



SINGLE AUDIT REPORT

Nationwide Children's Hospital, Inc. and Subsidiaries
Year Ended December 31, 2012
With Report of Independent Auditors

Ernst & Young LLP



Nationwide Children’s Hospital, Inc. and Subsidiaries

Single Audit Report

Year Ended December 31, 2012

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Management and the Budget, Finance and Audit Committee
Nationwide Children's Hospital, Inc. and Subsidiaries

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Nationwide Children's Hospital, Inc. and Subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2012 and 2011, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in conformity 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 of material misstatement, whether due to fraud or error.

Auditor's 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain 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 entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Nationwide Children's Hospital, Inc. and Subsidiaries as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Supplementary information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Schedule of Expenditures of Federal Awards as required by US Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we also have issued our report dated April 30, 2012 on our consideration of the Nationwide Children's Hospital, Inc. and Subsidiaries' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Nationwide Children's Hospital, Inc. and Subsidiaries' internal control over financial reporting and compliance.

Ernst + Young LLP

April 30, 2013, except for the schedule of expenditures of federal awards for which the date is July 26, 2013.

Nationwide Children's Hospital, Inc. and Subsidiaries

Consolidated Balance Sheets

	December 31	
	2012	2011
	<i>(In Thousands)</i>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 109,170	\$ 103,610
Patient accounts receivable, net of allowance for doubtful accounts (2012 – \$28,204; 2011 – \$24,567)	147,991	127,701
Inventories	7,059	5,468
Pledges receivable <i>(Note 13)</i>	6,778	8,159
Other assets	55,811	45,087
Total current assets	326,809	290,025
Assets limited as to use <i>(Note 5)</i> :		
Held by trustee	105,761	28,753
Board-designated:		
Capital improvement	3,174	2,916
Other	576,266	494,065
Donor restricted	171,635	149,734
Total assets limited as to use	856,836	675,468
Pledges receivable <i>(Note 13)</i>	19,335	24,154
Property and equipment, less allowance for depreciation <i>(Note 12)</i>	1,004,278	931,474
Unamortized bond issuance costs	5,352	4,595
Other noncurrent assets	10,391	10,467
Total assets	\$ 2,223,001	\$ 1,936,183

	December 31	
	2012	2011
	<i>(In Thousands)</i>	
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 45,845	\$ 56,643
Compensation and related taxes	59,444	52,224
Current portion of long-term debt <i>(Note 8)</i>	221,380	107,233
Accrued claims expense	36,559	39,486
Other current liabilities	26,670	26,585
Total current liabilities	<u>389,898</u>	282,171
Long-term liabilities:		
Retirement benefits	43,953	46,461
Long-term debt <i>(Note 8)</i>	280,415	327,702
Professional liability <i>(Note 7)</i>	28,745	28,753
Interest rate swaps and other long-term liabilities	46,638	40,682
	<u>399,751</u>	443,598
Total liabilities	789,649	725,769
Net assets:		
Unrestricted	1,245,795	1,036,451
Temporarily restricted <i>(Note 16)</i>	96,959	87,172
Permanently restricted <i>(Note 16)</i>	90,598	86,791
Total net assets	<u>1,433,352</u>	1,210,414
Total liabilities and net assets	<u><u>\$ 2,223,001</u></u>	<u><u>\$ 1,936,183</u></u>

See accompanying notes.

Nationwide Children's Hospital, Inc. and Subsidiaries

Consolidated Statements of Operations
and Changes in Net Assets

	Year Ended December 31	
	2012	2011
	<i>(In Thousands)</i>	
Unrestricted revenue, gains, and other support		
Patient service revenue (net of contractual allowances and discounts) <i>(Note 4)</i>	\$ 904,060	\$ 800,686
Provision for bad debts	<u>(30,766)</u>	<u>(30,655)</u>
Net patient service revenue less provision for bad debts	873,294	770,031
Premium revenue	509,944	445,278
Other revenue	99,187	90,171
Net assets released from restrictions	6,815	6,907
Total unrestricted revenue, gains, and other support	<u>1,489,240</u>	<u>1,312,387</u>
Expenses		
Salaries and benefits	641,258	593,022
Claims expense	317,106	252,491
Supplies	137,338	123,956
Purchased services	79,114	68,976
Interest	20,866	19,039
Depreciation	59,220	47,178
Other	120,449	106,195
Total expenses	<u>1,375,351</u>	<u>1,210,857</u>
Operating income	113,889	101,530
Investment return – net <i>(Note 5)</i>	81,174	4,703
Other nonoperating gain (loss) – net <i>(Note 1)</i>	14,398	(17,946)
Excess of revenue over expenses	<u>209,461</u>	<u>88,287</u>

Continued on next page

Nationwide Children's Hospital, Inc. and Subsidiaries

Consolidated Statements of Operations
and Changes in Net Assets (continued)

	Year Ended December 31	
	2012	2011
	<i>(In Thousands)</i>	
Unrestricted net assets		
Excess of revenue over expenses	209,461	88,287
Change in pension obligation and assets	(3,083)	(12,694)
Net assets released from restrictions for the purchase of property and equipment	1,743	16,197
Transfers and other	1,223	1
Increase in unrestricted net assets	<u>209,344</u>	<u>91,791</u>
Temporarily restricted net assets		
Contributions	7,058	10,934
Net assets released from restrictions for the purchase of property and equipment	(1,743)	(16,197)
Investment return, net	8,978	171
Net assets released from restrictions	(6,815)	(6,907)
Transfers and other	2,309	(195)
Increase (decrease) in temporarily restricted net assets	<u>9,787</u>	<u>(12,194)</u>
Permanently restricted net assets		
Contributions	3,807	8,748
Increase in permanently restricted net assets	<u>3,807</u>	<u>8,748</u>
Increase in net assets	222,938	88,345
Net assets at beginning of year	1,210,414	1,122,069
Net assets at end of year	<u>\$ 1,433,352</u>	<u>\$ 1,210,414</u>

See accompanying notes.

Nationwide Children's Hospital, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

	Year Ended December 31	
	2012	2011
	<i>(In Thousands)</i>	
Operating activities		
Increase in net assets	\$ 222,938	\$ 88,345
Adjustments to reconcile increase in net assets to cash provided by operating activities:		
Net change in unrealized (gains) losses on investments	(66,016)	22,054
Change in pension obligation and assets	3,083	12,694
Depreciation and amortization	59,439	47,381
Provision for doubtful accounts	30,766	30,655
(Purchase) sale of assets limited as to use – net	(115,352)	29,192
Restricted contributions and investment income	(13,009)	(22,337)
(Increase) decrease in:		
Patient accounts receivable	(51,056)	(43,690)
Inventories	(1,591)	304
Other current assets	(10,724)	8,585
Pledges receivable	6,200	588
Other long-term assets	(900)	101
Increase (decrease) in:		
Accounts payable and accrued expenses	(10,798)	4,971
Compensation and related taxes	7,220	8,372
Other current liabilities	85	5,354
Accrued claims expense	(2,927)	11,985
Retirement benefits	(5,591)	278
Professional liability	(8)	186
Other long-term liabilities	5,956	25,573
Net cash provided by operating activities	57,715	230,591
Investing activities		
Purchase of property and equipment – net	(132,024)	(226,082)
Net cash used for investing activities	(132,024)	(226,082)
Financing activities		
Proceeds from issuance of long-term debt	75,000	–
Repayment of long-term debt	(8,140)	(9,018)
Restricted contributions and investment income	13,009	22,337
Net cash provided by financing activities	79,869	13,319
Net increase in cash and cash equivalents	5,560	17,828
Cash and cash equivalents at beginning of year	103,610	85,782
Cash and cash equivalents at end of year	\$ 109,170	\$ 103,610

See accompanying notes.

Nationwide Children's Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Year Ended December 31, 2012

1. Organization and Significant Accounting Policies

Nationwide Children's Hospital, Inc. (Nationwide Children's) exclusively controls the activities of its subsidiaries in Central Ohio including:

- Nationwide Children's Hospital (the Hospital) is a 423 bed not-for-profit tertiary care hospital providing inpatient, outpatient, and emergency care services. In addition, the Hospital leases 92 neonatal intensive and special care nursery beds located at five other area hospitals. Subsidiaries of the Hospital include the following entities:
 - ▶ Children's Radiological Institute (CRI) is a not-for-profit professional practice plan owned by the Hospital, which provides radiological services at the Hospital.
 - ▶ Nationwide Children's Hospital Homecare (Homecare Services) is a not-for-profit home health company owned by the Hospital, which provides intermittent and private-duty nursing, skilled therapy, infusion therapy, durable medical equipment, hospice, and palliative care services.
 - ▶ Kids-4-Sure, Inc. is a for-profit real estate holding company. Currently, there is no activity within this company.
 - ▶ Pediatric Pathology Associates of Columbus (PPAC) is a not-for-profit professional practice plan owned by the Hospital, which provides pathological services at the Hospital.
 - ▶ Children's Surgical Associates (CSA) is a not-for-profit professional practice plan owned by the Hospital, which provides surgical services at the Hospital.
 - ▶ Pediatric Academic Association (PAA) is a not-for-profit practice of which the Hospital owns 51%. The PAA is a group of approximately 300 medical, pediatric sub-specialists, which provides such services at the Hospital. During 2011, The Ohio State University Clinical Practice Plan (OSUCP) had a 49% ownership interest in the PAA. As of December 31, 2011, OSUCP was dissolved, and its ownership interest was transferred to the faculty members of the Department of Pediatrics of the Ohio State University College of Medicine. The non-controlling interest associated with this transaction is recorded in the consolidated statement of operations and changes in net assets for the years ended December 31, 2012 and 2011 and is included in other non-operating gains (losses).

Nationwide Children's Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

- ▶ Children's Anesthesia Associates, Inc. (CAA) is a for-profit professional practice plan which provides anesthesiology services at the Hospital.
- ▶ Pediatric Clinical Trials International, Inc. (PCTI) is a for-profit site management organization (SMO) which provides pediatric pharmaceutical research and testing services. Currently, there is no activity within this company.
- Nationwide Children's Hospital Foundation (Foundation) is a not-for-profit charitable foundation.
- The Research Institute at Nationwide Children's Hospital (Research Institute) is a not-for-profit pediatric medical research institute.
- Center for Child and Family Advocacy at Nationwide Children's Hospital (CCFA) is a not-for-profit organization which provides advocacy, education, counseling and other programmatic services to children and families suffering from child abuse and neglect. During 2012, the assets and liabilities of the Coalition Against Family Violence were merged into CCFA.
- Children's Hospital and Physicians Healthcare Network (dba. Partners for Kids) is a joint venture between the Hospital and community physicians. Partners for Kids is an Ohio not-for-profit, federally taxable corporation, formed to contract with insurers offering Medicaid or commercial managed care products for the provision of medical services. As a result of the Hospital's affiliation with certain physician groups, the Hospital has effective control of the Partners for Kids board and an economic interest in Partners for Kids.

Nationwide Children's Hospital, Inc. and Subsidiaries

Notes to Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Basis of Presentation

The consolidated financial statements include the accounts of Nationwide Children's Hospital, Inc. and its subsidiaries collectively referred to as Nationwide Children's or the Corporation. Significant interorganization accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

Nationwide Children's defines cash as currency on hand and demand deposits with financial institutions. Cash equivalents are defined as short-term, highly liquid investments with remaining maturities of three months or less at the time of acquisition. The carrying amount of cash equivalents approximates fair value.

Investments

Investments in equity securities and mutual funds with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheets. Investment return (including interest and dividends, realized gains and losses on the sale of investments, and changes in unrealized gains and losses on investments) is included in the excess of revenue over expenses unless the income or loss is restricted by the donor or law.

Nationwide Children's Hospital, Inc. and Subsidiaries

Notes to Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Excess of Revenue Over Expenses

The statement of operations includes excess of revenue over expenses. Changes in unrestricted net assets, which are excluded from excess of revenue over expenses, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets) and the change in pension obligations and assets.

Patient Accounts Receivable and Revenue

Patient accounts receivable and revenue are recorded when patient services are performed. The Hospital is a provider of services under various federal and state programs whereby the Hospital receives payment based on established charges, a price per case or adjusted costs (as defined by contracts) for caring for patients covered by these programs. A significant portion of the reimbursement for inpatient services pursuant to these programs is based on a price-per-case determined by the patient's clinical classification (diagnosis related group) and only certain expenses are reimbursed based on adjusted costs. During the year, the Hospital receives payment for certain services on an estimated basis, and patient accounts receivable reflect deductions to adjust standard charges to such estimates. The foregoing estimates are adjusted based on reports filed with the programs and the amounts which are owed to or by the Hospital are reflected in the financial statements. Differences between the Hospital's standard rates for services performed and management's estimates of various programs' reimbursements are charged to contractual adjustments.

Nationwide Children's Hospital, Inc. and Subsidiaries

Notes to Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Net Patient Service Revenue

Nationwide Children's also has agreements with commercial insurance carriers, health maintenance organizations and preferred provider organizations that provide for payments to Nationwide Children's at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and other for services rendered.

Patient service revenue is reduced by the provision for bad debts and accounts receivable are reduced by an allowance for uncollectible accounts. These amounts are based on management's assessment of historical and expected net collections for each major payor source, considering business and economic conditions, trends in healthcare coverage, and other collection indicators. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts. On the basis of historical experience, a significant portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Hospital records a significant provision for bad debts in the period services are provided related to self-pay patients, including both uninsured patients and patients with deductible and copayment balances due for which third-party coverage exists for a portion of their balance. For receivables associated with patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for bad debts, if necessary. Accounts receivable are written off after collection efforts have been followed in accordance with the Hospital's policies.

Premium Revenue and Associated Costs

Premium revenue represents revenue derived under capitated arrangements between Partners for Kids and third parties. In return for these premiums, Partners for Kids is responsible for providing essentially all health care services to enrolled participants. Costs for providing these services, including services provided by other healthcare providers, are included in operating expenses in the consolidated financial statements.

As the actuarially determined accrual for incurred but not reported claims is an estimate, the possibility exists that the estimate could be revised by a material amount in the near term. Partners for Kids maintains stop-loss insurance coverage to limit exposure for certain catastrophic claims. The policy limit is \$1,000,000 per year per claim.

Nationwide Children's Hospital, Inc. and Subsidiaries

Notes to Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Provision for Doubtful Accounts

The provision for bad debts is based upon management's assessment of historical and expected net collections considering historical business and economic conditions, trends in healthcare insurance coverage, and other collection indicators. Management assesses the adequacy of its allowance for doubtful accounts based upon historical write-off experience. The results of this review are used to modify, as necessary, the provision for bad debts to establish an appropriate allowance for doubtful accounts. After satisfaction of amounts due from insurance, the Hospital follows established guidelines for placing certain past due accounts with collection agencies, subject to the terms of certain transactions on collection efforts as determined by the Hospital.

The Corporation's allowance for uncollectible accounts for self-pay patients was 90% of self-pay accounts receivable as of December 31, 2012 and 2011. The Corporation changed its uninsured discount policy effective January 1, 2011 as required by the Patient Protection and Affordable Care Act (Act). The Act has resulted in an increase in self pay discounts, which are a reduction of patient service revenue, and a corresponding decrease in self-pay write-offs that are included in the provision for bad debts. Overall, the total of self-pay discounts and write-offs has not changed significantly for the year ended December 31, 2012. The Corporation has not experienced significant changes in write-off trends and has not changed its charity care policy for the year ended December 31, 2012.

Inventories

Inventories, consisting of drugs, medical and surgical supplies are valued at the lower of cost, determined on a first-in, first-out basis, or market.

Property and Equipment

Property and equipment is stated at cost or at estimated fair value if acquired by gift. Depreciation of property and equipment is provided on the straight-line method at rates based on the estimated useful lives of the assets.

Nationwide Children's Hospital, Inc. and Subsidiaries

Notes to Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Bond Issuance Costs

Nationwide Children's capitalized certain costs associated with the issuance of the 1992, 2005, 2008, 2009, and 2012 bonds. The costs are amortized over the life of the bonds using a method which approximates the effective interest method.

Derivatives

Nationwide Children's uses interest rate swaps as part of its overall debt management policy. Nationwide Children's accounts for interest rate swaps in accordance with Accounting Standards Codification (ASC) 815, *Derivatives and Hedging*, which requires that all derivatives be carried at fair value on the balance sheet. The related changes in fair value are reported on the statement of operations as a component of excess of revenue over expenses.

Fair Value

A financial instrument's categorization within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement. The fair value assessments are made at a specific point in time based on relevant market information about the financial instrument. See Note 6 for a description of the fair value hierarchy.

Nationwide Children's Hospital, Inc. and Subsidiaries

Notes to Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Community Benefits and Charity Care

Nationwide Children's provides programs and services to address the needs of those in the community with limited financial resources, generally at no or low cost to those being served. Additional services are provided to beneficiaries of governmental programs (principally those relating to the Medicare and Medicaid programs) at substantial discounts from established rates and are considered part of Nationwide Children's benefit to the community.

Assistance is also provided as needed to patients and their families for the submission of forms for insurance, financial counseling, and application to the Medicare and Medicaid programs for health service coverage. In addition, interpretive services are provided to those families who either cannot or have difficulty speaking English. The costs of providing these programs and services are included in expenses.

Consistent with Nationwide Children's mission, care is provided to patients regardless of their ability to pay. Patients who meet certain criteria for charity care are provided care without charge or at amounts less than established rates. Because collection of amounts determined to qualify as charity care is not pursued, such amounts are not reported as net patient revenue. Records are maintained to identify and monitor the level of charity care provided including the amount of charges foregone for services and supplies furnished.

Nationwide Children's Hospital, Inc. and Subsidiaries

Notes to Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

The amount of charges forgone for services and supplies furnished under the Corporation's charity care policies follows for the years ended December 31:

	December 31	
	2012	2011
Charges, foregone, based on established rates	\$ 18,097	\$ 17,750
Management's estimate of expenses incurred to provide charity care	7,963	8,165
Equivalent percentage of charity care services to gross patient revenue, based on established rates	44%	46%

Operating and Nonoperating Activities

Nationwide Children's largest activity is the provision of diversified health care services to the community. As such, activities related to the ongoing operations of Nationwide Children's are classified as revenue. Other revenue includes those generated from patient care related support services, research, certain donated revenue and sundry revenue related to the operation of Nationwide Children's. Gains and losses not directly related to the ongoing operations of Nationwide Children's or which occur infrequently are reported as nonoperating. Included in nonoperating are unrestricted contributions, losses on early extinguishment of debt, changes in fair value of interest rate swaps, and investment return.

The following table sets forth other nonoperating gains (losses) for the year ended December 31:

	2012	2011
	<i>(In Thousands)</i>	
Unrestricted contributions	\$ 11,644	\$ 5,772
Change in fair value of interest rate swaps	2,410	(25,621)
Interest rate swap termination	(900)	-
Other	1,244	1,903
Other nonoperating gains (losses) – net	\$ 14,398	\$ (17,946)

Nationwide Children’s Hospital, Inc. and Subsidiaries

Notes to Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Meaningful Use Incentive Payments

Under certain provisions of the American Recovery and Reinvestment Act of 2009, federal incentive payments are available to hospitals, physicians and certain other professionals (Providers) when they adopt certified electronic health record (EHR) technology or become “meaningful users” of EHR technology in ways that demonstrate improved quality, safety and effectiveness of care. Medicaid EHR incentive payments to Providers are 100% federally funded and administered by the states. Nationwide Children’s Hospital has adopted, implemented, and upgraded their EHR system. Attestation for PAA physicians began during the year ended December 31, 2011 and continued in 2012. Other operating revenue of \$6,150,000 and \$489,000 was recognized during the years ended December 31, 2012 and 2011, respectively. The data used to attest for these physicians was based on Medicaid patient volumes.

Federal Income Taxes

Nationwide Children’s Hospital, Inc. is incorporated under the laws of the State of Ohio. Nationwide Children’s Hospital, Inc. and its subsidiaries, except Kids-4-Sure, Inc., PCTI, CAA, and Partners for Kids, are tax-exempt organizations as defined under Section 501(c)(3) of the Internal Revenue Code. Income taxes on the for profit subsidiaries, Kids-4-Sure, Inc., PCTI, CAA, and Partners for Kids are not significant.

Nationwide Children’s records any accruals for uncertain tax positions under ASC 740, *Income Taxes*. Nationwide Children’s had no accruals for uncertain tax positions as of December 31, 2012 and 2011.

Nationwide Children's Hospital, Inc. and Subsidiaries

Notes to Financial Statements (continued)

2. Pending and Newly Adopted Accounting Guidance

The FASB issued ASU No. 2011-04, Fair Value Measurements (Topic 820), Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASU 2011-04). The amendments in ASU 2011-04 change the wording used to describe many of the requirements in U.S. generally accepted accounting principles for measuring fair value and for disclosing information about fair value measurements. ASU 2011-04 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. The Corporation has adopted the provisions of ASU 2011-04 and made all required disclosures in the financial statements.

3. Third-Party Settlements

Estimated third-party settlements for various programs (Bureau of Children with Medical Handicaps, Medicare and Medicaid) reflect differences between interim reimbursement and reimbursement as determined by reports filed after the end of each year. In addition, such third-party settlements reflect, if applicable, any differences found to be owed to or by the Hospital after government agencies have audited these reports. The Hospital has received interim payments under Title V (Bureau of Children with Medical Handicaps) and Title XIX (Medicaid) programs but has not yet received final settlement for the years 2007 through 2012. Final settlement of amounts is subject to audit and verification by the appropriate governmental agency. The amounts reported in the financial statements represent the estimated settlements outstanding at December 31, 2012 and 2011, which the Hospital's management believes will approximate final settlements. The Hospital recorded changes in estimates and received interim or final settlements related to prior year cost reports which resulted in increases in net patient service revenue of \$3,406,000 and \$552,000 for the years ended December 31, 2012 and 2011, respectively.

Revenue and premiums from the Medicaid program accounted for approximately 33% and 35% of the Hospital's net patient service revenue for the years ended December 31, 2012 and 2011, respectively. Laws and regulations governing the Medicaid program are complex and subject to interpretation. The Hospital believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicaid program. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Nationwide Children's Hospital, Inc. and Subsidiaries

Notes to Financial Statements (continued)

4. Net Patient Service Revenue

	Year Ended December 31	
	2012	2011
	<i>(In Thousands)</i>	
Charges at established rates	\$ 1,948,443	\$ 1,723,790
Deductions:		
Contractual adjustments	(1,043,572)	(920,171)
Charity care services	(18,097)	(17,750)
Provision for bad debt	(30,766)	(30,655)
Total deductions	(1,092,435)	(968,576)
Care Assurance Program	17,286	14,817
Net patient service revenue (less provision for bad debt)	\$ 873,294	\$ 770,031

Patient service revenue, net of contractual adjustments and before the provision for bad debts, recognized in the period from major payor sources for the year ended December 31, 2012, is as follows:

Commercial	\$ 696,446
Medicaid	172,648
Other	19,484
Self-pay	15,482
	<u>\$ 904,060</u>

The Ohio Department of Human Services administers a federally sponsored program that provides additional reimbursement to hospitals that serve a disproportionate share of indigent patients (Care Assurance Program). The current program allocation formula is generally based on individual hospitals' components of indigent care in relation to statewide totals. Future funding of the Care Assurance Program is contingent on annual governmental approval and the program's long-term existence is uncertain.

Nationwide Children's has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to Nationwide Children's under these arrangements includes prospectively determined rates, discounts from established charges and capitation rates.

Nationwide Children's Hospital, Inc. and Subsidiaries

Notes to Financial Statements (continued)

4. Net Patient Service Revenue (continued)

The Corporation recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Corporation recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the Corporation's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Corporation records a significant provision for bad debts related to uninsured patients in the period the services are provided.

5. Assets Limited as to Use

The composition of assets limited as to use recorded at fair market value at December 31, is set forth in the following table.

	2012	2011
	<i>(In Thousands)</i>	
Trustee funds:		
Cash and cash equivalents	\$ 81,615	\$ 3,605
Fixed income:		
U.S. Treasury notes	3,025	1,727
U.S. Government agencies	3,055	3,753
Corporate obligations	3,205	4,376
Foreign obligations	396	327
Equities – mutual funds:		
Domestic large-cap indexed	8,007	8,970
Domestic mid-cap indexed	1,057	1,231
Domestic small-cap	492	773
International	3,537	2,071
Equity securities:		
Domestic small-cap	955	1,474
Commodities – mutual fund	417	446
	105,761	28,753

Nationwide Children's Hospital, Inc. and Subsidiaries

Notes to Financial Statements (continued)

5. Assets Limited as to Use (continued)

	2012	2011
	<i>(In Thousands)</i>	
Board-designated capital improvement:		
Cash and cash equivalents	\$ 65	\$ 57
Fixed income:		
U.S. Treasury notes	573	299
U.S. Government agencies	528	602
Corporate obligations	571	730
Foreign obligations	75	57
Equities – mutual funds:		
Domestic large-cap indexed	773	693
Domestic mid-cap indexed	88	89
Domestic small-cap	45	62
International	318	161
Equity securities:		
Domestic small-cap	87	117
Commodities – mutual fund	51	49
	3,174	2,916
Board-designated other:		
Cash and cash equivalents	4,486	3,718
Fixed income:		
U.S. Treasury bonds	4,303	4,295
U.S. Treasury notes	34,327	17,280
U.S. Government agencies	31,813	34,294
Corporate obligations	30,884	38,768
Foreign obligations	4,322	3,277
Mutual funds	6,556	6,233
Equities – mutual funds:		
Domestic large-cap indexed	267,102	234,390
Domestic mid-cap indexed	40,278	35,276
Domestic small-cap	22,968	20,500
International	71,414	50,754
Equity securities:		
Domestic small-cap	41,293	37,808
Commodities – mutual fund	12,508	7,265
Other	4,012	207
	576,266	494,065

Nationwide Children's Hospital, Inc. and Subsidiaries

Notes to Financial Statements (continued)

5. Assets Limited as to Use (continued)

	2012	2011
	<i>(In Thousands)</i>	
Donor restricted:		
Cash and cash equivalents	\$ 8,382	\$ 5,775
Fixed income:		
U.S. Treasury notes	14,092	7,124
U.S. Government agencies	16,092	17,516
Corporate obligations	14,696	17,758
Foreign obligations	1,784	1,349
Equities – mutual funds:		
Domestic large-cap indexed	64,150	57,921
Domestic mid-cap indexed	9,865	8,822
Domestic small-cap	5,444	4,909
International	21,134	13,345
Equity securities:		
Domestic small-cap	10,749	9,940
Commodities – mutual fund	2,127	2,173
Other	3,120	3,102
	171,635	149,734
Total assets limited as to use	\$ 856,836	\$ 675,468

The composition of the investment return recognized in the consolidated statement of operations is as follows for the year ended December 31:

	2012	2011
	<i>(In Thousands)</i>	
Investment return:		
Dividend and interest income	\$ 16,036	\$ 14,140
Realized gains on the sale of investments, net	5,956	10,134
Change in unrealized gains (losses) on investments, net	59,182	(19,571)
	\$ 81,174	\$ 4,703

Nationwide Children's Hospital, Inc. and Subsidiaries

Notes to Financial Statements (continued)

6. Fair Value Measurements

Below is the fair value hierarchy that categorizes into three levels the inputs to valuation techniques that are used to measure fair value:

- Level 1 includes observable inputs which reflect quoted prices for identical assets or liabilities in active markets at the measurement date.
- Level 2 includes observable inputs for assets or liabilities other than quoted prices included in Level 1, and it includes valuation techniques which use prices for similar assets and liabilities.
- Level 3 includes unobservable inputs which reflect the reporting entity's estimates of the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk).

Management's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

Cash traded investments are generally classified within Level 1 or Level 2 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of transparency. The types of instruments based on quoted market prices in active markets include actively listed equities and most mutual fund securities. Such instruments are generally classified within Level 1 of the fair value hierarchy. Nationwide Children's does not adjust quoted prices for such instruments.

The types of instruments valued based upon quoted prices that are not active, broker or dealer quotations, or alternative pricing sources with reasonable levels of pricing transparency include U.S. Treasury bonds, U.S. Treasury notes, U.S. Government agencies, corporate obligations, certain mutual funds and foreign obligations. For interest rate swap liabilities, the Corporation uses interest rates and LIBOR curves when assessing fair value. Such instruments are generally classified as Level 2 securities.

Nationwide Children's Hospital, Inc. and Subsidiaries

Notes to Financial Statements (continued)

6. Fair Value Measurements (continued)

The following tables set forth Nationwide Children's assets and liabilities measured at fair value on a recurring basis as of December 31, aggregated by the level in the fair valued hierarchy within which those measurements are measured:

	2012			Total Fair Value
	Level 1	Level 2	Level 3	
<u>Assets</u>				
Cash and cash equivalents	\$ 94,548	\$ –	\$ –	\$ 94,548
Fixed income:				
U.S. Treasury bonds	–	4,303	–	4,303
U.S. Treasury notes	–	52,017	–	52,017
U.S. Government agencies	–	51,488	–	51,488
Corporate obligations	–	49,356	–	49,356
Foreign obligations	–	6,577	–	6,577
Mutual funds	–	6,556	–	6,556
Equities – mutual funds:				
Domestic large-cap indexed	340,032	–	–	340,032
Domestic mid-cap indexed	51,288	–	–	51,288
Domestic small-cap	28,949	–	–	28,949
International	96,403	–	–	96,403
Equities – domestic small-cap	53,084	–	–	53,084
Commodities – mutual fund	15,103	–	–	15,103
Other	–	7,132	–	7,132
Total assets	<u>\$ 679,407</u>	<u>\$ 177,429</u>	<u>\$ –</u>	<u>\$ 856,836</u>
<u>Liabilities</u>				
Interest rate swaps	\$ –	\$ 37,565	\$ –	\$ 37,565
Total liabilities	<u>\$ –</u>	<u>\$ 37,565</u>	<u>\$ –</u>	<u>\$ 37,565</u>

Nationwide Children's Hospital, Inc. and Subsidiaries

Notes to Financial Statements (continued)

6. Fair Value Measurements (continued)

	2011			Total Fair Value
	Level 1	Level 2	Level 3	
Assets				
Cash and cash equivalents	\$ 13,155	\$ –	\$ –	\$ 13,155
Fixed income:				
U.S. Treasury bonds	–	4,295	–	4,295
U.S. Treasury notes	–	26,430	–	26,430
U.S. Government agencies	–	56,164	–	56,164
Corporate obligations	–	61,632	–	61,632
Foreign obligations	–	5,010	–	5,010
Mutual funds	–	6,233	–	6,233
Equities – mutual funds:				
Domestic large-cap indexed	301,974	–	–	301,974
Domestic mid-cap indexed	45,418	–	–	45,418
Domestic small-cap	26,244	–	–	26,244
International	66,331	–	–	66,331
Equities – domestic small-cap	49,339	–	–	49,339
Commodities – mutual fund	9,934	–	–	9,934
Other	–	3,309	–	3,309
Total assets	\$ 512,395	\$ 163,073	\$ –	\$ 675,468
Liabilities				
Interest rate swaps	\$ –	\$ 39,975	\$ –	\$ 39,975
Total liabilities	\$ –	\$ 39,975	\$ –	\$ 39,975

The carrying values of cash and cash equivalents, accounts receivable, accounts payable, and accrued expenses are reasonable estimates of fair value due to the short-term nature of these financial instruments.

Nationwide Children's Hospital, Inc. and Subsidiaries

Notes to Financial Statements (continued)

7. Professional Liability Self-Insurance

Because of the nature of its operations, Nationwide Children's is at all times subject to pending and threatened legal actions, which arise in the normal course of its activities. Nationwide Children's risk management program regularly monitors Nationwide Children's operations. Various claimants have asserted professional and patient general liability claims for incidents that may give rise to litigation against Nationwide Children's. The claims are in various stages of processing and some may ultimately be brought to trial. There are also known incidents that have occurred through December 31, 2012 that may result in the assertion of additional claims. In addition, there may be other claims related to unreported incidents arising from services provided to patients as of December 31, 2012.

Nationwide Children's has employed independent actuaries to estimate the ultimate cost, if any, of the settlement of such claims. Accrued professional liability losses have been discounted at 3% for December 31, 2012 and 2011 and in management's opinion provide adequate reserve for loss contingencies. As the actuarially determined accrual for professional and general liability is an estimate, the possibility exists that the estimate could be revised by a material amount in the near term.

To fund its self-insurance liability, Nationwide Children's maintains a trustee-held investment fund. Under the trust agreement, the trust assets can only be used for payment of professional and patient general liability losses, related expenses, and the cost of administering the trust.

Nationwide Children's Hospital, Inc. and Subsidiaries

Notes to Financial Statements (continued)

8. Long-Term Debt

Long-term debt consisted of the following at December 31:

	<u>2012</u>	<u>2011</u>
	<i>(In Thousands)</i>	
Hospital Improvement Revenue Bonds, Series 2012A	\$ 75,000	\$ -
Hospital Improvement Revenue Bonds, Series 2009	98,715	98,955
Hospital Improvement Revenue Bonds, Series 2008A	45,000	45,000
Hospital Improvement Revenue Bonds, Variable Rate Demand, Series 2008B	45,000	45,000
Hospital Revenue Refunding Bonds, Variable Rate Demand, Series 2008C	17,150	21,075
Hospital Revenue Refunding Bonds, Variable Rate Demand, Series 2008D	46,620	46,620
Hospital Revenue Refunding Bonds, Variable Rate Demand, Series 2008E	44,155	44,910
Hospital Revenue Refunding Bonds, Variable Rate Demand, Series 2008F	39,565	40,960
Hospital Revenue Refunding Bonds, Variable Rate Demand, Series 2008G	23,890	24,915
Hospital Improvement Revenue Bonds, Series 2005C	65,000	65,000
Hospital Improvement Revenue Bonds, Variable Rate Demand, Series 1992B	1,700	2,500
	<u>501,795</u>	<u>434,935</u>
Less current portion	<u>(221,380)</u>	<u>(107,233)</u>
	<u>\$ 280,415</u>	<u>\$ 327,702</u>

In May 2012, The County of Franklin, Ohio (the County) issued \$75,000,000 of Hospital Improvement Revenue Bonds (the 2012A Bonds). The 2012A Bonds consisted of \$25,000,000 serial bonds as of December 31, 2012, maturing in varying amounts from 2013 through 2027, \$50,000,000 term bonds due in 2042. The serial bonds bear interest at rates ranging from 3% to 5% as of December 31, 2012. The term bonds bear interest at 5%. The 2012A Bonds were issued for the purpose of financing a portion of the cost of acquiring, constructing, equipping, installing and improving certain Hospital facilities.

Nationwide Children's Hospital, Inc. and Subsidiaries

Notes to Financial Statements (continued)

8. Long Term Debt (continued)

In December 2009, The County of Franklin, Ohio (the County) issued \$100,000,000 of Hospital Improvement Revenue Bonds (the 2009 Bonds). The 2009 Bonds consisted of \$26,120,000 and \$26,360,000 serial bonds as of December 31, 2012 and December 31, 2011, maturing generally in increasing amounts from 2013 through 2024, \$16,625,000 term bonds due in 2029, \$21,485,000 term bonds due in 2034 and \$34,485,000 term bonds due in 2040. The serial bonds bear interest at rates ranging from 2.5% to 5% as of December 31, 2012 and December 31, 2011, respectively. The term bonds bear interest at 4.75%, 5% and 5.25%. The 2009 Bonds were issued for the purpose of financing a portion of the cost of acquiring, constructing, equipping, installing and improving certain Hospital and Research Institute facilities.

In May 2008, the County issued \$26,305,000 of Hospital Revenue Refunding Bonds (the 2008G Bonds). The bonds are subject to a mandatory sinking fund into which Nationwide Children's makes varying principal payments, beginning May 1, 2009 and ending May 1, 2029. The 2008G Bonds bear interest at a variable rate, which was 0.13% as of December 31, 2012, payable monthly. The 2008G Bonds were issued for the purpose of current refunding of the remaining principal amount of the 2005B Bonds.

In May 2008, the County issued \$41,855,000 of Hospital Revenue Refunding Bonds (the 2008F Bonds). The bonds are subject to a mandatory sinking fund into which Nationwide Children's makes varying principal payments, beginning May 1, 2009 and ending May 1, 2031. The 2008F Bonds bear interest at a variable rate, which was 0.11% as of December 31, 2012, payable monthly. The 2008F Bonds were issued for the purpose of current refunding of the remaining principal amount of the 2005A Bonds.

In May 2008, the County issued \$50,290,000 of Hospital Revenue Refunding Bonds (the 2008E Bonds). The bonds are subject to a mandatory sinking fund into which Nationwide Children's makes varying principal payments, beginning November 1, 2008 and ending November 1, 2036. The 2008E Bonds bear interest at a variable rate, which was 0.13% as of December 31, 2012, payable monthly. The 2008E Bonds were issued for the purpose of current refunding of the remaining principal amount of the 2006 Bonds.

In May 2008, the County issued \$46,620,000 of Hospital Revenue Refunding Bonds (the 2008D Bonds). The bonds are subject to a mandatory sinking fund into which Nationwide Children's makes varying principal payments, beginning November 1, 2016 and ending November 1, 2033. The 2008D Bonds bear interest at a variable rate, which was 0.11% as of December 31, 2012, payable monthly. The 2008D Bonds were issued for the purpose of current refunding of the remaining principal amount of the 2003 Bonds.

Nationwide Children's Hospital, Inc. and Subsidiaries

Notes to Financial Statements (continued)

8. Long Term Debt (continued)

In May 2008, the County issued \$34,765,000 of Hospital Revenue Refunding Bonds (the 2008C Bonds). The bonds are subject to a mandatory sinking fund into which Nationwide Children's makes varying principal payments, beginning November 1, 2008 and ending November 1, 2025. The 2008C Bonds bear interest at a variable rate, which was 0.11% as of December 31, 2012, payable monthly. The 2008C Bonds were issued for the purpose of current refunding of the remaining principal amount of the 2002 Bonds.

In May 2008, the County issued \$45,000,000 of Hospital Improvement Revenue Bonds (the 2008B Bonds). The bonds are subject to a mandatory sinking fund into which Nationwide Children's makes varying principal payments, beginning November 1, 2013 and ending November 1, 2040. The 2008B Bonds bear interest at a variable rate, which was 0.13% as of December 31, 2012, payable monthly. The 2008B Bonds were issued for the purpose of financing a portion of the cost of acquiring, constructing, equipping, installing and improving certain Hospital facilities.

In May 2008, the County issued \$45,000,000 of Hospital Improvement Revenue Bonds (the 2008A Bonds). The 2008A Bonds consisted of \$3,070,000 serial bonds as of December 31, 2012 and 2011, maturing generally in increasing amounts from 2013 through 2023; \$2,050,000 term bonds due in 2028; \$2,540,000 term bonds due in 2033; and \$37,340,000 term bonds due in 2040. The serial bonds bear interest at rates ranging from 3.5% to 5% as of December 31, 2012 and December 31, 2011. The term bonds bear interest at 4.75%, 4.875% and 5%, respectively. The 2008A Bonds were issued for the purpose of financing a portion of the cost of acquiring, constructing, equipping, installing and improving certain Hospital facilities.

In December 2005, the County issued \$65,000,000 of Hospital Improvement Revenue Bonds (the 2005C Bonds). The 2005C Bonds consisted of \$19,420,000 serial bonds as of December 31, 2012 and December 31, 2011, maturing generally in increasing amounts from 2014 through 2025; \$11,470,000 term bonds due in 2030; \$23,610,000 term bonds due in 2035; and \$10,500,000 term bonds due in 2035. The serial bonds bear interest at rates ranging from 4% to 5% as of December 31, 2012 and December 31, 2011. The term bonds bear interest at 4.5%, 5% and 4.625%, respectively. The 2005C Bonds were issued for the purpose of financing a portion of the cost of acquiring, constructing, equipping, installing and improving certain Hospital and Research Institute facilities.

Nationwide Children's Hospital, Inc. and Subsidiaries

Notes to Financial Statements (continued)

8. Long Term Debt (continued)

In December 1992, the County issued \$12,800,000 of Hospital Improvement Revenue Bonds (1992B Bonds) to fund the construction of an outpatient care center. The 1992B Bonds are subject to a mandatory sinking fund in which Nationwide Children's makes annual principal payments in increasing amounts until 2014. The 1992B Bonds bear interest at a variable rate, which was 0.24% as of December 31, 2012, payable monthly.

The owners of the 2008C, 2008D, 2008E, 2008F and 2008G Bonds have the option to demand payment of their outstanding bonds. Nationwide Children's has entered into Stand-by Bond Purchase Agreements (the Agreements) for each of these bond issues with a bank which require the remarketing agent to utilize its best efforts to remarket any such bonds that may be tendered for payment. In the event any such bonds cannot be remarketed, the Agreements provide that the bank will provide payment for the bonds tendered. Should certain events occur, the amounts due to the bank will be converted to a term loan, for which Nationwide Children's has an obligation to make payment over three years in quarterly payments, plus any accrued interest. The Agreements expire in June 2013.

The owners of the 2008B Bonds have the option to demand payment of their outstanding bonds. Should the remarketing agent be unsuccessful in remarketing these bonds, Nationwide Children's is providing its own liquidity as the repayment source to the bondholders.

Interest on the 2012 A Bonds, 2009 Bonds, 2008A Bonds, and 2005C Bonds is payable semi-annually on May 1 and November 1 of each year.

Nationwide Children's made interest payments on long term debt of approximately \$12,166,000 and \$10,797,000 during 2012 and 2011 respectively.

The carrying amounts of the variable rate, long-term debt approximate their fair values. The fair value of the fixed rate, long-term debt is estimated using a discounted cash flow analysis, based on current incremental borrowing rates for similar types of borrowing arrangements. The fair value of the fixed rate, long-term debt at December 31, 2012 and 2011 approximates \$311,179,000 (carrying value \$283,715,000) and \$217,778,000 (carrying value \$208,955,000) respectively. The Corporation's debt obligations are classified consistent with Level 2 of the fair value hierarchy as defined in Note 6.

Nationwide Children's Hospital, Inc. and Subsidiaries

Notes to Financial Statements (continued)

8. Long Term Debt (continued)

In connection with the issuance of the Bonds, the County acquired title to substantially all of the Hospital's facilities and real property. The facilities and real property are in turn being leased to the Hospital through 2042, the latest mandatory retirement date of the Bonds, with payment terms equal to the debt service requirements of the Bonds. A provision of the lease grants an option to the Hospital to purchase the facilities for a nominal sum after provision has been made to retire the Bonds.

Provisions of the Bonds require Nationwide Children's to, among other things, comply with certain financial ratios, restrict additional encumbrances, restrict the sale or acquisition of certain assets, or merger with another entity.

Aggregate scheduled maturities of long-term debt in each of the following five years are: 2013 – \$9,965,000; 2014 – \$10,250,000; 2015 – \$10,580,000; 2016 – \$10,950,000 and 2017 – \$11,355,000.

Nationwide Children's Hospital, Inc. and Subsidiaries

Notes to Financial Statements (continued)

9. Derivatives

Nationwide Children's has entered into interest rate swap agreements with the intent of mitigating Nationwide Children's cash flow risk relating to changes in the variable interest rates of the 2008B, 2008C, 2008D, 2008E, 2008F, and 2008G, Bonds. Under the swap agreements, Nationwide Children's pays interest at fixed rates (see table below) and receives interest at variable rates. Net interest paid or received under the swap agreements is included in interest expense. The following schedule outlines the terms and fair market values of the interest rate swap agreements.

	Series 2008B	Series 2008C	Series 2008C	Series 2008D	Series 2008E	Series 2008F	Series 2008G
<i>In Thousands</i>							
Notional amount at December 31, 2012	\$ 45,000	\$ 15,695	\$ 1,350	\$ 46,305	\$ 13,090	\$ 39,360	\$ 23,755
Effective date							
Termination date							
Fixed rate	4.13%	3.28%	2.60%	3.22%	3.66%	3.57%	3.19%
Fair value at December 31, 2010	(4,472)	(1,504)	(233)	(4,108)	(1,563)	(4,115)	(1,671)
Unrealized gain (loss)	(119)	(492)	38	(3,818)	(377)	(1,542)	(900)
Credit Risk Adjustment	(147)	19	(3)	120	9	59	46
Fair value at December 31, 2011	(13,064)	(2,418)	(117)	(10,690)	(2,339)	(7,736)	(3,566)
Unrealized gain (loss)	180	76	88	582	82	262	55
Credit Risk Adjustment	(338)	(47)	(1)	(334)	(50)	(198)	(82)
Fair value at December 31, 2012	\$ (13,222)	\$ (2,389)	\$ (30)	\$ (10,442)	\$ (2,307)	\$ (7,672)	\$ (3,593)

In January 2009, Nationwide Children's entered into an interest rate swap as a speculative investment. The initial notional amount of this interest rate swap agreement was \$45,000,000, and the effective date of this transaction was January 1, 2011. Nationwide Children's will pay interest based on 100% of the monthly SIFMA Municipal Swap Index, and will receive interest based on 100.89% of the 3 month LIBOR rate under this interest rate swap agreement. The fair value of this agreement was \$2,090,000 and \$973,000 at December 31, 2012 and 2011, respectively.

Nationwide Children's Hospital, Inc. and Subsidiaries

Notes to Financial Statements (continued)

9. Derivatives (continued)

In December 2011, Nationwide Children's entered into an interest rate swap agreement with the intent of hedging a portion of Nationwide Children's interest rate risk related to a prospective bond issuance planned for May 2012. The notional amount of this interest rate swap agreement was \$45,000,000 at December 31, 2011. The effective date of this interest rate swap was May 15, 2012 and the fixed interest rate was 2.62%. In May 2012, Nationwide Children's entered into a transaction to terminate this interest rate swap. At termination, the fair value of the interest rate swap that was settled approximated \$(900,000), and is included in other non-operating gains (losses) - net. The fair value of this agreement was \$(1,018,000) at December 31, 2011.

Nationwide Children's has recorded the fair market value of these interest rate swap agreements of \$(35,565,000) and \$(39,975,000) in other long-term liabilities of the consolidated balance sheets as of December 31, 2012 and 2011, respectively. The change in fair market value of the interest rate swap agreements of \$2,410,000 and \$(25,621,000) in 2012 and 2011, respectively, is included in other nonoperating gains (losses) – net.

The following table presents the fair value of derivative instruments, location of the related instruments in the consolidated balance sheets and the related notional amounts of the derivative instruments as of December 31, 2012:

<u>(In Thousands)</u>	<u>Derivative Liabilities</u>		
	<u>Balance Sheet</u>		
	<u>Location</u>	<u>Fair Value</u>	<u>Notional</u>
Derivatives not designated as hedging instruments:			
	Other long-term		
Interest rate contracts	liabilities	\$ 37,565	\$ 229,555

Nationwide Children's made net payments on interest rate swaps of approximately \$6,273,000 and \$6,526,000 during 2012 and 2011, respectively, which are recorded within interest expense, net of the change in accruals for these payments.

Nationwide Children's Hospital, Inc. and Subsidiaries

Notes to Financial Statements (continued)

10. Defined Benefit Plan

Nationwide Children's has a defined benefit pension plan (the Plan) for employees who meet certain requirements as to age and length of service. Nationwide Children's funding policy is to make at least the minimum annual contributions required by applicable regulations.

The Plan was curtailed effective December 31, 1996 with respect to, (a) any employee under the age of 45, (b) any employee over the age of 45 who is not fully vested in his or her accrued benefit under the Plan, and (c) any other participant who elects to cease his or her participation in the plan (affected participants). At that time, the accrued benefits of each affected participant became fully vested and non-forfeitable.

The following tables set forth the change in benefit obligation, change in plan assets, funded status and amounts recognized in the balance sheet and components of net periodic benefit cost of the Plan:

	December 31	
	2012	2011
	<i>(In Thousands)</i>	
Change in benefit obligation		
Benefit obligation, beginning of the year	\$ 88,758	\$ 78,976
Service cost	200	560
Interest cost	3,486	3,888
Actuarial loss	6,553	10,672
Curtailments	-	(795)
Benefits paid	(5,042)	(4,543)
Benefit obligation, end of year	<u>93,955</u>	<u>88,758</u>
Change in plan assets		
Fair value of plan assets, beginning of the year	57,822	61,280
Actual return on plan assets	6,580	962
Employer contributions	5,847	123
Benefits paid	(5,042)	(4,543)
Fair value of plan assets, end of the year	<u>65,207</u>	<u>57,822</u>
Funded status	<u>\$ (28,748)</u>	<u>\$ (30,936)</u>

Nationwide Children's Hospital, Inc. and Subsidiaries

Notes to Financial Statements (continued)

10. Defined Benefit Plan (continued)

	Year Ended December 31	
	2012	2011
	<i>(In Thousands)</i>	
Components of net periodic pension cost		
Service cost	\$ 200	\$ 560
Interest cost	3,486	3,888
Expected return on plan assets	(4,286)	(4,386)
Amortization of net loss	1,175	607
Periodic pension expense	<u>\$ 575</u>	<u>\$ 669</u>

Weighted average assumptions used to determine benefit obligations as of December 31:

	2012	2011
Discount rate	3.43%	4.00%
Expected return on plan assets	7.00%	7.00%
Rate of compensation increase	0.00%	3.00%

Weighted average assumptions used to determine net periodic pension cost for years ended December 31:

	2012	2011
Discount rate	4.00%	5.08%
Expected return on plan assets	7.00%	7.00%
Rate of compensation increase	0.00%	3.00%

Nationwide Children's Hospital, Inc. and Subsidiaries

Notes to Financial Statements (continued)

10. Defined Benefit Plan (continued)

Changes in plan assets and benefits obligations recognized in unrestricted net assets during 2012 and 2011 included:

	2012	2011
	<i>(In Thousands)</i>	
Actuarial loss	\$ 40,912	\$ 37,829
Total	\$ 40,912	\$ 37,829

The accumulated benefit obligation of the Plan at December 31, 2012 and 2011 was \$93,955,000 and \$88,758,000, respectively. Expected benefit payments for the following periods are: 2013 – \$5,168,000; 2014 – \$5,434,000; 2015 – \$5,637,000; 2016 - \$5,808,000; 2017 - \$5,954,000 and 2018 through 2022 – \$29,603,000.

The allocation of Plan assets by major category as a percentage of total Plan assets is set forth in the following table:

	December 31			
	2012		2011	
	Actual	Target	Actual	Target
Domestic equities	51%	43%	53%	43%
International equities	9	7	9	7
Fixed income and cash equivalents	40	50	38	50
	100%	100%	100%	100%

The target asset allocations are designed to match expected returns with the time horizon for the liabilities of the Plan, and are periodically reviewed and approved by the Finance Committee of the Board of Directors. The use of derivatives is currently not permitted by the Plan's investment policy. The expected long-term rate of return assumption is based upon historical returns and management's belief that future returns will approximate historical returns over a long-term time horizon. This assumption was reviewed and determined to be reasonable by the actuarial consultants engaged by management.

Nationwide Children's Hospital, Inc. and Subsidiaries

Notes to Financial Statements (continued)

10. Defined Benefit Plan (continued)

The fair value of plan assets at December 31 is as follows:

	2012			Total Fair Value
	Level 1	Level 2	Level 3	
	<i>(In Thousands)</i>			
Cash and cash equivalents	\$ 4,976	\$ -	\$ -	\$ 4,976
Fixed income				
U.S. Treasury notes	-	5,148	-	5,148
U.S. Government agencies	-	8,892	-	8,892
Corporate obligations	-	6,295	-	6,295
Foreign obligations	-	427	-	427
Equities – mutual funds				
Domestic large-cap indexed	23,564	-	-	23,564
Domestic mid-cap indexed	4,126	-	-	4,126
International	5,971	-	-	5,971
Equity securities				
Domestic small-cap	5,808	-	-	5,808
Total	\$ 44,445	\$ 20,762	\$ -	\$ 65,207

Nationwide Children's Hospital, Inc. and Subsidiaries

Notes to Financial Statements (continued)

10. Defined Benefit Plan (continued)

	2011			Total Fair Value
	Level 1	Level 2	Level 3	
	<i>(In Thousands)</i>			
Cash and cash equivalents	\$ 2,285	\$ —	\$ —	\$ 2,285
Fixed income				
U.S. Treasury notes	—	3,503	—	3,503
U.S. Government agencies	—	9,018	—	9,018
Corporate obligations	—	6,848	—	6,848
Foreign obligations	—	468	—	468
Equities – mutual funds				
Domestic large-cap indexed	22,022	—	—	22,022
Domestic mid-cap indexed	3,557	—	—	3,557
International	4,915	—	—	4,915
Equity securities				
Domestic small-cap	5,206	—	—	5,206
Total	\$ 37,985	\$ 19,837	\$ —	\$ 57,822

Fair value methodologies for Level 1, 2 and 3 are consistent with the inputs described in Note 6.

The Hospital estimates that it will contribute approximately \$3,378,000 to the Plan during 2013. The Hospital estimates that it will amortize approximately \$1,476,000 of the net actuarial gain or loss from net assets into net periodic pension cost during 2013.

Nationwide Children's Hospital, Inc. and Subsidiaries

Notes to Financial Statements (continued)

11. Defined Contribution Plans

Effective January 1, 1997, the Matching Plan was amended and renamed as the Nationwide Children's Hospital Employee Defined Contribution Plan (Defined Contribution Plan). The Defined Contribution Plan includes both an employee matching contribution and an additional employer defined contribution and contains provisions specifically permitting affected participants to transfer distributions received from the revised pension plan. The employer defined contribution is based upon certain percentages of employees' wages, which are determined based upon length of service and income levels.

Nationwide Children's provides a 403(b) matching contribution plan for essentially all employees who have met specified service requirements. Under the plan, Nationwide Children's matches 50 percent of the first three percent of salaries contributed by each participant, up to a maximum of 1.5 percent of the participant's salary.

Nationwide Children's incurred expenses related to these plans totaling \$23,071,000 and \$20,035,000 during 2012 and 2011, respectively.

12. Property and Equipment

Details of property and equipment are summarized as follows, for the year ended December 31:

	2012	2011
	<i>(In Thousands)</i>	
Land and land improvements	\$ 34,118	\$ 28,554
Buildings and improvements	983,796	516,149
Equipment	312,579	250,309
Construction-in-progress	35,471	451,739
	1,365,964	1,246,751
Allowances for depreciation	(361,686)	(315,277)
	\$ 1,004,278	\$ 931,474

The ranges of useful lives associated with the following categories of property and equipment are as follows: land improvements – 8-15 years; buildings and improvements – 10-30 years; equipment – 5-20 years.

Nationwide Children's Hospital, Inc. and Subsidiaries

Notes to Financial Statements (continued)

12. Property and Equipment (continued)

Outstanding commitments for the purchase of property and equipment were approximately \$21,855,000 and \$107,357,000 at December 31, 2012 and 2011, respectively. Nationwide Children's expects to pay outstanding commitments at December 31, 2012 throughout the next fiscal year using proceeds from the 2012 bond issuance and funds from operations.

13. Pledges Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts applied to these amounts are computed by using an applicable interest rate to the year in which the promise is received, which ranges from 4% to 6%.

The following is a summary of pledges receivable and the anticipated schedule of their receipt, for the year ended December 31:

	<u>2012</u>	<u>2011</u>
	<i>(In Thousands)</i>	
Gross unconditional pledges receivable	\$ 31,550	\$ 37,811
Less:		
Allowance for uncollectible pledges	(1,072)	(782)
Unamortized discount	(4,365)	(4,716)
Net unconditional pledges receivable	<u>\$ 26,113</u>	<u>\$ 32,313</u>
Amounts due in:		
Less than one year	\$ 6,778	\$ 8,159
One to five years	23,958	28,539
Greater than five years	814	1,113
Total	<u>\$ 31,550</u>	<u>\$ 37,811</u>

Nationwide Children's Hospital, Inc. and Subsidiaries

Notes to Financial Statements (continued)

14. Functional Expenses

Nationwide Children's provides a complete range of preventive, diagnostic, therapeutic and rehabilitative pediatric health services to residents within a 37 county area encompassing central, southern and southeastern Ohio. Expenses related to providing these services are as follows, for the year ended December 31:

	2012	2011
	<i>(In Thousands)</i>	
Healthcare services	\$ 1,025,350	\$ 887,604
General and administrative	250,306	227,330
Education	26,053	25,118
Foundation	3,602	3,488
Research	70,040	67,317
	<u>\$ 1,375,351</u>	<u>\$ 1,210,857</u>

15. Concentration of Credit Risk

In most cases, Nationwide Children's grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of the Hospital's gross receivables from patients and third party payors was as follows:

	December 31	
	2012	2011
Medicaid	53%	51%
Commercial	32	36
Other third-party payors	6	4
Patients' responsibility	9	9
	<u>100%</u>	<u>100%</u>

Nationwide Children’s Hospital, Inc. and Subsidiaries

Notes to Financial Statements (continued)

16. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by Nationwide Children’s has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by Nationwide Children’s in perpetuity. Investment return is allocated to unrestricted and temporarily restricted net assets based on the respective net asset balances and the wishes of the donor. The nature and amounts of the temporarily and permanently restricted net assets are as follows:

	December 31	
	2012	2011
	<i>(In Thousands)</i>	
Temporarily restricted net assets:		
Program support	\$ 84,538	\$ 77,860
Research	12,421	9,312
	<u>\$ 96,959</u>	<u>\$ 87,172</u>
Permanently restricted net assets:		
Program support	\$ 63,604	\$ 59,826
Research	26,994	26,965
	<u>\$ 90,598</u>	<u>\$ 86,791</u>

Nationwide Children’s endowment consists of approximately 200 individual, donor-restricted, funds established for various purposes. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. Nationwide Children’s classifies as permanently restricted net assets (a) the original value of gifts donated to the 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 accumulations are added to the fund. Donor-restricted funds that are not classified in permanently restricted net assets are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization. Nationwide Children’s considers the following factors in making a determination to appropriate or accumulate temporarily restricted funds: (1) the duration and preservation of the fund, (2) the purposes of the organization and the temporarily restricted fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the organization, and (7) investment policies of the organization.

Nationwide Children's Hospital, Inc. and Subsidiaries

Notes to Financial Statements (continued)

16. Temporarily and Permanently Restricted Net Assets (continued)

To satisfy its long-term rate-of-return objectives, Nationwide Children's relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). A diversified asset allocation is targeted that places a greater emphasis on equity-based investments to achieve long-term return objectives within prudent risk considerations. Nationwide Children's expects its endowment funds, over time, to provide an average rate of return of approximately seven percent annually. Actual returns in any given year may vary from this amount.

Nationwide Children's has a policy of appropriating for distribution each year five percent of the spendable balance of its endowment. In establishing this policy, Nationwide Children's considered the long-term expected return on its endowment. Accordingly, over the long-term, it is expected this spending policy will allow its endowment to grow at an average of two percent annually. This is consistent with Nationwide Children's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

In 2012, the Corporation had the following endowment-related activities:

	Changes in Endowment Net Assets For the Year Ended December 31, 2012		
	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 21,813	\$ 86,791	\$ 108,604
Investment return:			
Investment income	2,214	-	2,214
Unrealized losses	6,754	-	6,754
Total investment return	8,968	-	8,968
Contributions	-	3,807	3,807
Appropriation of endowment assets for expenditure from operations	(2,415)	-	(2,415)
Endowment net assets, end of year	\$ 28,366	\$ 90,598	\$ 118,964

Nationwide Children's Hospital, Inc. and Subsidiaries

Notes to Financial Statements (continued)

16. Temporarily and Permanently Restricted Net Assets (continued)

In 2011, the Corporation had the following endowment-related activities:

	Changes in Endowment Net Assets For the Year Ended December 31, 2011		
	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 24,095	\$ 78,043	\$ 102,138
Investment return:			
Investment income	2,698	–	2,698
Unrealized losses	(2,466)	–	(2,466)
Total investment return	232	–	232
Contributions	–	8,748	8,748
Appropriation of endowment assets for expenditure from operations	(2,514)	–	(2,514)
Endowment net assets, end of year	\$ 21,813	\$ 86,791	\$ 108,604

17. Subsequent Events

Nationwide Children's has performed an evaluation of subsequent events through April 30, 2013, which is the date the consolidated financial statements were available to be issued. In February 2013, Nationwide Children's sold portions of certain land parcels to the Ohio Department of Transportation for approximately \$12 million. Additionally, in February 2013, Nationwide Children's purchased certain parcels of land from the Columbus City Schools at a cost of approximately \$19 million.

Supplementary Information

Nationwide Children's Hospital, Inc. and Subsidiaries

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2012

Program Title	CFDA Number	Pass-Through Entity Identifying Number	Research and Development Cluster	Other	Total Expenditures
<u>Department of Agriculture</u>					
Special Supplemental Nutrition Program for Women, Infants, and Children Pass-Through Columbus Department of Health	10.557	02520011WA0108	\$ -	\$ 530,919	\$ 530,919
<u>Department of Defense</u>					
Military Medical Research and Development	12.420		448,068	-	448,068
Pass-Through Ohio State University Office of Sponsored Programs	12.420	W81XWH	58,876	-	58,876
Air Force Defense Research Sciences Program Pass-Through Air Force Medical Services	12.800	FA7014-09-2	892,799	-	892,799
			1,399,743	-	1,399,743
<u>Department of Justice</u>					
Crime Victim Assistance Pass-Through Attorney General's Office	16.575	VACHAE107	-	128,868	128,868
Second Chance Act Prisoner Reentry Initiative Pass-Through Ohio Department of Youth Services	16.812	1AS2080	-	125,658	125,658
			-	254,526	254,526
<u>National Science Foundation</u>					
Biological Sciences Pass-Through Iowa State University	47.074	MCB1021785	15,334	-	15,334
<u>Department of Education</u>					
National Institute on Disability and Rehabilitation Research Pass-Through Cincinnati Children's Hospital Medical Center	84.133	H133B090010	112,886	-	112,886
Special Education-Grants for Infants and Families Pass-Through Franklin County Department of Jobs and Family Services	84.181	FCFC-10-020	-	352,181	352,181
Pass-Through Ohio Department of Health	84.181	25300111HB	-	57,642	57,642
			112,886	409,823	522,709
<u>Department of Health and Human Services</u>					
Affordable Care Act Personal Responsibility Education Program Pass-Through Ohio Department of Health	93.092	PR0112	-	180,750	180,750
Food and Drug Administration Research					
Pass-Through Emory University	93.103	FD003527	2,366	-	2,366
Pass-Through John Hopkins University	93.103	FD003898	3,352	-	3,352
Pass-Through Penn State College of Medicine	93.103	FD003410	2,404	-	2,404
Pass-Through University of California San Diego	93.103	FD003514	110,144	-	110,144
			118,266	-	118,266
Maternal and Child Health Federal Consolidated Programs					
Pass-Through Massachusetts General Hospital	93.110	MC11054	6,151	-	6,151
Pass-Through Ohio State University Office of Sponsored Programs	93.110	T7MC0049	70,727	-	70,727
Pass-Through Hemophilia Foundation of Michigan/CDC	93.110	H30MC	101,037	-	101,037
			-	13,245	13,245
			177,915	13,245	191,160
Environmental Health					
Pass-Through Columbia University	93.113		361,462	-	361,462
	93.113	ES017875	25,433	-	25,433
			386,895	-	386,895
Oral Diseases and Disorders Research					
Pass-Through Boston University/Goldman School of Dental Medicine	93.121		956	-	956
	93.121	DE019275	60,694	-	60,694
			61,650	-	61,650
Emergency Medical Services for Children					
Pass-Through University of Michigan	93.127		77,043	-	77,043
Pass-Through University of Michigan	93.127	MC00003	116,986	-	116,986
	93.127	MC19353	2,906	-	2,906
			196,935	-	196,935
Centers for Research and Demonstration for Health Promotion and Disease Control					
Pass-Through Ohio State University Office of Sponsored Programs	93.135	DP001912	25,859	-	25,859
Injury Prevention and Control Research and State and Community Based Programs					
Pass-Through Cincinnati Children's Hospital Medical Center	93.136		891,609	-	891,609
Pass-Through University of Washington	93.136	CE002129	30,739	-	30,739
Pass-Through Consumer Products Safety Commission	93.136	CE002196	26,739	-	26,739
	93.136	CPSC-N-10-0053	120,971	-	120,971
			1,070,058	-	1,070,058

Nationwide Children's Hospital, Inc. and Subsidiaries
Schedule of Expenditures of Federal Awards (continued)

Program Title	CFDA Number	Pass-Through Entity Identifying Number	Research and Development Cluster	Other	Total Expenditures
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153		\$ -	\$ 602,275	\$ 602,275
Human Genome Research	93.172		3,283	-	3,283
Pass-Through Case Western Reserve University	93.172	HG005691	20,028	-	20,028
			23,311	-	23,311
Research Related to Deafness and Communication Disorders	93.173		2,833,090	-	2,833,090
Pass-Through Ohio State University Office of Sponsored Programs	93.173	DC005985	5,585	-	5,585
			2,838,675	-	2,838,675
Research and Training in Complementary and Alternative Medicine	93.213		303,354	-	303,354
Research on Healthcare Costs, Quality and Outcomes					
Pass-Through National Committee for Quality Assurance	93.226	HS020503	341,677	-	341,677
Mental Health Research Grants	93.242		512,057	-	512,057
Pass-Through Ohio State University Office of Sponsored Programs	93.242	MH077907	34,035	-	34,035
Pass-Through Ohio State University Office of Sponsored Programs	93.242	MH079080	747	-	747
Pass-Through Ohio State University Office of Sponsored Programs	93.242	MH081105	37,070	-	37,070
Pass-Through Izaak Walton Killam Health Centre	93.242	MH093994	8,046	-	8,046
Pass-Through Rutgers University	93.242	MH068457	230,718	-	230,718
Pass-Through Cincinnati Children's Hospital Medical Center	93.242	MH073816	33,263	-	33,263
Pass-Through Cincinnati Children's Hospital Medical Center	93.242	MH083665	197,128	-	197,128
Pass-Through University of North Carolina	93.242	MH076028	34,050	-	34,050
			1,087,114	-	1,087,114
Substance Abuse and Mental Health Services-Projects of Regional and National Significance	93.243		-	265,511	265,511
Pass-Through Ohio University	93.243	SM059345	4,427	-	4,427
			4,427	265,511	269,938
Advanced Nursing Education Grant Program					
Pass-Through Ohio State University Office of Sponsored Programs	93.247	D09HP14989	-	39,982	39,982
Poison Control Stabilization and Enhancement Grants	93.253			229,348	229,348
Occupational Safety and Health Program	93.262		178,868	-	178,868
Alcohol Research Programs	93.273		560,186	-	560,186
Drug Abuse and Addiction Research Program	93.279		465,110	-	465,110
Pass-Through University of Pittsburgh	93.279	DA026312	231,473	-	231,473
			696,583	-	696,583
Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283		44,682	-	44,682
Pass-Through Hemophilia Foundation of Michigan	93.283	CCU513182	-	10,451	10,451
			44,682	10,451	55,133
Centers for Disease Control and Prevention Investigations and Technical Assistance					
Pass-Through Ohio Health	93.297	90AP2668	102,080	-	102,080
Pass-Through Carnegie Mellon University	93.297	1090314-259822	64,850	-	64,850
			166,930	-	166,930
Minority Health and Health Disparities Research	93.307		182,474	-	182,474
Nursing Research					
Pass-Through Ohio State University Office of Sponsored Programs	93.361	NR009384	14,683	-	14,683
Pass-Through University of Colorado Denver	93.361	NR011278	(2,641)	-	(2,641)
			12,042	-	12,042

Nationwide Children's Hospital, Inc. and Subsidiaries
Schedule of Expenditures of Federal Awards (continued)

Program Title	CFDA Number	Pass-Through Entity Identifying Number	Research and Development Cluster	Other	Total Expenditures
National Center for Research Resources	93.389		\$ 84,447	\$ -	\$ 84,447
Pass-Through Ohio State University Office of Sponsored Programs	93.389	RR032139	6,948	-	6,948
Pass-Through Ohio State University Office of Sponsored Programs	93.389	RR025754	102,027	-	102,027
Pass-Through Ohio State University Office of Sponsored Programs	93.389	RR025755	376,096	-	376,096
Pass-Through Tufts University Clinical and Translational	93.389	RR025752	1,159	-	1,159
			<u>570,677</u>	-	<u>570,677</u>
Cancer Cause and Prevention Research	93.393		297,372	-	297,372
Pass-Through Ann & Robert H. Lurie Children's	93.393	CA166790	2,335	-	2,335
Pass-Through The Methodist Hospital Research Institute	93.393	CA133093	66,380	-	66,380
Pass-Through Vanderbilt University Medical Center	93.393	CA118332	64,068	-	64,068
			<u>430,155</u>	-	<u>430,155</u>
Cancer Detection and Diagnosis Research	93.394		1,902,775	-	1,902,775
Pass-Through National Childhood Cancer Foundation	93.394	CA114766	370,578	-	370,578
Pass-Through National Childhood Cancer Foundation	93.394	CA98543	130,495	-	130,495
Pass-Through Southwest Oncology Group	93.394	CA114748	813,320	-	813,320
			<u>3,217,168</u>	-	<u>3,217,168</u>
Cancer Treatment Research	93.395		288,746	-	288,746
Pass-Through Gynecologic Oncology Group	93.395	CA114793	600,488	-	600,488
Pass-Through Gynecologic Oncology Group	93.395	CA27469	367,030	-	367,030
Pass-Through Baylor College of Medicine	93.395	CA132899	1,939	-	1,939
Pass-Through National Childhood Cancer Foundation	93.395	CA098543	209,070	-	209,070
Pass-Through Children's Hospital of Philadelphia	93.395	CA098543	1,412,012	-	1,412,012
Pass-Through Children's Hospital of Philadelphia	ARRA-93.395	CA098543	23,359	-	23,359
Pass-Through Southwest Oncology Group	93.395	CA032102	387,152	-	387,152
Pass-Through St. Jude Children's Research Hospital	93.395	CA055727	53,339	-	53,339
Pass-Through St. Jude Children's Research Hospital	93.395	CA023099	194,116	-	194,116
			<u>3,537,251</u>	-	<u>3,537,251</u>
Emergency Medical Services for Children					
Pass-Through Columbia University	93.418	MC19289	78,164	-	78,164
Temporary Assistance for Needy Families					
Pass-Through Governor's Office of Faith-Based and Community Initiatives	93.558	2012-08K	-	19,793	19,793
Health Care Innovation Awards	93.610	CMS330977	365,298	-	365,298
University Centers for Excellence in Developmental Disabilities Education, Research, and Service					
Pass-Through Ohio State University Office of Sponsored Programs	93.632	GRT00009547	18,481	-	18,481
Trans-NIH Recovery Act Research Support	ARRA-93.701		1,104,463	-	1,104,463
Pass-Through Baylor Research Institute	ARRA-93.701	AI057234	59,565	-	59,565
Pass-Through Cincinnati Children's Hospital Medical Center	ARRA-93.701	HL100474	(1,720)	-	(1,720)
Pass-Through Gynecologic Oncology Group	ARRA-93.701	CA114793	(2,060)	-	(2,060)
Pass-Through National Childhood Cancer Foundation	ARRA-93.701	CA148529	76,232	-	76,232
Pass-Through National Childhood Cancer Foundation	ARRA-93.701	CA098543	54,457	-	54,457
Pass-Through Children's Hospital of Philadelphia	ARRA-93.701	CA098543	147,357	-	147,357
Pass-Through Northwestern University	ARRA-93.701	CA135467	22,205	-	22,205
Pass-Through Ohio State University Office of Sponsored Programs	ARRA-93.701	NS069476	(6)	-	(6)
Pass-Through Rutgers University	ARRA-93.701	MH088288	55,596	-	55,596
Pass-Through St. Jude Children's Research Hospital	ARRA-93.701	CA156499	88,145	-	88,145
Pass-Through Oregon Health Sciences University	ARRA-93.701	HL104831	137,970	-	137,970
Pass-Through Duke University	ARRA-93.701	AR05934	4,067	-	4,067
Pass-Through Children's Hospital of Los Angeles	ARRA-93.701	RGR006042	139,385	-	139,385
			<u>1,885,656</u>	-	<u>1,885,656</u>
Comparative Effectiveness Research	ARRA-93.715		76,445	-	76,445
Pass-Through ImproveCareNow	93.715		27,582	-	27,582
Pass-Through Cincinnati Children's Hospital Medical Center	ARRA-93.715	HS020024	91,115	-	91,115
			<u>195,142</u>	-	<u>195,142</u>

Nationwide Children's Hospital, Inc. and Subsidiaries
Schedule of Expenditures of Federal Awards (continued)

Program Title	CFDA Number	Pass-Through Entity Identifying Number	Research and Development Cluster	Other	Total Expenditures
Medical Assistance Program					
Pass-Through Ohio State University Office of Sponsored Programs	93.778	G1213070343	\$ 8,424	\$ 55,057	\$ 63,481
Cardiovascular Diseases Research	93.837		1,299,920	-	1,299,920
Pass-Through Duke University	93.837	HL092403	32,171	-	32,171
Pass-Through Baylor College of Medicine	93.837	HL090506	73,742	-	73,742
Pass-Through University of Colorado Denver	93.837	HL096895	1,996	-	1,996
Pass-Through Washington University	93.837	HL065238	4,190	-	4,190
Pass-Through University of Michigan	93.837	HL097361	10,607	-	10,607
Pass-Through University of Michigan	93.837	HL094345	24,241	-	24,241
Pass-Through Vanderbilt University Medical Center	93.837	HL108173	783	-	783
Pass-Through Cincinnati Children's Hospital Medical Center	93.837	HL108752	5,216	-	5,216
			1,452,866	-	1,452,866
Lung Diseases Research	93.838		252,196	-	252,196
Pass-Through Children's Hospital of Boston	93.838	HL107681	1,738	-	1,738
Pass-Through Regents of the University of Colorado	93.838	HL084923	72	-	72
			254,006	-	254,006
Blood Diseases and Resources Research	93.839				
Pass-Through National Childhood Cancer Foundation	93.839	HL69294	9,332	-	9,332
Pass-Through Children's Hospital of Los Angeles	93.839	HL095110	4,295	-	4,295
			13,627	-	13,627
Arthritis, Musculoskeletal and Skin Diseases Research	93.846		1,492,002	-	1,492,002
Pass-Through University of Philadelphia	93.846	AR057956	9,728	-	9,728
Pass-Through Ohio State University Office of Sponsored Programs	93.846	AR061513	1,412	-	1,412
Pass-Through Baylor Research Institute	93.846	AR050770	33,170	-	33,170
Pass-Through Dartmouth College	93.846	AR061643	23,417	-	23,417
Pass-Through Children's Hospital and Regional Medical	93.846	AR049762	1,056	-	1,056
			1,560,785	-	1,560,785
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847		1,797,954	-	1,797,954
Pass-Through Cincinnati Children's Hospital Medical Center	93.847	DK072493	47,644	-	47,644
Pass-Through Children's Hospital of Philadelphia	93.847	DK066174	5,447	-	5,447
Pass-Through University of Pittsburgh	93.847	DK081128	27,054	-	27,054
Pass-Through University of Pittsburgh	93.847	DK087870	35,077	-	35,077
Pass-Through Connecticut Children's Medical Center	93.847	DK095745	10,483	-	10,483
Pass-Through Mount Sinai School of Medicine	93.847	DK067555	9,493	-	9,493
Pass-Through Medical College of Wisconsin	93.847	DK068051	116,876	-	116,876
			2,050,028	-	2,050,028
Digestive Diseases and Nutrition Research	93.848		154,534	-	154,534
Pass-Through Cincinnati Children's Hospital Medical Center	93.848	DK072493	1,473	-	1,473
Pass-Through Cincinnati Children's Hospital Medical Center	93.848	DK800200	27,984	-	27,984
Pass-Through University of Pennsylvania	93.848	DK080738	8,672	-	8,672
			192,663	-	192,663
Kidney Diseases, Urology and Hematology Research					
Pass-Through John Hopkins	93.849	DK066174	425	-	425
Pass-Through New York School of Medicine	93.849	DK070341	156	-	156
Pass-Through Wayne State University	93.849	DK077029	1,792	-	1,792
			2,373	-	2,373

Nationwide Children's Hospital, Inc. and Subsidiaries
Schedule of Expenditures of Federal Awards (continued)

Program Title	CFDA Number	Pass-Through Entity Identifying Number	Research and Development Cluster	Other	Total Expenditures
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853		\$ 2,260,883	\$ -	\$ 2,260,883
Pass-Through University of Washington	93.853	NS07208	16,464	-	16,464
Pass-Through Washington University	93.853	NS042804	8,843	-	8,843
Pass-Through Ohio State University Office of Sponsored Programs	93.853	NS077179	17	-	17
Pass-Through Ohio State University Office of Sponsored Programs	93.853	NS058451	50,632	-	50,632
Pass-Through Ohio State University Office of Sponsored Programs	93.853	NS077382	35,922	-	35,922
Pass-Through Ohio State University Office of Sponsored Programs	93.853	NS059776	22,451	-	22,451
Pass-Through Ohio State University Office of Sponsored Programs	93.853	NS043246	9,066	-	9,066
Pass-Through Cincinnati Children's Hospital Medical Center	93.853	NS045911	70,088	-	70,088
Pass-Through Cincinnati Children's Hospital Medical Center	93.853	NS076788	15,770	-	15,770
Pass-Through University of California San Francisco	93.853	NS062820	(201)	-	(201)
			2,489,935	-	2,489,935
Allergy, Immunology and Transplantation Research	93.855		3,921,868	-	3,921,868
Pass-Through Benaroya Research Institute	93.855	AI082110	166,816	-	166,816
Pass-Through Baylor Research Institute	93.855	AI057234	363,274	-	363,274
Pass-Through Indiana University	93.855	AI102786	41,814	-	41,814
Pass-Through Ohio State University Office of Sponsored Programs	93.855	AI073971	189,699	-	189,699
Pass-Through Ohio State University Office of Sponsored Programs	93.855	AI095987	13,608	-	13,608
Pass-Through Washington University	93.855	AI077810	22,950	-	22,950
Pass-Through Children's Hospital Boston	93.855	AI084011	28,484	-	28,484
			4,748,513	-	4,748,513
Biomedical Research and Research Training	93.859		1,073,982	-	1,073,982
Pass-Through St. Jude Children's Research Hospital	93.859	GM092666	101,824	-	101,824
Pass-Through Ohio State University Office of Sponsored Programs	93.859	GM092655	21,426	-	21,426
Pass-Through Ohio State University Office of Sponsored Programs	93.859	GM095657	63,457	-	63,457
Pass-Through Iowa State University	93.859	GM072014	45,871	-	45,871
Pass-Through Miami University	93.859	GM094732	10,073	-	10,073
			1,316,633	-	1,316,633
Child Health and Human Development Extramural Research	93.865		1,690,862	-	1,690,862
Pass-Through Cincinnati Children's Hospital Medical Center	93.865	HD042729	105,111	-	105,111
Pass-Through Cincinnati Children's Hospital Medical Center	93.865	HD067174	32,852	-	32,852
Pass-Through Michigan Public Health Institute	93.865	HD069039	24,503	-	24,503
Pass-Through RTI International	93.865	HD068278	44,339	-	44,339
Pass-Through Children's Research Institute at Children's National Medical Center	93.865	HD071601	98,250	-	98,250
Pass-Through Ohio State University Office of Sponsored Programs	93.856	HD073504	3,439	-	3,439
Pass-Through UC Davis Medical Center	93.865	HD062417	32,098	-	32,098
Pass-Through University of Kansas Medical Center	93.865	HD066629	30,033	-	30,033
Pass-Through University of Pittsburgh	93.865	HD056999	6,897	-	6,897
Pass-Through University of Rochester Medical Center	93.865	HD057977	(907)	-	(907)
Pass-Through Wayne State	93.865	HD062477	54,450	-	54,450
			2,121,927	-	2,121,927
Aging Research	93.866		81,836	-	81,836
Vision Research	93.867		312,511	-	312,511
Pass-Through Children's Hospital of Philadelphia	93.867	EY17014	52,588	-	52,588
Pass-Through Jaeb Center for Health	93.867	EY11751	28,311	-	28,311
			393,410	-	393,410
Disabilities	93.869		1,099,029	-	1,099,029
Health Care and Other Facilities	93.887		10,061	-	10,061

Nationwide Children's Hospital, Inc. and Subsidiaries
Schedule of Expenditures of Federal Awards (continued)

Program Title	CFDA Number	Pass-Through Entity Identifying Number	Research and Development Cluster	Other	Total Expenditures
National Bioterrorism Hospital Preparedness Program					
Pass-Through Cincinnati Children's Hospital Medical Center	93.889	ODH03130012	\$	-	\$
Pass-Through Case Western Reserve University Rainbow Babies and Children's Hospital	93.889	2012-0372	-	38,336	\$
				34,397	38,336
				72,733	72,733
Outpatient Early Intervention Services with Respect to HIV Disease	93.918		-	91,025	91,025
Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome					
Pass-Through Ohio Department of Health	93.943	02530012HT0112	-	80,798	80,798
International Research and Research Training					
Pass-Through Colorado State University	93.989	D43TW007257	5,886	-	5,886
Human Immunodeficiency Virus (HIV)					
Pass-Through Ohio Department of Health	93.944	2530011GS	-	494,868	494,868
Maternal and Child Health Services Block Grant to the States					
Pass-Through Ohio Child Care Resource & Referral Association	93.994	0915-0172	-	7,850	7,850
Prevention of Cardiovascular Complications of Pediatric Systemic Lupus					
Pass-Through Duke University	93.N01 AR 22265	NO1 AR 22265	860	-	860
NHTSA-Codes					
Pass-Through DOT/ National Highway Traffic Safety Administration	93.DTNH22-08-H-00307	DTNH22-08-H-0037	34,836	-	34,836
Genetic Studies of Osteosarcoma					
Pass-Through Children's Hospital of Philadelphia	93.HHSN272201000021C	730015-01	207,515	-	207,515
Cancer Therapy Evaluation Program	93.HHSN261201000001C		2,529,181	-	2,529,181
Cancer Genome Atlas Program	93.HHSN261201000047C		4,265,571	-	4,265,571
Modeling Immunity for Biodefense					
Pass-Through Mount Sinai School of Medicine	93.HHSN272201000054C	HHSN272201000054C	1,465	-	1,465
Trialnet Oral Insulin					
Pass-Through University of South Florida	93.HHSN267200800019C	59-73-0209K	(1,153)	-	(1,153)
Natural History Study of the Development of Type 1 Diabetes					
Pass-Through University of South Florida	93.HHSN2672008006912	HHSN2672008006912	14,230	-	14,230
CDC Influenza Public Health Genomics Initiative	93.200201141924	200-2011-M-41924	111,287	-	111,287
Cancer Genome Atlas					
Pass-Through Gynecologic Oncology Group	ARRA-93.HHSN261201000018I	HHSN261201000018I	1,259	-	1,259
Burkitt Lymphoma Project					
Pass-Through SAIC-Frederick, Inc.	93.HHSN2612000800001E	HHSN2612000800001E	36,180	-	36,180
Cancer Genome Atlas					
Pass-Through SAIC-Frederick, Inc.	ARRA-93.29XS073	29XS073	1,022	-	1,022
Biospecimen Core Resource for the Cancer Genome Atlas Project					
Pass-Through SAIC-Frederick, Inc.	ARRA-93.HHSN261201000047C	HHSN261201000047C	2,778,761	-	2,778,761
Influenza Vaccine Effectiveness Study					
Pass-Through ABT Associates, Inc.	93.GS10E0086K	GS10E0086K	33,930	-	33,930
Targeting the Ron-DEK Signaling Axis in Breast Cancer					
Pass-Through Cincinnati Children's Hospital Medical Center	93.W81XWH1210194	W81XWH1210194	220	-	220

Nationwide Children's Hospital, Inc. and Subsidiaries
Schedule of Expenditures of Federal Awards (continued)

Program Title	CFDA Number	Pass-Through Entity Identifying Number	Research and Development Cluster	Other	Total Expenditures
NIH-NCS Formative Project 18 Pass-Through University of Rochester Medical Center	93.HHSN2752201100002C	HHSN2752201100002C	\$ 1,549	\$ -	\$ 1,549
Intergovernmental Personnel Act Pass-Through SAIC-Frederick, Inc.	93.11ST1019	11ST1019	150,768	-	150,768
			<u>\$ 48,273,339</u>	<u>\$ 3,358,954</u>	<u>\$ 51,632,293</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards

Nationwide Children's Hospital, Inc. and Subsidiaries
Single Audit Report

Notes to the Schedule of Expenditures of Federal Awards

December 31, 2012

1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Nationwide Children's Hospital, Inc. and Subsidiaries (the Corporation or Nationwide Children's) under programs of the federal government for the year ended December 31, 2012. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-profit Organizations*. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Subrecipient

Nationwide Children's is a subrecipient of federal funds, which have been subject to testing and are reported as expenditures and listed as federal pass-through funds.

Nationwide Children’s Hospital, Inc. and Subsidiaries
Single Audit Report

Notes to the Schedule of Expenditures of Federal Awards (continued)

1. Summary of Significant Accounting Policies (continued)

Subrecipients (continued)

Of the federal expenditures presented in the Schedule, Nationwide Children’s provided federal awards for the following programs to subrecipients:

Program Title	CFDA Number	Amount Provided to Subrecipient
Air Force Defense Research Sciences Program	12.800	\$ 228,398
Environmental Health	93.113	52,162
Emergency Medical Services for Children	93.127	68
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153	(101)
Human Genome Research	93.172	2,280
Research Related to Deafness and Communication Disorders	93.173	1,264,916
Mental Health Research Grants	93.242	16,595
Occupational Safety and Health Program	93.262	44,506
Drug Abuse and Addiction Research Programs	93.279	37,430
Teenage Pregnancy Prevention Program	93.297	1,560
Minority Health and Health Disparities Research	93.307	8,831
National Center for Research Resources	93.389	4,278
Cancer Treatment Research	93.395	10,833
Health Care Innovation Awards	93.610	36,880
Trans-NIH Recovery Act Research Support	93.701	329,276
Recovery Act – Comparative Effectiveness Research - AHRQ	93.715	27,718
Cardiovascular Diseases Research	93.837	91,337
Lung Diseases Research	93.838	72
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	163,832
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	111,319
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	223,536
Allergy, Immunology and Transplantation Research	93.855	369,019
Biomedical Research and Research Training	93.859	16,167

Nationwide Children’s Hospital, Inc. and Subsidiaries
Single Audit Report

Notes to the Schedule of Expenditures of Federal Awards (continued)

1. Summary of Significant Accounting Policies (continued)

Program Title	CFDA Number	Amount Provided to Subrecipient
Child Health and Human Development Extramural Research	93.865	415,719
Vision Research	93.867	15,715
Disabilities	93.869	29,552
Human Immunodeficiency Virus (HIV)	93.944	49,382
CDC Influenza Public Health Genomics Initiative	93.200201141924	12,160
	93.HHSN26120100	
Cancer Therapy Evaluation Program	0001C	993,824
Biospecimen Core Resource for the Cancer Genome Atlas Project	93.HHSN26120100 0047C	480,804
		<u>\$ 5,038,068</u>

Compliance and Internal Controls

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

Management and the Budget, Finance and Audit Committee
Nationwide Children's Hospital, Inc. and Subsidiaries

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Nationwide Children's Hospital, Inc. and Subsidiaries, which comprise the consolidated statement of financial position as of December 31, 2012, and the related consolidated statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 30, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Nationwide Children's Hospital, Inc. and Subsidiaries' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Nationwide Children's Hospital, Inc. and Subsidiaries' internal control. Accordingly, we do not express an opinion on the effectiveness of the Nationwide Children's Hospital, Inc. and Subsidiaries' internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Nationwide Children's Hospital, Inc. and Subsidiaries' financial statements are free of material misstatement, we performed tests of its compliance

with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Ernst & Young LLP

April 30, 2013

Report of Independent Auditors on Compliance with Requirements for Each Major Federal Program; Report on Internal Control Over Compliance Required by OMB Circular A-133

Management and the Budget, Finance and Audit Committee
Nationwide Children's Hospital, Inc.

Report on Compliance for Each Major Federal Program

We have audited of Nationwide Children's Hospital, Inc.'s compliance with the types of compliance requirements described in the US Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Nationwide Children's Hospital, Inc.'s major federal program for the year ended December 31, 2012. Nationwide Children's Hospital, Inc.'s major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Nationwide Children's Hospital, Inc.'s major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Nationwide Children's Hospital, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Nationwide Children's Hospital, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2012.

Report on Internal Control Over Compliance

Management of Nationwide Children's Hospital, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Nationwide Children's Hospital, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Nationwide Children's Hospital, Inc.'s internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs in finding 12-1 relating to the Special Tests and Provisions compliance requirement for various CFDA Numbers in the Research and Development cluster, that we consider to be a significant deficiency.

Nationwide Children's Hospital, Inc.'s response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Nationwide Children's Hospital, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Ernst & Young LLP

July 26, 2013

Nationwide Children's Hospital
Single Audit Report

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2012

Part I—Summary of auditor's results

Financial statements section

Type of auditor's report issued (unqualified, qualified, adverse or disclaimer): Unqualified Opinion

Internal control over financial reporting:

Material weakness(es) identified?	_____	yes	<u> X </u>	no
Significant deficiency(ies) identified?	_____	yes	<u> X </u>	none reported
Noncompliance material to financial statements noted?	_____	yes	<u> X </u>	no

Federal awards section

Internal control over major programs:

Material weakness(es) identified?	_____	yes	<u> X </u>	no
Significant deficiency(ies) identified?	<u> X </u>	yes	_____	none reported

Type of auditor's report issued on compliance for major programs (unmodified, qualified, adverse or disclaimer): Unmodified Opinion

Any audit findings disclosed that are required to be reported in accordance with section .510(a) of OMB Circular A-133? X **yes** _____ **no**

Nationwide Children's Hospital, Inc. and Subsidiaries
Single Audit Report

Schedule of Findings and Questioned Costs (continued)

Year Ended December 31, 2012

Identification of major programs:

<u>CFDA numbers</u>	<u>Name of federal program or cluster</u>
Various	Research and development cluster

Dollar threshold used to distinguish between Type A
and Type B programs: \$1,548,969

Auditee qualified as low-risk auditee? X yes no

Part II—Financial statement findings section

This section identifies the significant deficiencies, material weaknesses, fraud, noncompliance with provisions of laws, regulations, contracts and grant agreements, and abuse related to the financial statements for which *Government Auditing Standards* require reporting in a Circular A-133 audit.

None

Nationwide Children’s Hospital, Inc. and Subsidiaries
Single Audit Report

Schedule of Findings and Questioned Costs (continued)

Year Ended December 31, 2012

Part III—Federal Award Findings and Questioned Costs Section

This section identifies the audit findings required to be reported by Circular A-133 section .510(a) (for example, material weaknesses, significant deficiencies and material instances of noncompliance, including questioned costs), as well as any abuse findings involving federal awards that are material to a major program.

12-1 Federal program information

Research and Development Cluster

Criteria or specific requirement:

In accordance with and to comply with OMB statutory, regulatory or other citation): Circular A-133, Section .300(b), the entity should “maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs.”

Condition:

We noted that the Research Institute did not have sufficient documentation to support its internal controls over monitoring compliance with special tests and provisions identified in the grant for the period from January 1, 2012 through December 31, 2012 as there was not sufficient evidence that the sponsored project officers, senior accountants and principal investigators were reviewing the special tests and provisions contained in the grant in the internal tracking system.

Questioned costs

\$0

Nationwide Children’s Hospital, Inc. and Subsidiaries
Single Audit Report

Schedule of Findings and Questioned Costs (continued)

Year Ended December 31, 2012

12-1 Federal program information _____

Research and Development Cluster

Context

Management reviews each grant at the initial award date for any special tests and provisions for each grant and documents the special terms and conditions within the eTRAC system. The eTRAC system is used for grant budgeting and monitoring and is accessible by sponsored project officers, senior accountants and principal investigators. We noted management did not maintain documentation in the eTRAC system to evidence its review of the special tests and provisions. We performed compliance testing over special tests and provisions and did not note any exceptions.

Effect:

Insufficient documentation of the review process relating to monitoring of special tests and provisions may lead to instances of non-compliance.

Cause:

Management does not maintain sufficient documentation to evidence that the review and monitoring of compliance with special tests and provisions is taking place.

Recommendation:

Management should implement a process whereby evidence of review of compliance with special tests and provisions is maintained.

-

Nationwide Children’s Hospital, Inc. and Subsidiaries
Single Audit Report

Schedule of Findings and Questioned Costs (continued)

Year Ended December 31, 2012

12-1 Federal program information _____

Research and Development Cluster

Views of responsible officials and planned
corrective actions

In early 2013 Management recognized the electronic monitoring of the review process was malfunctioning. Management took action to resolve the issue and the process has now been corrected.

Nationwide Children's Hospital
Single Audit Report

Summary of Prior Audit Findings

For the Year Ended December 31, 2012

10-01

Research and Development Cluster

Federal program information:

All CFDA numbers within the Research and Development Cluster.

Condition:

We noted that the Research Institute did not have sufficient internal controls to monitor compliance with special provisions identified in the grant for the period from January 1, 2010 through December 31, 2010.

Update:

Management's corrective action was implemented in 2011. This finding reoccurred in 2012.

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