Toxicology	4	4
Critical Care Medicine	10	10
Dentistry	25	2
Dermatology	2	2
Developmental Pediatrics	11	10
Emergency Medicine	34	34
Endocrinology	4	4
Family Practice	2	1
Gynecology	1	1
Hematology-Oncology	10	9
Hospitalists	7	7
Infectious Diseases	6	6
Internal Medicine	2	2
Medical Genetics	6	6
Neonatology	30	30
Nephrology	9	9
Neurology	12	10
Neurosurgery	11	6
Ophthalmology	22	19
Orthopaedics	17	12
Otolaryngology	22	16
Pathology	23	23
Pediatric Allergy and Immunology	12	12
Pediatric Gastroenterology/Nutrition	7	7
Pediatric Pulmonology	8	8
Pediatrics	79	73
Plastic & Reconstructive Surgery	5	4
Psychiatry	11	11
Radiology	19	17
Rehabilitation & Physical Medicine	3	3
Rheumatology	2	2
Surgery	6	6
Transplant Surgery	3	3
Urology	4	4
Vascular Surgery	3	2
Total:	505	443

Set forth below is a table detailing the service and admission volume of the Hospital's top ten physicians based on their respective percentage of net revenues, along with their percentage of total admissions during the fiscal years ended June 30, 2015 and 2014.

Physician Specialty	**Percent of FY 2015 Admissions**	**Percent of Total FY 2015 Net Revenue**
Pediatrics	2.95%	0.57%
Pediatrics	2.76%	0.52%
Pediatrics	2.67%	0.59%
Pediatrics	2.57%	0.40%
Pediatrics	2.24%	0.42%
Pediatrics	2.05%	0.39%
Pediatrics	2.04%	0.38%
Pediatrics	2.01%	0.39%
Hematology	1.98%	0.74%
Pediatrics	1.96%	0.38%
Total:	23.23%	4.78%

Physician Specialty	**Percent of FY 2014 Admissions**	**Percent of Total FY 2014 Net Revenue**
Pediatrics	2.98%	0.41%
Pediatrics	2.61%	0.56%
Pediatrics	2.52%	0.48%
Pediatrics	2.46%	0.42%
Pediatrics	2.42%	0.37%
Pediatrics	2.38%	0.34%
Hematology	2.34%	0.82%
Pediatrics	2.33%	0.36%
Pediatrics	2.31%	0.46%
Burn Surgery	1.98%	1.40%
Total:	24.33%	5.62%

No single physician has accounted for more than 3% of Hospital admissions during either of the last two fiscal years.

Nursing Staff

The nursing complement of the Hospital, as of March 31, 2016, consisted of 1,151 direct care registered nurses, 52 direct care licensed practical nurses, and 205 direct care patient care technicians/care partners. There were 170 indirect care and management registered nurses.

Together with the support of the Corporation Board and the implementation of aggressive recruitment strategies, the Corporation continues to remain competitive in RN salaries, benefits and professional development. The Corporation hosts nursing job fairs twice a year which are targeted both to experienced nurses throughout the State who might have an interest in a pediatric nursing career as well as nursing students who are interested in working at the Hospital. The Corporation also utilizes nursing agencies to contract for employees in 13-week intervals during peak volume periods.

In fiscal year 2014, the Corporation partnered with Versant to initiate a Nursing Residency Program. This program has resulted in tremendous growth in both the number and quality of applicants from within and outside the State. A Corporation initiative, which has enhanced engagement in the nursing staff, is the endeavor to have the Hospital become a Magnet Designated facility recognizing nursing excellence. In addition, the Corporation continues to place high value on important recognition programs such as the DAISY Award for Extraordinary Nurses as well as the annual Excellence in Nursing Awards.

The Corporation continues to experience a high retention rate among nurses as evidenced in the low annual turnover rate. The Corporation's fiscal year 2015 and 2014 RN turnover rates were 14.63% and 13.77%, respectively.

Other Hospital Employees

As of March 31, 2016, the Corporation employed 3,270.38 full-time equivalent employees, including the nursing staff referred to above. A breakdown of the employees, by area of service, is as follows:

Area of Service	Number of Full-Time Equivalents
Administrative Services	1,137.90
General Services	440.63
Medical Services	459.03
Nursing Services	986.89
Other	245.93
Total:	3,270.38

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

The Corporation continually evaluates its regional competitiveness in the employment market through wage and salary surveys. Salary market adjustments have been implemented each year when possible to maintain market competitiveness. Management believes that the wages, salaries and benefits presently paid to its employees are within the average of those paid by other hospitals in its service area.

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

Historical Utilization

The following table summarizes historical utilization at the Hospital for the fiscal years ending June 30, 2011 through June 30, 2015 and the nine-month periods ending March 31, 2015 and 2016:

	For Years Ended June 30					For the Nine Months Ended March 31	
	2011	**2012**	**2013**	**2014**	**2015**	**2015**	**2016**
Admissions	14,114	14,493	14,845	14,550	15,529	11,753	11,220
Average Stay (days)	6.00	5.49	5.32	5.59	5.28	5.18	5.31
Patient Days	81,164	79,475	81,105	79,643	81,889	61,328	60,772
Average Daily Census	222.4	217.1	222.2	218.2	224.4	223.8	221.0
No. of Operating Beds	306	306	338	342	342	342	342
Occupancy Percentage[1]	72.7%	70.9%	67.4%	64.4%	64.3%	65.4%	62.9%
Outpatient Visits	213,565	228,751	236,816	246,455	255,708	189,612	187,069
ER Visits[2]	50,524	52,279	55,572	53,259	58,693	44,351	46,379
Total Surgeries	13,814	14,308	14,560	14,465	15,089	10,988	11,242

[1] Based on operating beds

[2] Not included in Outpatient Visits above

Market Share

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

The most recent estimates show that the Hospital has a 86.3% market share for "pediatric inpatient services" in the PCSA and a 41.1% market share in the SCSA.

Service Area

The Hospital serves patients from throughout the State and, on occasion, from other states and countries. In the fiscal year ended June 30, 2015, the Hospital drew approximately 74.0% of its outpatients and 59.5% of its inpatients from Pulaski County and the surrounding counties of Saline, Faulkner, Lonoke and Jefferson, as well as from White County in north central Arkansas, Garland County in west central Arkansas, and Sebastian, Benton and Washington Counties in the northwest corner of the State. Approximately 44.3% of outpatient discharges and 26.3% of inpatient discharges in fiscal year 2015 came from Pulaski County.

Fiscal Year 2015 inpatient and outpatient discharges from the Hospital are summarized as follows:

Service Area	Inpatient Discharges Fiscal Year 2015	Percent of Inpatient Discharges	Outpatient Discharges Fiscal Year 2015	Percent of Outpatient Discharges
Pulaski County	4,080	26.3%	157,599	44.3%
Saline County	852	5.5%	27,425	7.7%
Faulkner County	794	5.1%	13,514	3.8%
White County	598	3.8%	8,677	2.4%
Washington County	563	3.6%	16,938	4.8%
Benton County	536	3.4%	11,946	3.4%
Lonoke County	525	3.4%	8,515	2.4%
Garland County	459	3.0%	3,967	1.1%
Sebastian County	419	2.7%	5,420	1.5%
Jefferson County	414	2.7%	9,150	2.6%
Other Counties in Arkansas	5,680	36.6%	81,123	22.8%
Outside Arkansas	602	3.9%	11,356	3.2%
Totals:	15,522	100.0%	355,630	100.0%

[1] Includes ER visits of 58,693 and Outpatient Ancillary Services of 41,229.

The following population data for Pulaski County and selected surrounding counties is provided by the United States Census Bureau.

Primary Service Area	1990 Census	2000 Census	2010 Census	Percent Change 1990-2000	Percent Change 2000-2010
Pulaski County	349,660	361,474	382,748	3.4%	5.9%
Faulkner County	60,006	86,014	113,237	43.3%	31.7%
Saline County	64,183	83,529	107,118	30.1%	28.2%
Lonoke County	39,268	52,828	68,356	34.5%	29.4%
Jefferson County	85,487	84,278	77,435	-1.4%	-8.1%

Arkansas has a relatively diversified employment base. State government and medical care providers employ a significant number of the State's employees. The top 20 largest employers in the State for 2014 are shown below (Source: *Arkansas Business,* originally published January 5, 2014).

Employer	**Employees**
Arkansas State Government	56,956
Wal-Mart Stores, Inc.	50,096
Tyson Foods Inc.	23,000
U.S. Government	20,200
Baptist Health	8,083
Community Health Systems Inc.	5,700
Mercy Health System	4,950
CHI St. Vincent	4,691
Arkansas Children's Hospital	4,253
Kroger Co.	4,102
Arvest Bank	3,539
J.B. Hunt Transport Services Inc.	3,263
Lowe's Cos., Inc.	3,254
Simmons Foods Inc.	3,247
FedEx Corp.	3,200
Harp's Food Stores Inc.	3,181
St. Bernards Healthcare	2,950
Arkansas Blue Cross & Blue Shield	2,817
Dillard's Inc.	2,700
Georgia-Pacific LLC	2,700

The following statistics summarize recent employment trends for the calendar years 2014 and 2015 (Source: Arkansas Department of Workforce Services):

	2014		**2015**	
Area	**Number Employed**	**Rate of Unemployment**	**Number Employed**	**Rate of Unemployment**
Pulaski County	172,575	5.6%	187,250*	4.0%*
State of Arkansas	1,220,900	6.1%	1,330,099	5.2%
United States	155,922,000	6.2%	157,130,000	5.3%

* Preliminary; through December, 2015.

The following table, for the most recent years available, indicates the total reported value of new privately-owned residential building permits issued within Pulaski County for the calendar years indicated (Source: U.S. Census Bureau):

	2011	**2012**	**2013**	**2014**	**2015**
Value of all Permits	$127,568,611	$167,473,715	$163,746,513	$157,544,965	$137,911,712

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

	2010	**2011**	**2012**	**2013**	**2014**
Pulaski County	$41,492	$43,719	$46,593	$45,080	$46,349
State of Arkansas	31,991	33,961	36,291	36,529	37,782
United States	40,277	42,453	44,266	44,438	46,049

Historical Financial Performance

The organization maintains its financial records on the basis of a fiscal year ending June 30. Set forth in APPENDIX C hereto are the consolidated financial statements for the fiscal years ended June 30, 2014 and June 30, 2015, of the Corporation, the Foundation, ACRI and the Arkansas Children's Hospital Building Research Facility, Inc. (the "Building Research Facility"), a not-for-profit corporation formed for charitable, scientific and educational purposes to support the Hospital. Certain assets of the Corporation were transferred to the Foundation in 1985, to ACRI in 1990, and to the Building Research Facility in 1998, which represented the initial years of operation for each entity. In 2015, two new Arkansas nonprofit corporations were formed – Arkansas Children's, Inc. (the "Parent") and Arkansas Children's Northwest, Inc. ("ACNW"). ACNW was organized to own and operate the proposed 24-bed Arkansas Children's Northwest hospital facility (the "Northwest Facility") to be located in Springdale, Arkansas, and being financed in part with proceeds of the Northwest Bonds. All of entities are under common control. The Parent, the Corporation, the Foundation, ACNW, ACRI and the Building Research Facility are each tax-exempt organizations under section 501(c)(3) of the Internal Revenue Code.

The notes set forth in APPENDIX C hereto are an integral part of the consolidated financial statements, and the statements and notes should be read in their entirety. Also set forth in APPENDIX C hereto are the unaudited consolidating balance sheet and consolidating statement of activities of the Parent, the Corporation, the Foundation, ACNW, ACRI and the Building Research Facility for the nine-month period ended March 31, 2016. As of June 30, 2016, the Building Research Facility will be merged into ACRI. In the opinion of management, the unaudited consolidating balance sheet and consolidating statement of activities contain all necessary adjustments (consisting of normal recurring accruals) necessary for a fair presentation of the results of operations for the indicated period. The results of operations for the nine-month period are not necessarily indicative of the results to be expected for the full fiscal year ending June 30, 2016. These unaudited financial statements have not been subjected to review by the independent auditors.

The following consolidated statements of operations for the fiscal years ended June 30, 2014 and 2015, are derived from the audited consolidated financial statements set forth in APPENDIX C hereto, and the following consolidated statements of operations for the nine-month periods ended March 31, 2015 and March 31, 2016, are derived from the unaudited consolidated financial statements set forth in APPENDIX C hereto. The following consolidated statement of operations for the fiscal year ended June 30, 2013, was derived from consolidated financial statements audited by the organization's prior auditors.

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

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CONSOLIDATED STATEMENTS OF OPERATIONS

	Fiscal Year Ended June 30			Nine Months Ended March 31	
	2013	2014	2015	2015	2016
Unrestricted revenues and gains:					
Net patient service revenue	$457,136,577	$476,790,718	$471,620,106	$354,320,972	$371,980,182
Provision for bad debt	(2,921,187)	(3,116,333)	(3,092,326)	(1,922,561)	(755,530)
Net patient service revenue less provision for bad debt	454,215,390	473,674,385	468,527,780	352,398,411	371,224,652
Specific purpose grants	30,175,206	28,460,649	27,201,904	19,853,856	19,512,161
Supplemental Medicaid reimbursement	35,869,232	36,242,225	37,505,656	27,558,780	27,110,481
Other	21,390,325	21,814,204	22,688,605	15,355,705	14,402,460
Net assets released from restrictions and used for operations	5,770,775	5,336,674	6,482,128	3,858,014	4,976,039
Total unrestricted revenues and gains	547,420,928	565,528,137	562,406,073	419,024,766	437,225,793
Expenses:					
Salaries and wages	223,181,318	232,308,410	224,477,452	167,637,368	172,707,992
Employee benefits	43,347,855	44,616,209	46,987,164	31,818,045	36,397,379
Supplies and pharmaceuticals	77,996,252	82,476,104	80,961,469	60,485,359	65,094,957
Professional fees	72,442,628	75,055,101	72,051,842	53,915,135	53,070,276
Purchased services	41,441,246	39,269,388	39,047,832	29,085,298	28,765,560
Depreciation and amortization	27,593,770	27,284,330	28,182,301	21,090,063	22,075,501
Interest	7,565,429	7,347,239	6,834,392	5,554,776	4,481,715
Utilities	6,037,675	5,358,113	5,134,786	3,983,527	3,918,565
Fixed asset impairment	3,270,586	0	0	0	0
Insurance	2,204,566	2,302,155	3,103,126	1,810,845	1,883,876
Other	11,419,364	11,782,238	11,781,997	8,501,132	7,933,548
Expenses incurred from temporarily restricted contributions	5,262,233	5,336,674	5,740,246	3,116,132	4,417,089
Expenses incurred from board designated contributions	1,286,834	1,401,475	2,037,870	1,074,408	561,876
Total expenses	523,049,756	534,537,436	526,340,477	388,072,088	401,308,334
Income from operations	24,371,172	30,990,701	36,065,596	30,952,678	35,917,459
Nonoperating revenues, gains, expenses and losses:					
Unrestricted contributions	4,097,306	6,653,638	4,967,139	3,543,447	4,149,980
Income from investments	12,453,190	14,323,523	10,960,687	8,284,508	5,911,282
Other (loss) income	180,775	221,267	(11,579)	(25,440)	(1,017,763)
Fundraising expenses	(5,567,134)	(5,493,372)	5,466,715)	(3,858,956)	(4,854,447)
Net nonoperating revenues, gains, expenses and losses	11,164,137	15,705,056	10,449,532	7,943,559	4,189,052
Excess of revenues and gains over expenses and losses	35,535,309	46,695,757	46,515,128	38,896,237	40,106,511
Other changes in unrestricted net assets:					
Unrealized (loss) gain on investments, net	2,761,828	15,792,417	(3,487,436)	(982,848)	(4,261,218)
Net assets released from restrictions used for purchase of property and equipment	2,950,375	12,847,231	4,393,236	1,043,348	12,574,137
Grant funds used to purchase capital assets	224,722	1,619,321	343,873	295,538	216,134
Annuity reserve	(3,989)	(3,219)	(3,976)	(3,976)	(2,499)
Other	152,753	0	0	0	0
Transfer of net assets	(1,525,976)	(1,231,022)	(2,850,074)	(2,361,570)	(2,066,583)
Increase in unrestricted net assets	$ 40,095,022	$ 75,720,485	$ 44,910,751	$ 36,886,729	$ 46,566,482

Management's Discussion of Operating Results. The following is a brief discussion by management concerning the consolidated revenue and expenses of the consolidated organization for the fiscal years ended June 30, 2015 and 2014, and for the nine- month periods ending March 31, 2016 and March 31, 2015:

Revenue*:* Net patient service revenue in fiscal year 2015 was $471,620,106, a decrease of 1.08% from fiscal year 2014 net patient service revenue of $476,790,718. Admissions, patient days and total surgeries increased in fiscal year 2015 over fiscal year 2014; however, the average length of stay decreased from 5.59 days to 5.28 days and occupancy decreased from 64.4% to 64.3%. Emergency department visits increased 10.2% and outpatient visits increased 3.5% in fiscal year 2015 due in part to an increase in orthopedic and primary care clinic visits.

Net patient service revenue, for fiscal year 2016 through March 31, 2016, was $371,224,652, an increase of 5.3% from revenue for the comparative period in fiscal year 2015, of $352,398,411. For the comparative periods through March 31, admissions for 2016 decreased 4.5%; however, average length of stay increased 2.51% with a less than 1% decrease in patient days and a 3.8% decrease in occupancy. In addition, outpatient visits decreased 1.3%; however, emergency department visits increased 4.6% and total surgeries increased 2.3%.

The organization is committed to working with others to achieve high quality, cost-effective, fully accessible services for all children in Arkansas without regard to inability to pay and maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for the services and supplies furnished under its charity care policy. The following information estimates the level of charity care provided, based on gross charges and costs, during the fiscal years ended June 30, 2015 and 2014:

	FY 2015	**FY 2014**
Charity discounts for patient care	$14,320,413	$18,807,984
Cost of charity care	$ 9,062,000	$12,402,000

In addition to providing charity care, the Corporation coordinates a variety of programs, services and initiatives which benefit children and families in the State. The Corporation is the backbone organization for a coalition called the Natural Wonders Partnership Council (NWPC) which brings together child health stakeholders to work strategically to improve the health of children in Arkansas. The Corporation funds several programs that have been identified as shared priorities by NWPC members. For example, the Hospital's Injury Prevention Center has been instrumental in helping to significantly reduce the number of children killed in automobile accidents and other injury-related deaths through data collection, program development and implementation, and outreach. The Corporation has improved the oral health of children through its mobile dental vans and portable sealant outreach efforts, and also supports a physical activity program to help reduce obesity for elementary children statewide, reaching almost 160,000 young people. Through its community efforts, the Corporation's Outreach department provides children and families throughout the State with informative health education programs related to child safety, hygiene education, wellness and prevention activities, and seasonal information related to health risks. The Hospital has been designated by the Arkansas Department of Health as the State's only Level I Trauma center, an indication that it provides the highest standard of care for injured children.

During the fiscal years ended June 30, 2015 and 2014, gross patient service revenue at established rates less third-party payer contractual adjustments consisted of the following:

	FY 2015	**FY 2014**
Gross patient service revenue	$836,661,787	$840,301,751
Less charity discounts	(14,320,413)	(18,807,984)
Patient service revenue	822,341,374	821,493,767
Contractual allowances:		
Medicaid	(272,676,859)	(264,411,656)
Other third parties	(78,044,409)	(80,291,393)
Net patient service revenue	$471,620,106	$476,790,718

The Corporation's Medicaid cost reports have been settled by the Medicaid fiscal intermediary through the year ended June 30, 2011. Any differences between estimated settlements and actual settlements will be recorded in the year the cost report is settled by the intermediary, typically after the fiscal intermediary's audit, or when information is available to management that a change in the estimate is warranted. During the fiscal years ended

June 30, 2015 and 2014, net patient service revenue increased approximately $2,616,000 and $3,842,000, respectively, as a result of changes in prior year estimates, from final Medicaid settlements, and changes in management estimates for related reserves.

Total other operating revenue was $93,878,293 for fiscal year 2015 compared to $91,853,752 for fiscal year 2014. Total other revenue, for fiscal year 2016 through March 31, 2016, was $66,001,140, a decrease of less than 1% for the comparative period in fiscal year 2015, of $66,626,355.

Expenses: Total operating expenses decreased approximately 1.5% in fiscal year 2015 as compared to fiscal year 2014, mainly due to a decrease in costs per adjusted patient day for the hospital. Total expenses, for fiscal year 2016 through March 31, 2016, increased 3.4% as compared to the same period in fiscal year 2015.

Excess of Revenue over Expenses: The consolidated organization's excess of revenue over expenses was $46,515,128 in fiscal year 2015, as compared to $46,695,757 in fiscal year 2014. The consolidated organization had an operating margin of approximately 6.5% for fiscal year 2015.

Net Unrealized Investment Gains and Losses: The consolidated organization reported a net unrealized loss on investments of $4,072,345 for fiscal year 2015 compared to a net unrealized gain on investments of $19,432,089 for fiscal year 2014. The following information provides the portfolio structure of the organization for the fiscal years ended June 30, 2015 and 2014:

	2015	2014
Cash (Treasury MM mutual fund)	13.07%	10.58%
Fixed	58.01%	58.94%
Equity	23.77%	24.74%
International	5.02%	5.58%
Other	.13%	.16%
Total:	100.00%	100 0%

The Corporation is currently reimbursed for allowable costs for both inpatient and outpatient services provided to Medicaid and Medicare recipients. Following is an analysis of the Corporation's sources of revenue for fiscal year 2015:

	Inpatient	Outpatient	Total
Medicaid	66.3%	60.2%	64.0%
Medicare	2.1%	1.3%	1.8%
Insurance	.7%	.6%	.7%
Managed Care	28.5%	32.4%	30.0%
Self Pay	.2%	3.0%	1.2%
Other	2.2%	2.5%	2.3%
Total:	100 0%	100.0%	100.0%

Miscellaneous

Budgeting Process. The budgeting process is designed to control and monitor the financial operation of the Parent and its subsidiaries. The Chief Executive Officer and the senior Vice Presidents develop the major budget assumptions for the upcoming fiscal year. Once these assumptions have been determined, the accounting department begins working with each department in the preparation of a detailed budget of revenues and expenses for the next fiscal year, based primarily on the historical revenues and expenses of the organization, adjusted for volumes and extraordinary items. The initial drafts of these departmental budgets, along with the budget assumptions, are then distributed to the department directors. The department directors, in turn, confer with physicians and supervisory staff to assess the adequacy of existing equipment, facilities and staff in light of these projections. Upon review of their departmental budgets, department directors may submit requests for budget amendments to senior administration for review and approval.

During the time between the initial preparation of a budget and its final approval, the Chief Executive Officer and senior Vice Presidents, in close cooperation with the accounting department, review the budget. Management then presents a completed budget to the Corporation’s Board of Directors, which is then recommended to the Parent’s Board of Directors for final approval.

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

Core System Transitions. In March of 2016, the Parent Board of Directors approved the transition to Epic Systems Corporation for its electronic health record system. In addition, other core software systems will be replaced. These projects, currently estimated to cost of $70M, will take eighteen to twenty-four months to fully implement.

Employee Benefits. The Corporation is self-insured with respect to claims paid for employee health. Estimates of health insurance claims incurred but unpaid are based on the Corporation's past experience, as well as other considerations, including the nature of claims and relevant trends. The Corporation actively promotes, through programs and plan design, a culture of wellness among its employees to impact medical claim cost through medical claim prevention and claim reduction. The Corporation recoups some of the cost of health insurance benefits through premium charges to employees and maintains stop-loss insurance coverage with respect to the employer share of medical insurance claims costs.

The Corporation is also self-insured with respect to worker's compensation insurance in accordance with the Arkansas Worker's Compensation Act. Losses from asserted claims and unasserted claims identified under the Corporation's incident reporting system are accrued based on estimates that consider the Corporation's prior experience and the nature of the claims. The Corporation has pledged certificates of deposit of $200,000 as collateral against such losses. The Corporation also maintains excess worker's compensation insurance coverage with an insurance company.

The Corporation has a contributory 403(b) tax-sheltered annuity plan for the benefit of substantially all of its employees. Employer contributions are made based on the employees' respective contributions, and are vested based on the years of service of the individual employees. Since July 2002, the Corporation has sponsored a defined contribution retirement plan covering substantially all employees meeting certain eligibility requirements. Employer contributions are made at the direction of the Corporation's Board of Directors. In fiscal years 2015 and 2014, the Board has authorized a contribution to the discretionary defined contribution plan equal to 3% and 2% for each year, respectively, of eligible employee compensation.

The Corporation offers fully-insured dental benefits to eligible employees. The Plan is a PPO Dental Plan. Premiums charged for the coverage are determined by the insurance carrier, based on experience, trend and other factors, and are paid by employees. The Corporation provides fully-insured basic group term life insurance with accidental death and dismemberment benefits to eligible employees. Employer provided group short-term and long-term disability insurance coverage for eligible employees is in place to provide employees partial income replacement for non-occupational medical disabilities. Both disability plans are fully-insured with rates determined by the insurance carrier and based on actuarial and underwriting considerations.

Accreditation and Licenses. The Hospital is fully accredited by the Joint Commission on Accreditation of Healthcare Organizations, licensed by the Arkansas State Department of Health, and approved for participation in the Medicare and Medicaid programs by the United States Department of Health and Human Services and the State. The Hospital is also accredited by the College of American Pathologists. In addition, the Hospital is accredited by the Centers for Medicare and Medicaid Services for the Solid Organ Transplant Program and the Renal Dialysis Program. The Hospital is a member of the American Hospital Association, the Arkansas Hospital Association, the National Association of Children's Hospitals and Related Institutions, Inc., and the Child Health Corporation of America.

Volunteer Programs. The Department of Volunteer Services coordinates the activities of a diverse group of volunteers at the Hospital. In fiscal year 2015, 2,853 persons volunteered approximately 403,298 hours to various hospital departments. Child Life and Education volunteers contributed the largest amounts of volunteer hours. These volunteers assist the staff in playrooms, the emergency department, ambulatory surgery area, and in classrooms. In-service volunteers are required to be at least 14 years of age and agree to serve a regular placement of at least three hours per week. The standard volunteer commitment is three months. In-service volunteers meet all OSHA, Arkansas State Department of Health, and JCAHO regulations. The Department of Volunteer Services is directed and managed by a Certified Volunteer Manager, an Assistant Director, and a Generalist.

The Department of Volunteer Services is also responsible for processing in-kind donations. Donations of toys, educational materials, arts and crafts, and other handmade items are processed and dispersed. In-kind donors are also recognized through this department. The Corporation received items valued at approximately $511,468 (from 1,199 individual donors and groups) during fiscal year 2015.

The Foundation directs the following volunteer programs which are primarily responsible for fundraising events and activities: Arkansas Children's Hospital Auxiliary (approximately 528 members); Circle of Friends (approximately 446 members); and Committee for the Future (approximately 65 members). These three volunteer groups raised approximately $1.9 million for the Foundation during the fiscal year ended June 30, 2015.

Insurance. The Corporation maintains commercial property insurance coverage in the amount of approximately $1,081,000,000 (including real and personal property as well as business income protection). The present coverage limits of the Corporation's general and professional liability insurance coverage is limited to $1,000,000 per incident with a $3,000,000 aggregate limit. The Corporation also carries an umbrella liability policy in the amount of $10,000,000.

Litigation. The Corporation is insured by several claims-made liability policies including medical malpractice, general liability and Directors & Officers liability insurance. Estimated liabilities of $1,192,000 and $339,000 were accrued as of June 30, 2015 and 2014, respectively. At March 31, 2016, estimated liabilities remain $1,192,000.

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

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

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APPENDIX B

DEFINITIONS

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

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

"ACNW" means Arkansas Children's Northwest, Inc., an Arkansas nonprofit corporation, and its successors and assigns. ACNW is the primary obligor on the Northwest Bonds and is a guarantor of the Series 2010 Bonds and the Series 2016 Bonds.

"Additional Bonds" means Bonds in addition to the Series 2010 Bonds and the Series 2016 Bonds authorized pursuant to the Indenture.

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

"Alternative Indebtedness" means Permitted Indebtedness incurred for any purpose, which Alternative Indebtedness may share on a parity with and be entitled to the same benefit and security as the Issuer, the Trustee and the holders of the Bonds in the Gross Revenues of the Corporation, and be entitled to such other security as the Corporation may deem necessary or desirable; provided, however, the Issuer, the Trustee and the holders of the Bonds shall share on a parity with and shall be entitled to the same benefit and security as the security for such Alternative Indebtedness and the instruments evidencing such Alternative Indebtedness and the security therefor shall reflect the interest of the Issuer, the Trustee and the holders of the Bonds in such security; provided, however, the Corporation covenants and agrees in the Lease Agreement that it will not incur any Alternative Indebtedness except upon satisfaction of the requirements and conditions described under the subcaptions "THE SERIES 2016 BONDS – Additional Bonds" and "THE SERIES 2016 BONDS – Alternative Indebtedness" in the Official Statement to which this Appendix B is attached.

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

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

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

"Bonds" means the Series 2010 Bonds, the Series 2016 Bonds and any Additional Bonds.

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

"Code" means the Internal Revenue Code of 1986, as amended.

"Continuing Disclosure Agreement" means a Continuing Disclosure Agreement dated as of August 1, 2016, by and among the Corporation, the Guarantors and Bank of the Ozarks, Little Rock, Arkansas, as dissemination agent.

"Corporation" means Arkansas Children's Hospital, an Arkansas nonprofit corporation, and its successors and assigns. The Corporation is the primary obligor on the Series 2010 Bonds and the Series 2016 Bonds and is a guarantor of the Northwest Bonds.

"Costs of Issuance Fund" means the fund by that name created pursuant to the Indenture.

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

"Foundation" means Arkansas Children's Hospital Foundation, Inc., an Arkansas nonprofit corporation, and its successors and assigns. The Foundation is a guarantor of the Series 2010 Bonds, the Series 2016 Bonds and the Northwest Bonds.

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

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

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

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

for and on behalf of someone other than the Corporation, and (d) restricted gifts, grants, bequests, donations, and contributions.

"Guarantors" means the Corporation, the Parent, ACNW and the Foundation, each of whom have executed a Guaranty Agreement pursuant to which each Guarantor unconditionally guarantees payment of the principal of and interest on the Series 2016 Bonds.

"Guaranty Agreements" means those certain Guaranty Agreements dated as of August 1, 2016, pursuant to which the Guarantors unconditionally guarantee payment of the principal of and interest on the Series 2016 Bonds.

"Hospital" means the healthcare facilities of the Corporation, including land, buildings, and equipment.

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

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

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

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

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

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

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

"Lease Payments" means the amount required to be paid by the Corporation as stated in Article V of the Lease Agreement.

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

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

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

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

"Northwest Facility" means the pediatric hospital facility being acquired, constructed and equipped with a portion of the proceeds of the Northwest Bonds.

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

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

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

"Order" means the order entered by the County Court of the Issuer, dated July 7, 2016, authorizing the issuance and delivery of the Series 2016 Bonds.

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

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

shall have been given as provided in the Indenture or provisions satisfactory to the Trustee shall have been made for giving such notice, and (iii) Bonds in substitution for which other Bonds shall have been authenticated and delivered pursuant to the terms of the Indenture.

"Parent" means Arkansas Children's Inc., an Arkansas nonprofit corporation, and its successors and assigns. The Parent is a guarantor of the Series 2010 Bonds, the Series 2016 Bonds and the Northwest Bonds.

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

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

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

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

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

"Project" means the portion of the Hospital financed or refinanced by Bonds.

"Qualified Investments" means Government Obligations and (a) bonds, debentures, notes, or other evidences of indebtedness issued by any of the following agencies of the United States of America or such other like United States government or government-sponsored agencies of substantially similar creditworthiness which may be hereafter created: Bank for Cooperatives; Federal Intermediate Credit Banks; Federal Financing Bank, Federal Home Loan Bank System; Export-Import Bank of the United States; Farmers Home Administration; Small Business Administration; Federal Land Banks; Federal National Mortgage Association; Government National Mortgage Association; Tennessee Valley Authority; and Washington Metropolitan Area Transit Authority and (b) certificates of deposit or time deposits insured by FDIC or FSLIC, or fully collateralized or secured by Government Obligations to the extent not so insured, of any bank (including the Trustee); provided, that the maturity of such certificates

of deposit may not extend beyond 12 months from the date of their issuance; and (c) any repurchase agreement by the Trustee that is with a bank or institution, provided, that such repurchase agreement shall not extend more than 359 days beyond its issuance and such repurchase obligation shall be for Government Obligations; and notwithstanding any of the foregoing, to the extent that any obligations described in this definition are repurchase agreements, then (i) the Trustee must have perfected a first security interest in such obligations, (ii) the Trustee or a third party acting solely as agent for the Trustee must have possession of such obligations, (iii) such obligations must be free and clear of such third party claims, and (iv) any investment in a repurchase agreement shall be considered to mature on the date the bank or institution providing the repurchase agreement is obligated to repurchase the Qualified Investment; (d) commercial paper or finance company paper rated not less than A-1 or its equivalent by S&P Global Ratings; and (e) surety bonds obligating an insurance company or bank, rated not lower than "AA" by S&P Global Ratings or "Aa2" by Moody's, to deposit immediate funds, on demand, into the Bond Reserve Fund.

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

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

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

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

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

"Series 2009 Bonds" means the Pulaski County, Arkansas Hospital Revenue Bonds (Arkansas Children's Hospital Project), Series 2009, dated May 1, 2009, authorized by the Indenture in the original principal amount of $111,175,000.

"Series 2010 Bonds" means the Pulaski County, Arkansas Hospital Revenue Refunding Bonds (Arkansas Children's Hospital), Series 2010, dated November 1, 2010, authorized by the Indenture in the original principal amount of $30,000,000.

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

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

“State” means the State of Arkansas.

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

"Total Principal and Interest Requirements" means, for any Fiscal Year or other 12-month period, the total principal (including mandatory redemption) and interest (except to the extent that such interest is payable from the proceeds of such indebtedness) then coming due on Outstanding Bonds, Other Obligations, Alternative Indebtedness, Secured Indebtedness and the Permitted Indebtedness of the Corporation and ACNW described in Section 1001(6) of the Lease Agreement; provided, however, that for purposes of such computation (i) if 50% or more of the original principal amount of any single series of Outstanding Bonds, any single obligation included in Other Obligations, any single instrument constituting Alternative Indebtedness, any single instrument constituting Secured Indebtedness, or any single debt incurred pursuant to Section 1001(6) of the Lease Agreement, matures, or is payable at the

option of the holder, on the same date and is not required to be amortized by redemption prior to such date, the original principal amount of indebtedness represented by such series, such obligation, such instrument or such debt shall be assumed to mature over a term of twenty-five (25) years from date of issue with substantially level annual debt service at the actual interest rate on such indebtedness; and (ii) if interest on any indebtedness is payable pursuant to a variable interest rate formula, the interest rate for periods when the actual interest rate cannot be yet determined shall be assumed to be equal to the average annual rate of interest (calculated in the manner in which interest for such periods is required to be calculated) which was in effect (or that would have been in effect if the indebtedness had been outstanding) for the twelve (12) month period immediately preceding the date of calculation; provided further, however, if there has been made an Irrevocable Deposit of moneys, Government Obligations, or any other security or obligation which at the time of investment therein is rated by S&P Global Ratings in the highest rating category of such rating agency, sufficient to pay the principal of or interest on any Outstanding Bonds, Other Obligations, Alternative Indebtedness, Secured Indebtedness, or Permitted Indebtedness described in Section 1001(6) of the Lease Agreement, as it comes due, such principal or interest, as the case may be, shall not be included in the calculation of the Total Principal and Interest Requirements. Section 1001 of the Lease Agreement sets forth limitations on the incurrence of indebtedness by the Corporation, including guarantees by the Corporation of indebtedness of others (guaranteed party). A percentage of the principal and interest coming due in any Fiscal Year on indebtedness guaranteed by the Corporation shall be included in the computation of Total Principal and Interest Requirements based upon the guaranteed party's ratio of Net Revenues Available for Debt Service, as of the end of its most recent Fiscal Year for which audited financial statements are available, to Maximum Total Principal and Interest Requirements (with such terms having the same meanings with respect to a guaranteed party as such terms have in the Lease Agreement with respect to the Corporation) in accordance with the following table:

Ratio	Percentage
1 to 1 or less	100%
Greater than 1 to 1, but not more than 1.1 to 1	50%
greater than 1.1 to 1, but not more than 1.5 to 1	25%
greater than 1.5 to 1	20%

In calculating Total Principal and Interest Requirements, there need not be included any debt guaranteed by the Corporation or ACNW if the debt was incurred by the Corporation or ACNW and the debt is already in the calculation.

"Trustee" means Bank of the Ozarks, or its successor or successors from time to time as trustee under the Indenture.

"Trust Estate" shall have the meaning set forth in the granting clauses of the Indenture.

"Unsecured or Otherwise Secured Indebtedness" means indebtedness incurred for any purpose, which indebtedness may not be secured by a lien on the Hospital or the Gross Revenues of the Corporation. Such indebtedness may be unsecured, or secured by other security as may be available, including a pledge of the gross revenues of any portion of the Hospital which may be financed with the proceeds of such indebtedness.

"Underwriters" means Stephens Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated.

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APPENDIX C

Audited Consolidated Financial Statements of
Arkansas Children's Hospital, Arkansas Children's Hospital Foundation, Inc.,
Arkansas Children's Hospital Research Institute, Inc. and Arkansas Children's Hospital Building Research Facility, Inc. as of and for the Fiscal Years ended
June 30, 2015 and June 30, 2014

and

Unaudited Consolidated Financial Statements of
Arkansas Children's Hospital, Arkansas Children's Hospital Foundation, Inc.,
Arkansas Children's Research Institute, Inc., and
Arkansas Children's Hospital Building Research Facility, Inc.
as of and for the nine-month period ended
March 31, 2016

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ARKANSAS CHILDREN'S HOSPITAL,
ARKANSAS CHILDREN'S HOSPITAL FOUNDATION,
ARKANSAS CHILDREN'S HOSPITAL RESEARCH INSTITUTE, AND
ARKANSAS CHILDREN'S HOSPITAL BUILDING RESEARCH FACILITY

Consolidated Financial Statements

June 30, 2015 and 2014

(With Independent Auditors' Reports Thereon)

ARKANSAS CHILDREN'S HOSPITAL,
ARKANSAS CHILDREN'S HOSPITAL FOUNDATION,
ARKANSAS CHILDREN'S HOSPITAL RESEARCH INSTITUTE, AND
ARKANSAS CHILDREN'S HOSPITAL BUILDING RESEARCH FACILITY

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

Independent Auditors' Report

The Boards of Directors,
Arkansas Children's Hospital,
Arkansas Children's Hospital Foundation,
Arkansas Children's Hospital Research Institute, and
Arkansas Children's Hospital Building Research Facility
Little Rock, Arkansas:

We have audited the accompanying consolidated financial statements of Arkansas Children's Hospital, Arkansas Children's Hospital Foundation, Arkansas Children's Hospital Research Institute and Arkansas Children's Hospital Building Research Facility (collectively, the Hospital), which comprise the consolidated balance sheet as of June 30, 2015, 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. The accompanying consolidated financial statements of the Hospital as of June 30, 2014 and for the year then ended were audited by other auditors whose report thereon dated October 21, 2014, expressed an unmodified opinion on those financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these 2015 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. 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 auditor's 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 Hospital'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 Hospital'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.

KPMG LLP is a Delaware limited liability partnership,
the U.S. member firm of KPMG International Cooperative
("KPMG International"), a Swiss entity.

Opinion

In our opinion, the 2015 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Hospital as of June 30, 2015, and the changes in their net assets and their cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

October 22, 2015
Memphis, Tennessee

ARKANSAS CHILDREN'S HOSPITAL,
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ARKANSAS CHILDREN'S HOSPITAL BUILDING RESEARCH FACILITY

Consolidated Balance Sheets

June 30, 2015 and 2014

Assets	2015	2014
Current assets:		
Cash and cash equivalents	$ 82,198,027	63,266,597
Accounts receivable:		
Patient, less allowances for uncollectible accounts of $3,646,398 and $3,212,669 in 2015 and 2014, respectively	51,645,351	48,158,543
Other receivables	21,674,630	24,717,953
Investments – at fair value	265,542,974	243,225,659
Assets limited as to use, which are required for current liabilities	5,945,714	7,690,487
Pledges receivable – current portion	6,129,534	4,986,745
Estimated third-party payor settlements — current portion	57,277,663	84,222,681
Inventories	8,228,480	7,925,875
Other current assets	5,383,942	6,206,175
Total current assets	504,026,315	490,400,715
Assets limited as to use:		
Board designated investments	201,216,941	216,498,676
Restricted investments:		
Temporarily restricted investments	38,396,488	38,503,837
Permanently restricted endowment	42,150,188	37,392,482
Investments held by trustee under bond agreements	10,729,150	11,670,032
Total assets limited as to use	292,492,767	304,065,027
Less amounts classified as current	(5,945,714)	(7,690,487)
Assets limited as to use – net	286,547,053	296,374,540
Pledges receivable – noncurrent	15,647,472	17,329,057
Property, plant, and equipment:		
Land and improvements	38,259,254	37,418,145
Buildings	366,845,541	363,253,537
Equipment	197,479,019	188,028,609
Construction in progress	12,846,959	8,479,401
Total property, plant, and equipment	615,430,773	597,179,692
Less accumulated depreciation	(307,561,962)	(298,541,262)
Property, plant, and equipment – net	307,868,811	298,638,430
Other noncurrent assets	38,017,612	24,475,868
Total	$ 1,152,107,263	1,127,218,610

ARKANSAS CHILDREN'S HOSPITAL,
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ARKANSAS CHILDREN'S HOSPITAL BUILDING RESEARCH FACILITY

Consolidated Balance Sheets

June 30, 2015 and 2014

Liabilities and Net Assets	2015	2014
Current liabilities:		
Accounts payable	$ 31,229,983	29,283,142
Accrued interest	1,927,891	2,430,805
Accrued expenses and other liabilities	28,451,545	25,201,769
Due to physicians	304,040	366,910
Current portion of long-term debt	5,725,185	7,146,748
Total current liabilities	67,638,644	64,429,374
Noncurrent liabilities:		
Obligations under capital leases	133,737	194,014
Long-term debt – net of current portion	118,047,509	152,605,661
Total liabilities	185,819,890	217,229,049
Commitments and contingencies		
Net assets:		
Unrestricted	826,648,469	781,737,718
Temporarily restricted	95,708,322	88,923,441
Permanently restricted	43,930,582	39,328,402
Total net assets	966,287,373	909,989,561
Total liabilities and net assets	$ 1,152,107,263	1,127,218,610

See accompanying notes to consolidated financial statements.

ARKANSAS CHILDREN'S HOSPITAL,
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Consolidated Statements of Operations

Years ended June 30, 2015 and 2014

	2015	2014
Unrestricted revenues and gains:		
Net patient service revenue	$ 471,620,106	476,790,718
Provision for bad debt	(3,092,326)	(3,116,333)
Net patient service revenue less provision for bad debts	468,527,780	473,674,385
Specific purpose grants	27,201,904	28,460,649
Supplemental Medicaid reimbursement	37,505,656	36,242,225
Other	22,688,605	21,814,204
Net assets released from restrictions and used for operations	6,482,128	5,336,674
Total unrestricted revenues and gains	562,406,073	565,528,137
Expenses:		
Salaries and wages	224,477,452	232,308,410
Employee benefits	46,987,164	44,616,209
Supplies and pharmaceuticals	80,961,469	82,476,104
Professional fees	72,051,842	75,055,101
Purchased services	39,047,832	39,269,388
Depreciation and amortization	28,182,301	27,284,330
Interest	6,834,392	7,347,239
Utilities	5,134,786	5,358,113
Insurance	3,103,126	2,302,155
Other	11,781,997	11,782,238
Expenses incurred from temporarily restricted contributions	5,740,246	5,336,674
Expenses incurred from board designated contributions	2,037,870	1,401,475
Total expenses	526,340,477	534,537,436
Income from operations	36,065,596	30,990,701
Nonoperating revenues, gains, expenses and losses:		
Unrestricted contributions	4,967,139	6,653,638
Income from investments	10,960,687	14,323,523
Other (loss) income	(11,579)	221,267
Fundraising expenses	(5,466,715)	(5,493,372)
Net nonoperating revenues, gains, expenses and losses	10,449,532	15,705,056
Excess of revenues and gains over expenses and losses	46,515,128	46,695,757
Other changes in unrestricted net assets:		
Unrealized (loss) gain on investments, net	(3,487,436)	15,792,417
Net assets released from restrictions used for purchase of property and equipment	4,393,236	12,847,231
Grant funds used to purchase capital assets	343,873	1,619,321
Annuity reserve	(3,976)	(3,219)
Transfer of net assets	(2,850,074)	(1,231,022)
Increase in unrestricted net assets	$ 44,910,751	75,720,485

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Changes in Net Assets

Years ended June 30, 2015 and 2014

	Unrestricted net assets	Temporarily restricted net assets	Permanently restricted net assets	Total
Balance – June 30, 2013	$ 706,017,233	87,222,363	35,963,452	829,203,048
Excess of revenues and gains over expenses and losses	46,695,757	—	—	46,695,757
Net assets released from restrictions and used for operations	—	(5,336,674)	—	(5,336,674)
Net change in unrealized gains on investments	15,792,417	3,639,672	—	19,432,089
Restricted contributions	—	15,301,719	1,382,573	16,684,292
Income from restricted investments	—	866,263	—	866,263
Gain (loss) on sale of restricted investments	—	1,459,062	(821)	1,458,241
Net assets released from restrictions and used for purchase of property and equipment	12,847,231	(12,847,231)	—	—
Unexpended grant carryover	—	(382,073)	—	(382,073)
Other than temporary impairment on restricted investments	—	(241,893)	—	(241,893)
Grant funds used to purchase capital assets	1,619,321	—	—	1,619,321
Other	(3,219)	(5,591)	—	(8,810)
Transfer of net assets	(1,231,022)	(752,176)	1,983,198	—
Change in net assets	75,720,485	1,701,078	3,364,950	80,786,513
Balance – June 30, 2014	781,737,718	88,923,441	39,328,402	909,989,561
Excess of revenues and gains over expenses and losses	46,515,128	—	—	46,515,128
Net assets released from restrictions and used for operations	—	(6,482,128)	—	(6,482,128)
Net change in unrealized gains on investments	(3,487,436)	(584,909)	—	(4,072,345)
Restricted contributions	—	16,438,321	2,730,799	19,169,120
Income from restricted investments	—	974,369	—	974,369
Gain (loss) on sale of restricted investments	—	1,356,903	(5,822)	1,351,081
Net assets released from restrictions and used for purchase of property and equipment	4,393,236	(4,393,236)	—	—
Unexpended grant carryover	—	(479,211)	—	(479,211)
Other than temporary impairment on restricted investments	—	(1,018,099)	—	(1,018,099)
Grant funds used to purchase capital assets	343,873	—	—	343,873
Annuity reserve	(3,976)	—	—	(3,976)
Transfer of net assets	(2,850,074)	972,871	1,877,203	—
Change in net assets	44,910,751	6,784,881	4,602,180	56,297,812
Balance – June 30, 2015	$ 826,648,469	95,708,322	43,930,582	966,287,373

See accompanying notes to consolidated financial statements.

ARKANSAS CHILDREN'S HOSPITAL,
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Consolidated Statements of Cash Flows

Years ended June 30, 2015 and 2014

		2015	2014
Cash flows from operating activities:			
Change in net assets	$	56,297,812	80,786,513
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization		28,182,301	27,284,330
Net realized and unrealized gains on investments		(4,074,121)	(27,708,805)
Net unrealized losses (gains) on other assets		166,014	(192,741)
Provision for bad debt		3,092,326	3,116,333
Other than temporary impairment of investments		5,797,115	1,724,635
Loss on disposition of fixed assets		161,856	90,899
Loss on extinguishment of debt		230,460	—
Contributions for permanently restricted endowments and capital assets		(7,163,969)	(7,049,876)
Amortization/accretion of bond premium/discount		(75,421)	(83,204)
Changes in operating assets and liabilities:			
Accounts receivable		(3,535,811)	(1,327,004)
Estimated third-party payor settlements		13,495,162	(21,082,703)
Pledges receivable		538,796	294,449
Inventories		(302,605)	(477,471)
Other assets		564,331	(2,711,681)
Accounts payable		2,312,141	1,675,964
Accrued expenses, interest, and other liabilities		2,683,992	(1,095,306)
Net cash provided by operating activities		98,370,379	53,244,332
Cash flows from investing activities:			
Purchases of property, plant, and equipment		(37,808,689)	(41,829,633)
Purchases of investments		(113,215,088)	(177,098,015)
Proceeds from maturities and sales of investments		99,806,157	128,268,880
Investments held by trustee under bond agreements – sales and maturities		—	1,478,078
Change in assets held by trustee under bond agreements – other		940,882	(833,884)
Net cash used in investing activities		(50,276,738)	(90,014,574)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt		—	19,800,000
Bond issuance costs		—	89,061
Contributions for permanently restricted endowments and capital assets		7,163,969	7,049,876
Principal payments on long-term debt		(8,400,903)	(8,122,721)
Principal payments for refunding of 2005 bonds		(27,865,000)	—
Capital lease obligation		(60,277)	194,014
Net cash (used in) provided by financing activities		(29,162,211)	19,010,230
Net increase (decrease) in cash and cash equivalents		18,931,430	(17,760,012)
Cash and cash equivalents:			
Beginning of year		63,266,597	81,026,609
End of year	$	82,198,027	63,266,597
Supplemental disclosure of cash flow information – cash paid for interest	$	7,552,669	7,663,070
Noncash operating and investing activities – purchases of property, plant, and equipment in accounts payable	$	(365,300)	1,871,442

See accompanying notes to consolidated financial statements.

(1) Organization

Arkansas Children's Hospital (ACH) (the Hospital) is a not-for-profit pediatric hospital. ACH is located in Little Rock and serves as the only quaternary health care facility for children in the state of Arkansas. The Arkansas Children's Hospital Foundation (ACHF) is a not-for-profit organization that exists as the fundraising branch of ACH. The Arkansas Children's Hospital Research Institute (ACHRI) and the Arkansas Children's Hospital Building Research Facility (BRFI) are not-for-profit organizations that operate to support, through charitable, scientific, and educational means, the mission of ACH.

ACH coordinates a variety of programs, services and initiatives which benefit children and families in the state. The Hospital's community health needs assessment (CHNA) and implementation plan, completed in FY13, provides guidance for a wide variety of community benefit activities. The Hospital is the backbone organization for a coalition called the Natural Wonders Partnership Council (NWPC), which brings together child health stakeholders to work strategically to improve the health of children in Arkansas. In late FY14, the NWPC and ACH hosted a Child Health Summit that engaged more than 100 attendees and speakers to learn and strategize about improving child health for FY15 and beyond. The Hospital funds several programs that have been identified as shared priorities by the NWPC members. For example, ACH's Injury Prevention Center has been instrumental in helping to significantly reduce the number of children killed in automobile accidents and other injury-related deaths through data collection, program development and implementation, and outreach. The Hospital has improved the oral health of children through its mobile dental vans and portable sealant outreach efforts, and ACH supports a physical activity program to help reduce obesity for elementary school children statewide, reaching almost 160,000 young children.

The Hospital partnered with Legal Aid of Arkansas to operate a medical-legal partnership that addresses health-harming legal needs for patients across the state. Additionally, more than 30,000 children received free USDA meals while on campus through the innovative new Children's Medical Nutrition and Feeding Program thanks to partnerships with federal and state stakeholders.

ACH partnered with the Arkansas Department of Health in housing the Arkansas Home Visiting Network, which works to expand parenting support for vulnerable families, improve maternal and child health outcomes, and grow the profession of home visiting through training and communications. ACH manages the Arkansas Home Instruction for Parents of Pre-School Youngsters (HIPPY) program state office and hosts the national offices of HIPPY-USA. ACH is a collaborative partner in many coalitions and groups in the state in efforts to improve the status of children's health and is actively involved with many organizations in the state to deliver a wide variety of services to children.

ACH's Good Mourning program offers grief support for children who have experienced the death of a family member or friend, while the PalCare program offers palliative care to families facing end-of-life issues with their children.

The Pediatric Understanding and Learning through Simulation Education (PULSE) Center, a state-of-the-art simulation center, continues to provide training for those committed to the highest quality of pediatric care.

Through its community efforts, the ACH Outreach Department provided children and families throughout the state with informative health education programs relating to child safety, hygiene education, wellness and prevention activities, and seasonal information relating to health risks. The Hospital is engaged in its neighborhood activities as well, including serving as a board member of the Central Little Rock Promise Neighborhood which works to improve outcomes for children in a defined geographic area including the hospital's neighborhood. ACH is the medical partner for the Franklin Elementary School-Based Health Center. During the clinic's first year, more than 100 young children were able to have physical and mental health needs as well as social/family needs met by the ACH-sponsored nurse practitioner who works in the school.

ACH has been designated by the Arkansas Department of Health as the state's only pediatric Level I trauma center, an indication that it provides the highest standard of care for injured children. The achievement recognizes the Hospital's dedication to providing optimal care for injured patients in and around Arkansas, as well as its dedication to advancing trauma research, education, injury prevention, and outreach.

(2) Summary of Significant Accounting Policies

(a) Principles of Consolidation

The consolidated financial statements include the accounts of ACH, ACHF, ACHRI, and BRFI (the consolidated group is referred to as the Hospital). All significant transactions between these entities have been eliminated in consolidation.

(b) Use of Estimates

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

(c) Cash and Cash Equivalents

The Hospital considers all highly liquid investments, including money market mutual funds, with a maturity of less than three months when purchased to be cash equivalents.

(d) Concentration of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are Arkansas residents and are insured under Medicaid or other third-party payor agreements. A significant portion (51% and 44% at June 30, 2015 and 2014, respectively) of its net patient receivables is due from the Medicaid and Medicare programs. The Hospital must comply with various reporting and operating regulations mandated by the state Medicaid program. Failure to comply with these regulations could result in the Hospital losing its eligibility to receive these funds. Management is not aware of any operations or activities that would jeopardize the Hospital's eligibility under this program.

(Continued)

The mix of net patient receivables as of June 30, 2015 and 2014, was as follows:

	2015	2014
Medicaid and Medicare	51%	44%
Other third-party payors (insurance and managed care)	45	51
Patients	4	5
Total mix of net patient receivables	100%	100%

(e) Investments

Donated investments are reported at fair value at the date of receipt. Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets. Unrestricted investment income (including – realized gains and losses on investments, interest and dividends) is included in the excess of revenues and gains over expenses and losses. Unrealized gains and losses on investments are excluded from the excess of revenues and gains over expenses and losses and are reported in the consolidated statements of changes in net assets, except for those losses on unrestricted investments which have been determined to be other-than-temporary that have been included in the excess of revenues and gains over expenses and losses.

(f) Assets Limited as to Use

Assets limited as to use include assets set aside to fund Board-created endowments. The Board of Directors (the Board) retains control over these assets and may subsequently use them for other purposes at its discretion. Assets limited as to use also include assets held by trustees under bond agreements, as well as other permanently and temporarily restricted investments. These investments are stated at fair value.

(g) Inventories

Inventories are carried at the lower of cost (first-in, first-out method) or market.

(h) Property, Plant, and Equipment

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

Depreciation expense was approximately $28,051,000 and $27,195,000 for the years ended June 30, 2015 and 2014, respectively.

(Continued)

Construction in progress as of June 30, 2015 is principally comprised of costs incurred for construction of the Utility Upgrade Project Phase II. The estimated total remaining costs to complete the Utility Upgrade Project Phase II as of June 30, 2015 is approximately $484,000.

Gifts of long-lived assets used in operations, such as land, buildings, or equipment, if received, are reported as unrestricted support, and are included in the excess of revenues and gains over expenses and losses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. 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.

(i) Impairment of Long-lived Assets

The carrying value of long-lived assets (including property, plant, and equipment) are evaluated for impairment whenever events or changes in circumstances indicate that the net book value of an asset may not be recoverable from the estimated undiscounted future cash flows expected to result from its use and eventual disposition. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment is measured as the amount by which the carrying amount of the asset exceeds the fair value of the asset. As a result of the Hospital's review of long-lived assets, no impairments were recorded for the years ended June 30, 2015 and 2014.

(j) Gifts and Bequests

Gifts and bequests which are not restricted by donors are classified in nonoperating gains. Gifts and bequests which are restricted for specific purposes by donors are recorded as additions to temporarily or permanently restricted net assets in the period the unconditional promise to give or gift is made. Expirations of donor-imposed restrictions are reported as reclassifications between temporarily restricted and unrestricted net assets and reported in the statements of changes in net assets as net assets released from restrictions.

(k) Pledges Receivable

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

(l) Temporarily Restricted Net Assets

Temporarily restricted net assets are those whose use by the Hospital has been limited by donors to a specific time period or purpose.

(m) Endowments

The Hospital's endowment fund consists of individual donor restricted endowment funds and funds designated by the Board to function as endowments. As discussed in note 6, the net assets associated with endowment funds, including those funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions. Where the Board designates unrestricted funds to function as endowments, they are classified as unrestricted net assets. Temporarily restricted net assets include endowments whose use by the Hospital has been limited by donors to a specific time period or purpose, but for which the endowment documentation does not include specific language required by Arkansas law to permanently restrict the endowment. Permanently restricted endowments have been restricted by donors, according to Arkansas Code Section 28-69-607 of the Uniform Management of Institutional Funds Act (UMIFA), to be maintained by the Hospital in perpetuity.

In accordance with Accounting Standards Codification (ASC) 958, the Hospital classifies as permanently restricted net assets, (a) the original value of gifts donated to a permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Hospital in a manner consistent with the standard of prudence prescribed by Uniform Prudent Management of Institutional Funds Act (UPMIFA).

The Hospital's long-term investment objective is to invest all available assets in a manner that will allow them to grow to a level that can provide a total return sufficient to meet the financial needs of the Hospital and to support the Hospital's mission. The Hospital's Investment Committee determines a spend rate percentage for each fiscal year on all restricted endowment funds and unrestricted Board designated endowment funds that may be set aside for expenditure. If the market value of the restricted endowment fund and the unrestricted Board designated endowment is less than the original gift amount, only the interest and dividends will be expended up to the approved spend rate; however, the Investment Committee, at its discretion, may approve to fund the remaining spend rate with unrestricted earnings. However, if the market value is greater than the original gift amount, the Investment Committee may appropriate for expenditure the interest and dividends plus appreciation in the market value of the endowment funds over the original gift amount to fund the spend rate for that year.

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

(n) Income Taxes

ACH, ACHF, ACHRI, and BRFI are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (IRC) and are exempt from federal income taxes on related income pursuant to Section 501(a) of the IRC. Once qualified as tax-exempt entities, ACH, ACHF, ACHRI, and BRFI are required to operate in conformity with the IRC and its tax-exempt purposes to maintain their qualification.

The Hospital applies Financial Accounting Standards Board (FASB) ASC Topic 740 (Topic 740), *Accounting for Uncertainty in Income Taxes*. Topic 740 clarifies the accounting for uncertainty in income tax positions and provides guidance on when tax positions are recognized in an entity's financial statements and how the values of these positions are determined. Management has analyzed the tax positions taken by the Hospital and has concluded that as of June 30, 2015 and 2014, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the consolidated financial statements.

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

The consolidated statements of operations include excess of revenues and gains over expenses and losses, which is an indicator of financial performance. Changes in unrestricted net assets which are excluded from excess of revenues and gains over expenses and losses, consistent with industry practice, include unrealized gains and losses on other than trading investments, assets acquired using grants restricted for capital purposes by the granting agency, and contributions which by donor restriction were to be used for the purposes of acquiring such assets.

Changes in net assets that are excluded from income from operations are derived from services other than providing health care services or coverage to patients that result in gains or losses unrelated to the Hospital's primary mission and are considered nonoperating. Nonoperating gains and losses include unrestricted contributions and related fundraising expenses, and income from investments.

(p) Fair Value of Financial Instruments

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

In accordance with FASB ASC Topic 820 (Topic 820), *Fair Value Measurement*, the Hospital has categorized its financial instruments, based on priority of inputs used in valuation techniques, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in

active markets for identical assets (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

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

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

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

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

Long-term debt, which has a carrying value of approximately $123,773,000 and $159,752,000 as of June 30, 2015 and 2014, respectively, and fair values of approximately $139,296,000 and $174,342,000 at June 30, 2015 and 2014, respectively, are estimated using rates applicable to current bond issues of a similar nature. The Hospital has categorized all of its long-term debt fair value estimates as Level 2.

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

Pledge receivables are reported at the net present value of expected future cash flows. Pledge receivables of $21,777,006 and $22,315,802 are presented separately on the consolidated balance sheets as of June 30, 2015 and 2014, respectively, and have not been included in the fair value tables that follow as these assets are carried at the net present value of expected future cash flows.

The following tables set forth, by level within the fair value hierarchy, a summary of the Hospital's assets measured at fair value on a recurring basis at June 30, 2015 and 2014.

	Fair value measurements at June 30, 2015, using			
	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Unrestricted, board designated endowment, temporarily, and permanently restricted investments:				
U.S. government obligations	$ —	336,354,286	—	336,354,286
Corporate stocks:				
Consumer staples	12,348,082	—	—	12,348,082
Consumer discretionary	14,816,021	—	—	14,816,021
Energy	19,653,763	—	—	19,653,763
Financials	26,105,907	—	—	26,105,907
Health care	19,692,176	—	—	19,692,176
Industrials	13,583,018	—	—	13,583,018
Information technology	26,088,800	—	—	26,088,800
Materials	9,956,094	—	—	9,956,094
Telecommunication services	1,950,658	—	—	1,950,658
Utilities	2,204,847	—	—	2,204,847
Other	797,845	—	—	797,845
Mutual funds:				
Equities	30,654,987	—	—	30,654,987
Bonds	6,172,361	—	—	6,172,361
Corporate debt:				
Banks	—	5,387,370	—	5,387,370
Consumer goods	—	553,747	—	553,747
Electric power	—	1,353,552	—	1,353,552
Energy company	—	1,747,110	—	1,747,110
Manufacturing	—	1,379,190	—	1,379,190
Other financials	—	4,909,673	—	4,909,673
Service company	—	4,579,607	—	4,579,607
Telephone	—	937,263	—	937,263
Agencies	—	5,880,234	—	5,880,234
Certificates of deposit	200,000	—	—	200,000
Total	184,224,559	363,082,032	—	547,306,591

(Continued)

Funds held by trustee under bond agreements - mutual funds backed by U.S. Treasury securities, and state and local government series	10,729,150	—	—	10,729,150
Other assets:				
Mineral interests	—	783,000	—	783,000
Nonpublicly trades stock	—	—	26,411	26,411
Total	—	783,000	26,411	809,411
Total assets	$ 194,953,709	363,865,032	26,411	558,845,152

(Continued)

	Fair value measurements at June 30, 2014, using			
	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Unrestricted, board designated endowment, temporarily, and permanently restricted investments:				
U.S. government obligations	$ —	322,113,015	—	322,113,015
Corporate stocks:				
Consumer staples	12,632,421	—	—	12,632,421
Consumer discretionary	13,582,099	—	—	13,582,099
Energy	26,281,027	—	—	26,281,027
Financials	23,893,854	—	—	23,893,854
Health care	18,302,053	—	—	18,302,053
Industrials	12,890,657	—	—	12,890,657
Information technology	23,318,504	—	—	23,318,504
Materials	11,795,664	—	—	11,795,664
Telecommunication services	2,959,486	—	—	2,959,486
Utilities	2,392,500	—	—	2,392,500
Other	462,556	—	—	462,556
Mutual funds:				
Equities	30,235,808	—	—	30,235,808
Bonds	9,090,667	—	—	9,090,667
Corporate debt:				
Banks	—	4,408,915	—	4,408,915
Consumer goods	—	720,138	—	720,138
Electric power	—	1,522,582	—	1,522,582
Energy company	—	1,303,103	—	1,303,103
Manufacturing	—	942,739	—	942,739
Other financials	—	5,031,684	—	5,031,684
Service company	—	5,143,802	—	5,143,802
Telephone	—	861,733	—	861,733
Transportation	—	114,391	—	114,391
Agencies	—	5,421,256	—	5,421,256
Certificates of deposit	200,000	—	—	200,000
Total	188,037,296	347,583,358	—	535,620,654

(Continued)

Funds held by trustee under bond agreements - mutual funds backed by U.S. Treasury securities, and state and local government series	11,670,032	—	—	11,670,032
Other assets:				
Mineral interests	—	958,000	—	958,000
Nonpublicly trades stock	—	—	17,424	17,424
Total	—	958,000	17,424	975,424
Total assets	$ 199,707,328	348,541,358	17,424	548,266,110

(q) Recently Issued Accounting Standards

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue From Contracts With Customers*. The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry specific guidance. The core principle of the revenue model is that "an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services." In applying the revenue model to contracts within its scope, an entity will: (1) identify the contract(s) with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligation in the contract and (5) recognize revenue when (or as) the entity satisfies a performance obligation. The ASU applies to all contracts with customers except those that are within the scope of other topics in the FASB Accounting Standards Codification. Certain of the ASU's provisions also apply to transfers of nonfinancial assets, included in-substance nonfinancial assets that are not an output of an entity's ordinary activities (e.g., sales of (1) property, plant and equipment; (2) real estate; or (3) intangible assets). Entities may elect to use either full retrospective or a modified approach to adopt the ASU guidance. For nonpublic entities, this ASU is effective for annual periods beginning after December 15, 2018. Early application of ASU 2014-09 is not permitted. The Hospital is evaluating the impact of adopting ASU 2014-09 to its consolidated financial statements, which is effective in fiscal year 2020.

In April 2015, the FASB issued ASU 2015-03, *Interest-Imputation of Interest-Simplifying the Presentation of Debt Issuance Cost*, which contains provisions to simplify the presentation of debt issuance costs. The provisions require that debt issuance costs related to recognized debt liability be presented on the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Adoption of this standard should be applied on a retrospective basis. This ASU, adopted effectively July 1, 2014, resulted in the reclassification of debt issuance cost from other assets to a reduction of long-term debt for the fiscal years ended June 30, 2015 and 2014.

In May 2015, the FASB issued ASU 2015-07, *Fair Value Measurement (Topic 820)-Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share*, to further clarify the disclosure surrounding fair value measurement. Topic 820, permits an entity, as a practical expedient, to measure the fair value of certain investments using the net asset value per share of the investment. Prior to the adoption of ASU 2015-07, investments valued using the practical expedient are categorized within the fair value hierarchy on the basis of when they could be redeemed, therefore creating diversity in practice. ASU 2015-07 removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. An entity should continue to disclose information on investments for which fair value is measured at net asset value as a practical expedient to help users understand the nature and risks of the investments. Adoption of this standard should be applied on a retrospective basis. This ASU, adopted effectively July 1, 2014, had no impact on the consolidated financial statements as of June 30, 2015 and 2014.

The FASB has recently proposed changes to not-for-profit financial statements. The proposed ASU would amend current financial reporting guidance with a focus on improving net asset classification requirements and information provided in financial statements and accompanying notes about liquidity, financial performance and cash flows. Under the proposed ASU the key impacts include: 1) eliminating the distinction between temporary and permanent restrictions from the financial statements, 2) comparability across not-for-profits may be enhanced by defining operating activities, but complexity might increase, 3) comparability between for-profit and not-for-profit health care entities will be reduced due to the removal of the currently required performance indicator and 4) requiring cash flows to be presented using the direct method, may enhance the understandability and usefulness of the information. Retrospective application would be required for all changes related to this ASU. The FASB closed the first comment period related to this proposed ASU in the summer of 2015, and no effective date of this ASU has been proposed as of yet. The Hospital will continue to monitor the progress of this proposed ASU and the potential effects that this standard on their financial statements in the future.

(r) Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

(3) Charity Care and Net Patient Service Revenue

The Hospital provides care to patients who meet certain criteria under its charity care policy. The Hospital charity care policy provides for free or discounted care for individuals with household incomes up to 400% of poverty levels. There are financial counselors available at all registration areas of the Hospital to assist in completing Medicaid, Tefra Program, Children's Medical Services, Supplemental Security Income intents and financial assistance applications. The Hospital allows interest free payments to be made until the outstanding balance is paid without time constraints and also does not report to external collection agencies or take other extraordinary collection efforts. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Records are maintained to identify and monitor the level of charity care the Hospital provides. These records include the amount of gross charges foregone for services under its charity care policy. The Hospital's estimated cost of caring for charity care patients for the years ended June 30, 2015 and 2014, was approximately $9,062,000 and $12,402,000, respectively. Subsequent to year end, the Hospital performs a cost accounting analysis to calculate the cost of service per type of procedure. The 2015 cost will be calculated based on the audited financial statement data; therefore, it was not available at the time of the issuance of the consolidated financial statements in order to disclose the 2015 amount. Therefore, the Hospital calculated the 2015 charity cost by using the 2014 actual allocated cost to charge ratio for charity care adjusted for overall changes in the current year cost profile and applying it to current year charity care charges.

ASC Topic 954 (Topic 954), *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts*, *and the Allowance for Doubtful Accounts for Certain Health Care Entities*, requires health care entities that recognize significant amounts of patient service revenue at the time the services are rendered, even though they do not assess the patient's ability to pay, to present the provision for bad debts related to patient service revenue as a deduction from patient service revenue (net of contractual allowances and discounts) on the consolidated statements of operations.

For uninsured patients who do not qualify for charity care, the Hospital recognizes revenue based on established rates, subject to certain discounts as determined by the Hospital. An estimated provision for uncollectible accounts is recorded that results in net patient service revenue being reported at the net amount expected to be received. The Hospital has determined, based on an assessment at the consolidated entity level, that patient service revenue is primarily recorded prior to assessing the patient's ability to pay and as such, the entire provision for uncollectible accounts related to patient revenue is recorded as a deduction from patient service revenue in the accompanying consolidated statements of operations.

Patient receivables are reduced by an allowance for uncollectible accounts. Periodically throughout the year, management assesses the adequacy of the allowance for uncollectible accounts based upon historical write-off experience by payor category. The results of this review are then used to make modifications to the provision for uncollectible accounts to establish an appropriate allowance for uncollectible receivables.

For patient receivables associated with self-pay patients, including patients with deductible and copayment balances for which third-party coverage provides for a portion of the services provided, the Hospital records an estimated provision for uncollectible accounts in the year of service. The Hospital does not experience a large self-pay population due to the current payor mix of their patients.

(a) Net Patient Service Revenue

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

(Continued)

Patient service revenue at established rates less third-party payor contractual allowances for the years ended June 30, 2015 and 2014, consisted of the following:

	2015	2014
Patient service revenue	$ 822,341,374	821,493,767
Less contractual allowances:		
Medicaid and Medicare	(272,676,859)	(264,411,656)
Other third parties	(78,044,409)	(80,291,393)
Net patient service revenue	$ 471,620,106	476,790,718

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

The Hospital's gross patient service revenues were derived from the following payor sources for the years ended June 30, 2015 and 2014, and are as follows:

	2015	2014
Medicaid and Medicare	68%	67%
Other third-party payors	31	32
Patients	1	1
	100%	100%

(b) Estimated Third-Party Payor Settlements

The Hospital provides care to patients under Medicaid, Medicare and other contractual arrangements. Certain inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed by the State of Arkansas based on an allowable cost reimbursement methodology. Regulations require annual retroactive settlements for these costs based on cost reports filed by the Hospital. These retroactive settlements are estimated and recorded in the consolidated financial statements in the year the service is provided. The estimated net settlements at June 30, 2015, for the years ended June 30, 2015, 2014, 2013 and 2012, recorded at \$57,400,333, \$10,407,698, \$10,065,350 and \$11,237,978, respectively, net of a reserve of \$15,989,751 which could differ from actual settlements. Of the total net receivable of \$89,111,359 recorded as of June 30, 2015, \$31,833,696 is considered noncurrent and is therefore included in other noncurrent assets in the accompanying 2015 consolidated balance sheet. The estimated settlements at June 30, 2014, for the years ended June 30, 2014, 2013, 2012 and 2011, recorded at \$75,855,796, \$14,827,582, \$12,420,444, and \$12,620,500, respectively, net of reserve of \$13,117,801 could differ from actual settlements. Of the total net receivable of \$102,606,521 recorded as of June 30, 2014, \$18,383,840 is considered noncurrent and is therefore included in non-current assets in the accompanying 2014 consolidated balance sheet. The Hospital's Medicaid cost reports have been settled by the Medicaid fiscal intermediary through the year ended June 30, 2011. Any differences between estimated settlements and actual settlements will be recorded in the year the cost

report is settled by the intermediary, typically after the fiscal intermediary's audit, or when information is available to management that a change in the estimate is warranted. During the years ended June 30, 2015 and 2014, net patient service revenue in the accompanying consolidated statements of operations increased by approximately $2,616,000 and $3,842,000, respectively, as a result of changes to prior year estimates from final Medicaid settlements and changes in management estimates for related reserves.

The health care industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity continues with respect to investigations and allegations concerning possible violations of regulations by health care providers, which could result in the imposition of significant fines and penalties, as well as significant repayment of previously billed and collected revenues from patient services. Management believes that the Hospital is in compliance, in all material respects, with current laws and regulations; however, the Hospital has recorded reserves that may be used to offset potential repayments due to audit of Medicaid cost settlements or regulatory actions unknown and unasserted at this time.

(c) Supplemental Medicaid Reimbursement

State Medicaid programs incur costs for payments to health care providers that provide medical services to Medicaid recipients, and the federal government pays a portion of those costs to each state based on a formula. Under these federal rules, states are permitted to pay hospitals up to a reasonable estimate of the amount that would have been paid using Medicare payment principles. This is known as the upper payment limit (UPL). The amount of supplemental Medicaid reimbursement recorded as unrestricted revenue for the years ended June 30, 2015 and 2014, was approximately $37,506,000 and $36,242,000, respectively.

(4) Investments and Assets Limited as to Use

At June 30, 2015 and 2014, investments and assets limited as to use consisted of the following:

	2015			
	Cost	Unrealized gains	Unrealized losses	Estimated fair value
Unrestricted, board designated endowment, temporarily, and permanently restricted investments:				
U.S. government obligations	$ 331,466,803	4,945,156	(57,673)	336,354,286
Corporate stocks	88,868,364	58,328,847	—	147,197,211
Mutual funds	32,475,269	4,352,079	—	36,827,348
Corporate debt	20,505,708	341,804	—	20,847,512
Agencies	5,775,089	105,145	—	5,880,234
Certificates of deposit	200,000	—	—	200,000
Total	$ 479,291,233	68,073,031	(57,673)	547,306,591
Funds held by trustee under bond agreements	$ 10,729,150	—	—	10,729,150

	2014			
	Cost	Unrealized gains	Unrealized losses	Estimated fair value
Unrestricted, board designated endowment, temporarily, and permanently restricted investments:				
U.S. government obligations	$ 316,077,749	6,351,167	(315,901)	322,113,015
Corporate stocks	89,519,398	58,991,423	—	148,510,821
Mutual funds	33,108,428	6,218,047	—	39,326,475
Corporate debt	19,532,628	516,459	—	20,049,087
Agencies	5,260,761	160,495	—	5,421,256
Certificates of deposit	200,000	—	—	200,000
Total	$ 463,698,964	72,237,591	(315,901)	535,620,654
Funds held by trustee under bond agreements	$ 11,670,032	—	—	11,670,032

Included with the investment and assets limited as to use balances disclosed above are U.S. government obligations of approximately $325,041,000 and $313,616,000 which are considered held to maturity for the years ended June 30, 2015 and 2014, respectively. These investments are managed internally by the

investment committee and are not actively traded. The remaining amounts within the investment and assets limited as to use balances above are externally managed and are actively traded.

The composition of investment income for the years ended June 30, 2015 and 2014, is as follows:

		2015	2014
Income:			
Interest and dividends	$	10,194,747	9,528,708
Realized gains on sales of securities, including OTTI		1,804,330	5,663,026
Investment management fees		(1,038,390)	(868,211)
Income from investments – unrestricted	$	10,960,687	14,323,523
Income:			
Interest and dividends	$	974,369	866,263
Realized gains on sales of securities, including OTTI		332,982	1,216,348
Income from investments – restricted	$	1,307,351	2,082,611
Other changes in restricted and unrestricted net assets – net unrealized (losses) gains on investments	$	(4,072,345)	19,432,089

The Hospital's total investment portfolio held investments with a net unrealized gain position of approximately $68,015,000 and $71,922,000 at June 30, 2015 and 2014, respectively. At June 30, 2015, the Hospital's investment portfolio contained investments whose fair market value of $31,194,800 was below cost with unrealized losses of $57,673. At June 30, 2014, the Hospital's investment portfolio contained investments whose fair market value of $61,907,545 was below cost with unrealized losses of $315,901. Management considers declines in the fair value of externally managed investment securities below their cost to be other than temporarily impaired if the investment security is in a loss position. During the years ended June 30, 2015 and 2014, the Hospital decreased the carrying value of certain externally managed investments by approximately $5,797,000 and $1,725,000, respectively, due to other than temporary impairment (OTTI). For internally managed securities, the Hospital would record OTTI if the Hospital does not expect to recover the entire amortized cost basis of the security or if they determine that a credit loss exists. During the years ended June 30, 2015 and 2014, no OTTI was recorded relative to internally managed securities. OTTI losses are recorded on a quarterly basis during the fiscal year and unrestricted OTTI amounts are recorded in the consolidated statements of operations.

The trust indentures related to the outstanding bonds (see note 5) require the establishment of certain funds to be held and controlled by an independent trustee as long as the bonds remain outstanding. Such funds are to be used to pay principal and interest on the debt and to finance construction.

Funds held by trustee under bond indenture agreements as of June 30, 2015 and 2014, were invested in federated government obligations, which are mutual funds backed by U.S. Treasury securities, and State and Local Government Series (SLGS) and consisted of the following:

		2015	2014
Series 2005 Bond Fund	$	—	722,697
Series 2009 Bond Fund		2,570,099	2,593,746
Series 2009 Debt Service Reserve Fund		7,360,415	7,360,415
Series 2010 Bond Fund		798,636	993,174
Total	$	10,729,150	11,670,032

(Continued)

(5) Long-term Debt

A summary of long-term debt as of June 30, 2015 and 2014, is as follows:

	2015	2014
Pulaski County, Arkansas Hospital Revenue Bonds, Series 2005, due in variable amounts through March 1, 2035, bearing interest at fixed rates ranging from 3.20% to 5%, collateralized by Hospital revenues	$ —	27,865,000
Pulaski County, Arkansas Hospital Revenue Bonds, Series 2009, due in variable amounts through March 1, 2039, bearing interest at fixed rates ranging from 2% to 5.50%, collateralized by Hospital revenues	98,065,000	100,245,000
Pulaski County, Arkansas Hospital Revenue Refunding Bonds, Series 2010, due in variable amounts through March 1, 2022, bearing interest at rates ranging from 2% to 4%, collateralized by Hospital revenues	15,065,000	17,365,000
Arkansas Development Finance Authority Revenue Bonds Series 2013, due in amount of $45,947 on October 1 and November 1, 2013 and $184,074 on the first day of each successive month thereafter through September 2023, bearing interest at 1.95%, collateralized by certain equipment	14,736,376	18,657,279
	127,866,376	164,132,279
Plus unamortized premium on Series 2005 and 2010 revenue bonds	620,635	1,100,702
Less unamortized discount on Series 2009 revenue bonds	(1,488,803)	(1,518,959)
Less unamortized bond issuance costs on Series 2009, 2010 and 2013 revenue bonds	(3,225,514)	(3,961,613)
Total	123,772,694	159,752,409
Less amounts due within one year	(5,725,185)	(7,146,748)
Long-term debt less current maturities	$ 118,047,509	152,605,661

In January 2015, the Hospital's Board of Director's approved the early redemption of the 2005 Series bonds, which became callable on March 1, 2015. The bonds were redeemed with a principal payment of $27,865,000.

In September 2013, tax-exempt bonds were issued on behalf of the Hospital by the Arkansas Development Finance Authority (ADFA) and sold as a private placement for financing a loan to the Hospital for a portion of the cost of acquiring two Sikorsky S-76D helicopters by the Hospital.

Pulaski County (Issuer) is authorized under the laws of Arkansas to issue revenue bonds to construct, acquire, and improve facilities used for hospitals. Pursuant to a lease agreement dated October 1, 1985, as amended and supplemented between the Issuer and Arkansas Children's Hospital, ACH has agreed to acquire, construct and equip the projects financed by certain bond issues. The Issuer has agreed under the lease agreement to lease the hospital facility financed by such bond issues to ACH in return for payments sufficient to pay the principal of and premium, if any, and interest on all bonds outstanding.

The total maturities shown differ from the amount on the consolidated balance sheet due to unamortized premiums of $620,635, unamortized discounts of $1,488,803 and unamortized bond issuance costs of $3,225,514 at June 30, 2015. Scheduled maturities of long-term debt for the years ending June 30 are as follows:

2016	$	5,725,185
2017		5,898,094
2018		6,246,406
2019		6,475,373
2020		6,715,009
Thereafter		96,806,309
Total	$	127,866,376

The Hospital's long-term debt agreements include certain restrictive covenants with which the Hospital must comply, including the debt service coverage ratio, total debt to capitalization, and days of unrestricted cash on hand. Management of the Hospital believes that it is in compliance with all applicable covenants at June 30, 2015 and 2014.

(6) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets at June 30, 2015 and 2014, are available for the following:

		2015	2014
Health care services:			
Capital expenditures	$	1,583,291	1,734,655
Children's House		6,710,305	3,999,624
South Wing Project		6,337,762	6,985,760
Research funding		12,017,446	10,331,553
Other		32,540,063	29,341,935
Temporarily restricted endowments		36,519,455	36,529,914
Total	$	95,708,322	88,923,441

Permanently restricted net assets at June 30, 2015 and 2014, are restricted to the following:

		2015	2014
Investments to be held in perpetuity, the income from which is expendable to support health care and research services	$	43,930,582	39,328,402

Net assets restricted for the South Wing Project include pledges and cash gifts designated for the South Wing, which includes capital and noncapital components. Pledges and gifts designated for the South Wing Project as of June 30, 2015, were $5,812,667 and $525,095, respectively. Pledges designated for the South Wing Project as of June 30, 2014, were $6,985,760.

During 2015 and 2014, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes in the amount of $6,482,128 and $5,336,674, respectively. In addition, net assets were released from donor restrictions and used for the purchase of property and equipment in the amount of $4,393,236 and $12,847,231 for June 30, 2015 and 2014, respectively.

(Continued)

(a) *Endowment Net Assets*

The following table summarizes the changes in endowment net assets for the fiscal year ended June 30, 2015 and 2014:

		Board designated	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 30, 2013	$	175,625,483	31,918,422	33,441,917	240,985,822
Investment return:					
Investment income		3,221,664	851,277	—	4,072,941
Net gains (realized and unrealized)		18,017,130	4,773,767	—	22,790,897
Total investment return		196,864,277	37,543,466	33,441,917	267,849,660
Contributions		25,000	1,472,678	1,967,367	3,465,045
Transfers		20,859,632	(760,956)	1,983,198	22,081,874
Appropriation of endowment asset for expenditures		(1,250,233)	(1,725,274)	—	(2,975,507)
Endowment net assets, June 30, 2014		216,498,676	36,529,914	37,392,482	290,421,072
Investment return:					
Investment income		3,700,424	958,197	—	4,658,621
Net losses (realized and unrealized)		(853,699)	(202,272)	—	(1,055,971)
Total investment return		2,846,725	755,925	—	3,602,650
Contributions		25,000	1,077,527	2,880,503	3,983,030
Transfers		(16,755,088)	52,641	1,877,203	(14,825,244)
Appropriation of endowment asset for expenditures		(1,398,372)	(1,896,552)	—	(3,294,924)
Endowment net assets, June 30, 2015	$	201,216,941	36,519,455	42,150,188	279,886,584

From time to time, the fair value of assets associated with individual donor endowment funds may fall below the value of the initial and subsequent donor gift amounts (deficit). When certain donor endowment deficits exist, they are classified as a reduction of unrestricted net assets in accordance with ASC Topic 958. Deficits associated with certain funds functioning as endowments, when they exist, are likewise classified as a reduction of unrestricted net assets. During the years ended June 30, 2015 and 2014, there were no deficits of this nature reported in unrestricted net assets in accordance with ASC Topic 320.

(b) Transfer of Net Assets

Transfers among net asset classifications at June 30, 2015 and 2014, were primarily due to revised donor agreements, satisfying donor restrictions, and the matching program as follows:

		2015		
		Unrestricted net assets	Temporarily restricted net assets	Permanently restricted net assets
Revised endowment agreements	$	—	(100,025)	100,025
Matching program		(2,714,065)	947,120	1,766,945
Other		(136,009)	125,776	10,233
Total	$	(2,850,074)	972,871	1,877,203

		2014		
		Unrestricted net assets	Temporarily restricted net assets	Permanently restricted net assets
Revised endowment agreements	$	—	(1,174,489)	1,174,489
Matching program		(1,048,438)	262,448	785,990
Other		(182,584)	159,865	22,719
Total	$	(1,231,022)	(752,176)	1,983,198

(7) Insurance and Legal

The Hospital is self-insured with respect to claims paid for employee health care. Estimates of health claims incurred but unpaid as of June 30, 2015 and 2014, are accrued based on the Hospital's past experience, as well as other considerations including the nature of claims and relevant trends. As of June 30, 2015 and 2014, the Hospital has accrued a liability for estimated incurred but unpaid claims of approximately $1,012,000 and $1,088,000, respectively. The expenses related to claims paid during the years ended June 30, 2015 and 2014, were approximately $15,438,000 and $14,365,000, respectively, and are included in employee benefits expense. The Hospital maintains stop-loss insurance coverage with respect to the employer share of medical insurance claim costs. Under the terms of stop-loss insurance for the plan years ending June 30, 2015 and 2014, the stop-loss insurance carrier is to reimburse 100% of the cost of each covered person's paid claims in excess of $175,000 per year, with no maximum annual benefit per person for the plan year ended June 30, 2015, and a maximum annual benefit per person up to $1,825,000 for the plan year ended June 30, 2014; however, a plan level deductible called an "aggregating specific deductible" must be satisfied by the whole group medical insurance plan before any reimbursements are paid to the Hospital by the stop-loss carrier for an individual stop-loss claim. The plan level aggregating specific deductible amount was $400,000 and $350,000 for the fiscal years ended June 30, 2015 and 2014,

(Continued)

respectively. The purpose of the aggregating specific deductible is to reduce annual fixed stop-loss premium costs during the plan year where the group medical insurance plan experiences low volume or no high dollar medical claims.

The Hospital is also self-insured with respect to workers' compensation. Losses from asserted claims and unasserted claims identified under the Hospital's incident reporting system are accrued based on estimates that consider the Hospital's prior experience and the nature of the claims. An estimated liability of $180,907 and $223,089 was accrued as of June 30, 2015 and 2014, respectively. The Hospital has pledged certificates of deposit of $200,000 as collateral for such liabilities. The Hospital also maintains excess workers compensation coverage with an insurance company. Under the terms of this excess insurance, the insurer is to reimburse 100% of the cost of each employee's claim in excess of $500,000. On an aggregate basis, the employer's limit is approximately $4,103,000 for the two-year policy period. Once the aggregate limit has been met, the insurer will provide an additional $2,000,000 of coverage. For indemnification or legal defense in a civil case, the employer liability limit is $1,000,000 subject to a $500,000 retention.

The Hospital is insured by several claims-made liability policies including medical malpractice, general liability and Directors & Officers. An estimated liability of $1,192,000 and $339,000 was accrued as of June 30, 2015 and 2014, respectively, to cover policy deductibles, indemnity and expense costs. The Hospital's General and Professional Liability insurance coverage is limited, at June 30, 2015 and 2014, to $1,000,000 per incident with a $3,000,000 aggregate limit. The Hospital also carries an umbrella liability policy in the amount of $10,000,000.

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

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

(8) Employee Benefit Plans

The Hospital has a contributory tax-sheltered annuity plan for the benefit of substantially all of its employees. Employer contributions are made based on the employee's respective contributions, and are vested based on the years of service of the individual employees. Plan expense was approximately $4,302,000 and $4,448,000 for the years ended June 30, 2015 and 2014, respectively.

The Hospital has a Defined Contribution Retirement plan covering substantially all employees meeting certain eligibility requirements. Employer contributions to the plan are made at the discretion of the Board of Directors of the Hospital. The Hospital made contributions of 3% and 2% of eligible employees' compensation for fiscal years 2015 and 2014, respectively. Contributions accrued for the plan for the years ended June 30, 2015 and 2014, were approximately $4,994,000 and $3,206,000, respectively.

The Hospital has a nonqualified deferred compensation plan under IRC Section 457(b). The Hospital reports a liability in its consolidated balance sheets with a corresponding asset of $2,014,000 and $2,192,000 as of June 30, 2015 and 2014, respectively. The assets in the plan remain the property of the employer until paid or made available to participants, subject only to the claims of the Hospital's general creditors.

Arkansas Children's Hospital established individual Supplemental Executive Retirement Plans (SERPs) to provide key employees with retirement and death benefits. Each plan is a deferred benefit plan covering one key employee and the expense charged to earnings for fiscal year 2014 for all plans was approximately $48,000 with the related liability included in accrued expenses and other liabilities in the accompanying consolidated balance sheets. These expenses are calculated based on the present value of the estimated deferred compensation amount assigned to each plan based on a normal retirement age of 65 and actuarially based life expectancies. As of June 30, 2015 and 2014, the accumulated balance for the SERP liability was approximately $357,000. The SERP plans have been "frozen" as of June 30, 2014 and if the employee is then-vested will be paid out in July 2016.

The Hospital established a nonqualified deferred compensation plan under IRC Section 457(f) effective June 30, 2014. The plan is a defined contribution plan which covers certain executive employees. The expense charged to earnings for fiscal years 2015 and 2014 was approximately $367,000 and $250,000, respectively, with the related liability included in accrued expenses and other liabilities in the accompanying consolidated balance sheets. The expense is generally calculated based on a percentage of the annual base pay of the covered executive employees plus an amount for interest as determined in the plan.

(9) Related-party Transactions

Several Hospital board members are employed by the University of Arkansas for Medical Sciences (UAMS). During the years ended June 30, 2015 and 2014, contracts for professional services between the Hospital and UAMS resulted in the Hospital incurring expenses of approximately $70,600,000 and $91,000,000, respectively, to UAMS. During the years ended June 30, 2015 and 2014, the Hospital also recorded revenue of approximately $4,300,000 and $18,800,000, respectively, from UAMS. In addition, the Hospital bills and collects physician outpatient professional fees for patient care performed at the Hospital, which resulted in the Hospital recording $22,700,000 of net revenue for the fees billed with $21,130,000 of collected fees, net of expenses, being remitted to UAMS for the year ended June 30, 2015, and $15,260,000 of net revenue for the fees billed with $14,300,000 of collected fees, net of expenses, being remitted to UAMS for the year ended June 30, 2014. As of June 30, 2015 and 2014, the Hospital's payable due to UAMS was approximately $5,542,000 and $7,364,000, respectively. As of June 30, 2015 and 2014, the Hospital's receivable due from UAMS was approximately $961,000 and $3,104,000, respectively. In addition, the Hospital held approximately $304,000 and $367,000 as of June 30, 2015 and 2014, respectively, on behalf of UAMS to be utilized by the physicians on the ACH campus.

During the years ended June 30, 2015 and 2014, the Hospital also paid approximately $14,400,000 and $8,369,000, respectively, to a company affiliated with a member of the ACHF Board of Directors for construction projects. In addition, during the years ended June 30, 2015 and 2014, the Hospital paid approximately $999,000 and $1,156,000, respectively, to a company affiliated with a member of the Board

of Directors for telecommunication services. During the years ended June 30, 2015 and 2014, the Hospital paid approximately $1,235,000 and $1,305,000, respectively, for goods and services from various other related parties. Management considers all transactions with related parties to be at arm's length.

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

(10) Commitments and Contingencies

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

The Hospital leases various equipment and facilities under operating leases expiring at various dates through 2020. Total rental expense for all operating leases was approximately $2,455,000 and $2,421,000 for the years ended June 30, 2015 and 2014, respectively.

A schedule by year of future minimum lease payments under operating leases as of June 30, 2015, that have initial or remaining terms in excess of one year is as follows:

Years ending June 30:		
2016	$	2,171,958
2017		1,478,951
2018		639,052
2019		521,102
2020		98,453
Total minimum payment required	$	4,909,516

(11) Donor-restricted Gifts and Pledges Receivable

Amounts of net pledges receivable (at net present value discounted at a rate of 3.25% for the years ended June 30, 2015 and 2014, respectively) as of June 30, 2015 and 2014, are as follows:

	2015	
	Temporarily restricted net pledges receivable	Permanently restricted net pledges receivable
Due in less than one year	$ 5,866,000	263,534
Due in one to five years	7,093,524	1,516,858
Due in more than five years	1,090,451	—
Total	$ 14,049,975	1,780,392

	2014	
	Temporarily restricted net pledges receivable	Permanently restricted net pledges receivable
Due in less than one year	$ 4,539,080	447,665
Due in one to five years	8,188,123	1,488,254
Due in more than five years	870,734	—
Total	$ 13,597,937	1,935,919

Maturities of trusts receivable are not shown above as the maturities of these receivables are dependent upon the life expectancies of the trustors. Pledges receivable include temporarily restricted trust receivables (at net present value), which totaled $5,946,639 and $6,781,946 at June 30, 2015 and 2014, respectively.

The allowance for uncollectible pledges receivable totaled approximately $862,000 and $1,675,000 as of June 30, 2015 and 2014, respectively. The discount relating to pledges receivable totaled approximately $1,357,000 and $1,395,000 as of June 30, 2015 and 2014, respectively.

(12) Subsequent Events

The Hospital has evaluated subsequent events through October 22, 2015, the date at which the consolidated financial statements were issued, and determined that there are no subsequent events to be recognized in the consolidated financial statements related notes.

Subsequent to the year ended June 30, 2015, the Hospital engaged an architectural and engineering firm to initiate the planning and design of a new pediatric hospital in Springdale, Arkansas. The facility is anticipated to include 24 inpatient beds, 21 Emergency Department/Urgent Care Center exam rooms, 24 clinic exam rooms, 5 operating rooms, imaging capabilities, diagnostic services, and a helipad with refueling station at an approximate cost of $155,000,000. Pending final budget approval, consummation of a potential bond issuance, among other substantive matters, construction would start in the spring of 2016 for a planned opening in 2018. There can be no assurances that this transaction will be ultimately consummated.

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ARKANSAS CHILDREN'S HOSPITAL,
ARKANSAS CHILDREN'S HOSPITAL FOUNDATION,
ARKANSAS CHILDREN'S HOSPITAL RESEARCH INSTITUTE, AND
ARKANSAS CHILDREN'S HOSPITAL BUILDING RESEARCH FACILITY

Consolidated Balance Sheet

March 31, 2016

(Unaudited)

Assets

Current assets:		
Cash and cash equivalents	$	79,042,854
Accounts receivable:		
Patient, less allowances for uncollectible accounts of $3,137,453		62,988,866
Other receivables		20,476,449
Investments – at fair value		299,894,948
Assets limited as to use, which are required for current liabilities		4,667,260
Pledges receivable – current portion		4,987,211
Estimated third-party payor settlements — current portion		65,181,699
Inventories		8,642,213
Other current assets		6,582,524
Total current assets		552,464,024
Assets limited as to use:		
Board designated investments		197,608,498
Restricted investments:		
Temporarily restricted investments		38,238,655
Permanently restricted endowment		46,107,687
Investments held by trustee under bond agreements		8,299,655
Total assets limited as to use		290,254,495
Less amounts classified as current		(4,667,260)
Assets limited as to use – net		285,587,235
Pledges receivable – noncurrent		19,912,352
Property, plant, and equipment:		
Land and improvements		45,018,322
Buildings		365,815,964
Equipment		201,547,084
Construction in progress		23,983,850
Total property, plant, and equipment		636,365,220
Less accumulated depreciation		(328,350,025)
Property, plant, and equipment – net		308,015,195
Other noncurrent assets		37,883,240
Total	$	1,203,862,046

ARKANSAS CHILDREN'S HOSPITAL,
ARKANSAS CHILDREN'S HOSPITAL FOUNDATION,
ARKANSAS CHILDREN'S HOSPITAL RESEARCH INSTITUTE, AND
ARKANSAS CHILDREN'S HOSPITAL BUILDING RESEARCH FACILITY

Consolidated Balance Sheet

March 31, 2016

(Unaudited)

Liabilities and Net Assets

Current liabilities:	
Accounts payable	$ 27,660,189
Accrued interest	484,156
Accrued expenses and other liabilities	34,284,840
Due to Arkansas Children's Hospital	915,162
Due to physicians	272,339
Current portion of long-term debt	4,623,144
Total current liabilities	68,239,830
Noncurrent liabilities:	
Obligations under capital leases	278,941
Long-term debt – net of current portion	113,882,055
Total liabilities	182,400,826
Commitments and contingencies	
Net assets:	
Unrestricted	873,214,951
Temporarily restricted	101,340,640
Permanently restricted	46,905,629
Total net assets	1,021,461,220
Total liabilities and net assets	$ 1,203,862,046

ARKANSAS CHILDREN'S HOSPITAL,
ARKANSAS CHILDREN'S HOSPITAL FOUNDATION,
ARKANSAS CHILDREN'S HOSPITAL RESEARCH INSTITUTE, AND
ARKANSAS CHILDREN'S HOSPITAL BUILDING RESEARCH FACILITY

Consolidated Statement of Operations

Nine-month period ended March 31, 2016

(Unaudited)

Unrestricted revenues and gains:	
Net patient service revenue	$ 371,980,182
Provision for bad debt	(755,530)
Net patient service revenue less provision for bad debts	371,224,652
Specific purpose grants	19,512,161
Supplemental Medicaid reimbursement	27,110,481
Other	14,402,460
Net assets released from restrictions and used for operations	4,976,039
Total unrestricted revenues and gains	437,225,793
Expenses:	
Salaries and wages	172,707,992
Employee benefits	36,397,379
Supplies and pharmaceuticals	65,094,957
Professional fees	53,070,276
Purchased services	28,765,560
Depreciation and amortization	22,075,501
Interest	4,481,715
Utilities	3,918,565
Insurance	1,883,876
Other	7,933,548
Expenses incurred from temporarily restricted contributions	4,417,089
Expenses incurred from board designated contributions	561,876
Total expenses	401,308,334
Income from operations	35,917,459
Nonoperating revenues, gains, expenses and losses:	
Unrestricted contributions	4,149,980
Income from investments	5,911,282
Other	(1,017,763)
Fundraising expenses	(4,854,447)
Net nonoperating revenues, gains, expenses and losses	4,189,052
Excess of revenues and gains over expenses and losses	40,106,511
Other changes in unrestricted net assets:	
Unrealized loss on investments, net	(4,261,218)
Net assets released from restrictions used for purchase of property and equipment	12,574,137
Grant funds used to purchase capital assets	216,134
Annuity reserve	(2,499)
Transfer of net assets	(2,066,583)
Increase in unrestricted net assets	$ 46,566,482

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APPENDIX D

Form of Bond Counsel Opinion

Upon delivery of the Series 2016 Bonds in definitive form, Friday, Eldredge & Clark, LLP, Little Rock, Arkansas, Bond Counsel, proposes to deliver its approving opinion in substantially the following form:

______________, 2016

Bank of the Ozarks, as Trustee
Little Rock, Arkansas

Stephens Inc.
Little Rock, Arkansas

Merrill Lynch, Pierce, Fenner & Smith Incorporated
New York, New York

Re: $85,395,000 Pulaski County, Arkansas Hospital Revenue Refunding Bonds (Arkansas Children's Hospital), Series 2016

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance by Pulaski County, Arkansas (the "Issuer") of Pulaski County, Arkansas Hospital Revenue Refunding Bonds (Arkansas Children's Hospital), Series 2016 in the principal amount of $85,395,000 (the "Series 2016 Bonds"). We have examined the law and such certified proceedings and other papers as deemed necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the Issuer and of Arkansas Children's Hospital, an Arkansas nonprofit corporation (the "Hospital"), contained in the Indenture and in the Lease, both described below, the certified proceedings and other certifications of public officials furnished to us, and certifications by officials of the Hospital, without undertaking to verify the same by independent investigation.

The Series 2016 Bonds are being issued pursuant to a Trust Indenture dated as of October 1, 1985, as amended and supplemented by a 1987 Supplemental Trust Indenture dated as of March 1, 1987, a 1993 Supplemental Trust Indenture dated as of March 15, 1993, a 2002 Supplemental Trust Indenture dated as of July 15, 2002, a 2005 Supplemental Trust Indenture dated as of December 1, 2005, a 2009 Supplemental Trust Indenture dated as of May 1, 2009, a 2010 Supplemental Trust Indenture dated as of November 1, 2010 and a 2016 Supplemental Trust Indenture dated as of August 1, 2016 (collectively, the "Indenture"), between the Issuer and Bank of the Ozarks, as trustee (the "Trustee"). The Series 2016 Bonds are payable solely from revenues derived by the Issuer under a Lease Agreement dated as of October 1, 1985, as amended and supplemented by a 1987 Supplemental Lease Agreement dated as of March 1, 1987, a 1993 Supplemental Lease Agreement dated as of March 15, 1993, a 2002 Supplemental Lease Agreement dated as of July 15, 2002, a 2005 Supplemental Lease Agreement dated as of December 1, 2005, a 2009 Supplemental Lease Agreement dated as of May 1, 2009, a 2010 Supplemental Lease Agreement dated as of November 1, 2010 and a 2016 Supplemental Lease

Agreement dated as of August 1, 2016 (collectively, the "Lease"), between the Issuer and the Hospital, from revenues derived by the Trustee under separate Guaranty Agreements dated as of August 1, 2016 (the "Guaranty Agreements"), from the Hospital, Arkansas Children's, Inc. (the "Parent"), Arkansas Children's Northwest, Inc. ("ACNW") and Arkansas Children's Hospital Foundation, Inc. (the "Foundation") and from other moneys held by the Trustee pursuant to the Indenture. Under the Lease, the Hospital has agreed to make payments sufficient to pay when due the principal of and premium, if any, and interest on the Series 2016 Bonds and all other Bonds now or hereafter issued under the Indenture and such payments are pledged and assigned by the Issuer to the Trustee as security for all Bonds issued pursuant to the Indenture. Under the Guaranty Agreements, the Hospital, the Parent, ACNW and the Foundation have guaranteed to the Trustee the prompt payment as due of the principal of and premium, if any, and interest on the Series 2016 Bonds.

The obligations of the Hospital under the Lease Agreement are secured by a pledge of the Gross Revenues of the Hospital (as defined in the Lease Agreement) on a parity with the pledge of the Gross Revenues of the Hospital in favor of the Pulaski County, Arkansas Hospital Revenue Refunding Bonds (Arkansas Children's Hospital), Series 2010 (the "Series 2010 Bonds") and the City of Springdale Public Facilities Board Hospital Revenue Bonds, Series 2016 (Arkansas Children's Northwest Project) (the "ACNW Bonds").

The obligations of ACNW under its Guaranty Agreement (the "ACNW Guaranty") are secured by a pledge of the Gross Receipts of the Guarantor (as defined in the ACNW Guaranty) on a parity with the pledge of the Gross Receipts of the Guarantor in favor of the Series 2010 Bonds and the ACNW Bonds.

With respect to (i) the incorporation and existence of the Hospital and Guarantors, (ii) the power of the Hospital to authorize, execute and deliver the documents and instruments to which the Hospital is a party, consisting of particularly, without limitation, the Lease and the Guaranty Agreement to which the Hospital is a party (the "Hospital Guaranty Agreement"), and to assume the obligations represented thereby, (iii) the execution and delivery by the Hospital of such documents and instruments, consisting of particularly, without limitation, the Lease and the Hospital Guaranty Agreement, (iv) the power of the Parent, ACNW and the Foundation (the "Affiliate Guarantors") to authorize, execute and deliver the documents and instruments to which the Affiliate Guarantors are a party, consisting of particularly, without limitation, the Guaranty Agreements to which the Affiliate Guarantors are a party (the "Affiliate Guaranty Agreements"), and to assume the obligations represented thereby, (v) the execution and delivery by the Guarantors of such documents, consisting of particularly, without limitation, the Affiliate Guaranty Agreements, (vi) the tax-exempt status of the Hospital and the Affiliate Guarantors, and (vii) the enforceability of such documents and instruments, consisting of particularly, without limitation, the Lease and the Hospital Guaranty Agreement, against the Hospital, and the enforceability of such documents and instruments, consisting of particularly, without limitation, the Affiliate Guaranty Agreements, against the Affiliate Guarantors, reference is made to the opinion as to such matters rendered by Friday, Eldredge & Clark, LLP, Little Rock, Arkansas, as counsel to the Hospital and the Affiliate Guarantors.

Based on our examination, we are of the opinion, as of the date hereof and under existing law, as follows:

1. The Issuer is duly created and validly existing as a political subdivision and county of the State of Arkansas with the corporate power to enter into the Lease and the Indenture, perform the agreements on its part contained therein, and issue the Series 2016 Bonds.

2. The Indenture has been duly authorized, executed and delivered by the Issuer and is a valid and binding obligation of the Issuer enforceable upon the Issuer in accordance with its terms.

3. The Lease has been duly authorized, executed and delivered by the Issuer and is a valid and binding obligation of the Issuer enforceable upon the Issuer in accordance with its terms.

4. The Series 2016 Bonds are secured by a pledge of the Gross Revenues of the Hospital and the Gross Receipts of the Guarantor, on a parity with the Series 2010 Bonds and the ACNW Bonds and any Bonds hereafter issued under the Indenture and with certain other obligations incurred or to be incurred by the Hospital as permitted under the Lease and by ANCW as permitted under the ACNW Guaranty.

5. The Series 2016 Bonds have been duly authorized, executed and delivered by the Issuer and are valid and binding special obligations of the Issuer, payable solely from the Gross Revenues of the Hospital.

6. The Lease and the Indenture create a valid lien on the Trust Estate (within the meaning of the Indenture).

7. The interest on the Series 2016 Bonds (including any original issue discount properly allocable to the Bonds) is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; it should be noted, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings. The opinions set forth in the preceding sentence are subject to the condition that the Issuer and the Hospital comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Series 2016 Bonds in order that interest thereon be (or continue to be) excludable from gross income for federal income tax purposes. Failure to comply with certain of such requirements could cause the interest on the Series 2016 Bonds to be so included in gross income retroactive to the date of issuance of the Series 2016 Bonds. The Hospital has covenanted to comply with all such requirements and has the power to carry out such covenants. We express no opinion regarding other federal tax consequences arising with respect to the Series 2016 Bonds.

8. The Series 2016 Bonds and interest thereon are exempt from state, county, and municipal taxes in the State of Arkansas.

9. The Series 2016 Bonds are exempt from registration under the Securities Act of 1933 and State of Arkansas securities law, and the Indenture is exempt from qualification under the Trust Indenture Act of 1939.

It is to be understood that the rights of the holders of the Series 2016 Bonds and the enforceability of the Series 2016 Bonds, the Indenture, the Lease and the Guaranty Agreements may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Very truly yours,

FRIDAY, ELDREDGE & CLARK, LLP

PULASKI COUNTY, ARKANSAS • HOSPITAL REVENUE REFUNDING BONDS (ARKANSAS CHILDREN'S HOSPITAL), SERIES 2016

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