

SINGLE AUDIT REPORT

Nationwide Children's Hospital, Inc. and Subsidiaries  
Year Ended December 31, 2014  
With Report of Independent Auditors

Ernst & Young LLP



Building a better  
working world

Nationwide Children’s Hospital, Inc. and Subsidiaries

Single Audit Report

Year Ended December 31, 2014

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## Report of Independent Auditors

Senior 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 statement of financial position as of December 31, 2014 and 2013, and the related consolidated statements of activities, and cash flows for the year 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 audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 Nationwide Children’s Hospital, Inc. and Subsidiaries as of December 31, 2014 and 2013, and the changes in its net assets and its cash flows for the year 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 23, 2015 on our consideration of 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*

Columbus, OH

April 23, 2015, except for the schedule of expenditures of federal awards for which the date is May 12, 2015.

Nationwide Children's Hospital, Inc. and Subsidiaries

Consolidated Balance Sheets

	<b>December 31</b>	
	<b>2014</b>	<b>2013</b>
	<i>(In Thousands)</i>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 263,093	\$ 291,255
Patient accounts receivable, net of allowance for doubtful accounts (2014 – \$35,394; 2013 – \$32,472)	175,026	145,135
Inventories	7,787	7,325
Pledges receivable (Note 13)	12,580	6,527
Other assets	61,177	48,150
Total current assets	<u>519,663</u>	498,392
Assets limited as to use (Note 5):		
Held by trustee	25,483	37,766
Board-designated:		
Capital improvement	51,608	49,995
Other	1,050,068	720,123
Donor restricted	210,943	194,919
Total assets limited as to use	<u>1,338,102</u>	1,002,803
Pledges receivable (Note 13)	9,059	14,212
Property and equipment, less allowance for depreciation (Note 12)	1,045,566	1,032,854
Unamortized bond issuance costs	5,332	5,018
Other assets	11,107	10,566
Total assets	<u>\$ 2,928,829</u>	<u>\$ 2,563,845</u>

	<b>December 31</b>	
	<b>2014</b>	<b>2013</b>
	<i>(In Thousands)</i>	
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 58,318	\$ 42,754
Compensation and related taxes	79,120	69,821
Current portion of long-term debt <i>(Note 8)</i>	77,042	77,795
Accrued claims expense	42,142	53,511
Other current liabilities	30,757	26,638
Total current liabilities	<b>287,379</b>	270,519
Long-term liabilities:		
Retirement benefits	38,793	27,300
Long-term debt <i>(Note 8)</i>	404,638	414,035
Professional liability	25,483	26,962
Interest rate swaps and other long-term liabilities	47,166	25,405
	<b>516,080</b>	493,702
Total liabilities	<b>803,459</b>	764,221
Net assets:		
Unrestricted	1,903,381	1,595,000
Temporarily restricted <i>(Note 16)</i>	118,297	105,433
Permanently restricted <i>(Note 16)</i>	103,692	99,191
Total net assets	<b>2,125,370</b>	1,799,624
Total liabilities and net assets	<b>\$ 2,928,829</b>	<b>\$ 2,563,845</b>

*See accompanying notes.*

Nationwide Children's Hospital, Inc. and Subsidiaries

Consolidated Statements of Operations  
and Changes in Net Assets

	<b>Year Ended December 31</b>	
	<b>2014</b>	<b>2013</b>
	<i>(In Thousands)</i>	
<b>Unrestricted revenue, gains, and other support</b>		
Patient service revenue <i>(Note 4)</i>	\$ 1,114,636	\$ 992,127
Provision for bad debts	(39,342)	(35,922)
Net patient service revenue less provision for bad debts	<u>1,075,294</u>	<u>956,205</u>
Premium revenue	680,561	576,488
Other revenue	112,335	113,216
Net assets released from restrictions	15,943	12,274
Total unrestricted revenue, gains, and other support	<u>1,884,133</u>	<u>1,658,183</u>
<b>Expenses</b>		
Salaries and benefits	770,143	720,871
Claims expense	336,164	335,778
Supplies	154,292	149,411
Purchased services	98,610	88,309
Interest	20,962	21,858
Depreciation and amortization	73,255	69,483
Other	145,991	125,703
Total expenses	<u>1,599,417</u>	<u>1,511,413</u>
Operating income	284,716	146,770
Investment return – net <i>(Note 5)</i>	46,991	142,287
Other nonoperating (losses) gains – net <i>(Note 1)</i>	(11,368)	44,957
Excess of revenue over expenses	<u>320,339</u>	<u>334,014</u>

*Continued on next page*

Nationwide Children's Hospital, Inc. and Subsidiaries

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

	<b>Year Ended December 31</b>	
	<b>2014</b>	<b>2013</b>
	<i>(In Thousands)</i>	
<b>Unrestricted net assets</b>		
Excess of revenue over expenses	\$ 320,339	\$ 334,014
Change in pension obligation and assets	(12,584)	15,112
Net assets released from restrictions for the purchase of property and equipment	626	79
Increase in unrestricted net assets	<u>308,381</u>	<u>349,205</u>
<b>Temporarily restricted net assets</b>		
Contributions	24,424	3,082
Net assets released from restrictions for the purchase of property and equipment	(626)	(79)
Investment return, net	5,156	17,867
Net assets released from restrictions	(15,943)	(12,274)
Transfers and other	(147)	(122)
Increase in temporarily restricted net assets	<u>12,864</u>	<u>8,474</u>
<b>Permanently restricted net assets</b>		
Contributions	4,501	8,593
Increase in permanently restricted net assets	<u>4,501</u>	<u>8,593</u>
Increase in net assets	325,746	366,272
Net assets at beginning of year	1,799,624	1,433,352
Net assets at end of year	<u>\$ 2,125,370</u>	<u>\$ 1,799,624</u>

*See accompanying notes.*

# Nationwide Children's Hospital, Inc. and Subsidiaries

## Consolidated Statements of Cash Flows

	<b>Year Ended December 31</b>	
	<b>2014</b>	<b>2013</b>
	<i>(In Thousands)</i>	
<b>Operating activities</b>		
Increase in net assets	\$ 325,746	\$ 366,272
Adjustments to reconcile increase in net assets to cash provided by operating activities:		
Net change in unrealized gains on investments	(1,597)	(94,973)
Change in pension obligation and assets	12,584	(15,112)
Depreciation and amortization	73,255	69,817
Provision for doubtful accounts	39,342	35,922
Gain on sale of property and equipment	-	(12,220)
Purchase of assets limited as to use – net	(333,702)	(50,994)
Restricted contributions and investment income	(33,350)	(19,410)
(Increase) decrease in:		
Patient accounts receivable	(69,233)	(33,066)
Inventories	(462)	(266)
Other current assets	(13,027)	7,661
Pledges receivable	(900)	5,374
Other long-term assets	(855)	(175)
Increase (decrease) in:		
Accounts payable and accrued expenses	15,564	(3,091)
Compensation and related taxes	9,299	10,377
Other current liabilities	4,119	(32)
Accrued claims expense	(11,369)	16,952
Retirement benefits	(1,091)	(1,541)
Professional liability	(1,479)	(1,783)
Other long-term liabilities	21,761	(21,233)
Net cash provided by operating activities	<u>34,605</u>	<u>258,479</u>
<b>Investing activities</b>		
Proceeds from sale of property and equipment	-	12,441
Purchase of property and equipment – net	(85,967)	(98,280)
Net cash used for investing activities	<u>(85,967)</u>	<u>(85,839)</u>
<b>Financing activities</b>		
Proceeds from issuance of long-term debt	100	66,985
Repayment of long-term debt	(10,250)	(76,950)
Restricted contributions and investment income	33,350	19,410
Net cash provided by financing activities	<u>23,200</u>	<u>9,445</u>
Net (decrease) increase in cash and cash equivalents	(28,162)	182,085
Cash and cash equivalents at beginning of year	291,255	109,170
Cash and cash equivalents at end of year	<u>\$ 263,093</u>	<u>\$ 291,255</u>

*See accompanying notes.*

# Nationwide Children's Hospital, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

Years Ended December 31, 2014 and 2013

### 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 604 bed not-for-profit tertiary care hospital providing inpatient, outpatient, and emergency care services. In addition, the Hospital leases 140 neonatal intensive and special care nursery beds located at six 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 400 medical, pediatric sub-specialists, which provides such services at the Hospital. The remaining 49% ownership interest held by The Ohio State University Clinical Practice Plan 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 entity is recorded in the consolidated statement of operations and changes in net assets for the years ended December 31, 2014 and 2013, and is included in other non-operating gains (losses). The non-controlling interest was \$1,577,000 and \$772,000 as of December 31, 2014 and 2013, respectively, and is recorded in interest rate swaps and other long-term liabilities in the consolidated balance sheets.

# 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. CCFA is also known by its dba – The Center for Safety and Family Healing.
- ▶ 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 Consolidated 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.

##### **Excess of Revenue Over Expenses**

The statements 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.

## Nationwide Children's Hospital, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **1. Organization and Significant Accounting Policies (continued)**

##### **Patient Accounts Receivable and Revenue**

Patient accounts receivable and revenue are recorded when patient services are provided. 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 that are owed to or by the Hospital are recorded in the financial statements. Differences between the Hospital's standard rates for services performed and the estimated reimbursements from various programs are charged to contractual adjustments.

##### **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

# Nationwide Children's Hospital, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### **1. Organization and Significant Accounting Policies (continued)**

of their balance. For receivables associated with patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for doubtful 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. The method for determining the incurred but not reported claims for the Aged, Blind and Disabled (ABD) member group was revised from a medical loss ratio method to a historical claims lag method, due to the development of claims history for ABD members in 2014. The change in estimate reduced claims expense within the consolidated statement of operations by \$11,100,000 in 2014. 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.

#### **Provision for Bad Debts**

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.

## Nationwide Children's Hospital, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **1. Organization and Significant Accounting Policies (continued)**

The Corporation's allowance for doubtful accounts for self-pay patients was approximately 90% of self-pay accounts receivable as of December 31, 2014 and 2013. 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 during the year ended December 31, 2014. 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, 2014.

#### **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.

#### **Bond Issuance Costs**

Nationwide Children's capitalized certain costs associated with the issuance of the 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.

## Nationwide Children's Hospital, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **1. Organization and Significant Accounting Policies (continued)**

##### **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.

##### **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 Consolidated 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:

	<b>December 31</b>	
	<b>2014</b>	<b>2013</b>
Charges, foregone, based on established rates	<u>\$ 13,979</u>	<u>\$ 19,603</u>
Management's estimate of expenses incurred to provide charity care	<u>6,430</u>	<u>8,429</u>
Equivalent percentage of charity care services to gross patient revenue, based on established rates	<u>46%</u>	<u>43%</u>

**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, changes in fair value of interest rate swaps, interest rate swap termination costs, and gains on the sale of property and equipment.

Nationwide Children’s Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**1. Organization and Significant Accounting Policies (continued)**

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

	<b>2014</b>	<b>2013</b>
	<i>(In Thousands)</i>	
Unrestricted contributions	\$ <b>9,764</b>	\$ 9,669
Change in fair value of interest rate swaps	<b>(21,233)</b>	20,763
Gain on the sale of property and equipment	–	12,220
Other	<b>101</b>	2,305
Other nonoperating (losses) gains – net	<b>\$ (11,368)</b>	\$ 44,957

**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 through 2014. Other operating revenue of \$5,816,000 and

## Nationwide Children's Hospital, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **1. Organization and Significant Accounting Policies (continued)**

\$6,230,000 was recognized during the years ended December 31, 2014 and 2013, respectively. The data used to attest for these physicians was based on Medicaid patient volumes. As Nationwide Children's satisfies specified meaningful use criteria in future periods, it may become entitled to additional Medicaid incentive payments. Nationwide Children's compliance with meaningful use criteria is subject to audit by the federal government.

#### **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, 2014 and 2013.

#### **2. Pending and Newly Adopted Accounting Guidance**

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 amended accounting guidance related to revenue recognition. This guidance is based on the principle that revenue is recognized in an amount that reflects the consideration to which an entity expects to be entitled in exchange for the transfer of goods or services to customers. The guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. This amendment will be effective for years beginning after December 15, 2016. The Corporation is evaluating the options for adoption and the impact on its financial position and results of operations.

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements – Going Concern*. ASU 2014-15 amended accounting guidance related to uncertainties about an entity's ability to continue as a going concern. This guidance requires management to evaluate whether there is substantial doubt about a company's ability to continue as a going concern.

## Nationwide Children's Hospital, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **2. Pending and Newly Adopted Accounting Guidance (continued)**

This amendment will be effective for years beginning after December 15, 2016, with early adoption permitted. The Corporation does not expect the adoption of this guidance to impact its financial statement disclosures.

#### **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 2008 through 2014. 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, 2014 and 2013, which the Hospital's management believes will approximate final settlements.

Revenue and premiums from the Medicaid program accounted for approximately 38% and 34% of the Hospital's net patient service revenue for the years ended December 31, 2014 and 2013, 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 Consolidated Financial Statements (continued)

**4. Net Patient Service Revenue**

	<b>Year Ended December 31</b>	
	<b>2014</b>	<b>2013</b>
	<i>(In Thousands)</i>	
Charges at established rates	<b>\$ 2,365,501</b>	\$ 2,147,647
Deductions:		
Contractual adjustments	<b>(1,257,879)</b>	(1,149,394)
Charity care services	<b>(13,979)</b>	(19,603)
Provision for bad debt	<b>(39,342)</b>	(35,922)
Total deductions	<b>(1,311,200)</b>	(1,204,919)
Care Assurance Program	<b>20,993</b>	13,477
Net patient service revenue (less provision for bad debt)	<b>\$ 1,075,294</b>	\$ 956,205

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

	<b>Year Ended December 31</b>	
	<b>2014</b>	<b>2013</b>
	<i>(In Thousands)</i>	
Commercial	<b>\$ 854,652</b>	\$ 780,981
Medicaid	<b>217,067</b>	172,688
Other	<b>21,854</b>	18,894
Self-pay	<b>21,063</b>	19,564
	<b>\$ 1,114,636</b>	\$ 992,127

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 Hospital, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **4. Net Patient Service Revenue (continued)**

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.

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.

Nationwide Children's Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**5. Assets Limited as to Use**

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

	<b>2014</b>	<b>2013</b>
	<i>(In Thousands)</i>	
Trustee funds:		
Cash and cash equivalents	\$ <b>3,123</b>	\$ 12,095
Fixed income:		
U.S. Treasury notes	<b>3,510</b>	3,043
U.S. Government agencies	<b>2,339</b>	3,008
Corporate obligations	<b>3,362</b>	3,134
Foreign obligations	<b>373</b>	427
Equities – mutual funds:		
Domestic large-cap indexed	<b>5,770</b>	8,183
Domestic mid-cap indexed	<b>971</b>	1,115
Domestic small-cap	<b>724</b>	899
International	<b>3,340</b>	3,768
Equity securities:		
Domestic small-cap	<b>669</b>	848
Commodities – mutual fund	<b>1,302</b>	1,246
	<b>25,483</b>	37,766
Board-designated capital improvement:		
Cash and cash equivalents	<b>394</b>	3,123
Fixed income:		
U.S. Treasury notes	<b>9,516</b>	8,907
U.S. Government agencies	<b>6,402</b>	8,852
Corporate obligations	<b>9,143</b>	9,200
Foreign obligations	<b>1,008</b>	1,250
Mutual funds	<b>4,572</b>	–
Equities – mutual funds:		
Domestic large-cap indexed	<b>7,861</b>	7,975
Domestic mid-cap indexed	<b>1,312</b>	1,365
Domestic small-cap	<b>995</b>	1,004
International	<b>4,538</b>	4,887
Equity securities:		
Domestic small-cap	<b>927</b>	1,098
Commodities – mutual fund	<b>2,372</b>	2,334
Private equity	<b>2,568</b>	–
	<b>51,608</b>	49,995

Nationwide Children's Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**5. Assets Limited as to Use (continued)**

	<b>2014</b>	<b>2013</b>
	<i>(In Thousands)</i>	
Board-designated other:		
Cash and cash equivalents	\$ 30,961	\$ 3,508
Fixed income:		
U.S. Treasury bonds	4,198	3,717
U.S. Treasury notes	61,380	41,373
U.S. Government agencies	30,447	29,799
Corporate obligations	54,952	40,320
Foreign obligations	6,524	5,843
Mutual funds	38,988	4,898
Equities – mutual funds:		
Domestic large-cap indexed	392,803	291,303
Domestic mid-cap indexed	62,990	44,755
Domestic small-cap	47,292	37,037
International	215,254	147,789
Equity securities:		
Domestic small-cap	43,887	33,667
Commodities – mutual fund	48,244	29,292
Private equity	12,148	6,822
	<b>1,050,068</b>	<b>720,123</b>
Donor restricted:		
Cash and cash equivalents	1,718	7,942
Fixed income:		
U.S. Treasury notes	20,752	16,140
U.S. Government agencies	12,638	15,282
Corporate obligations	19,663	17,610
Foreign obligations	2,138	2,292
Mutual funds	9,560	–
Equities – mutual funds:		
Domestic large-cap indexed	69,073	65,370
Domestic mid-cap indexed	10,463	9,654
Domestic small-cap	7,839	7,924
International	35,959	32,657
Equity securities:		
Domestic small-cap	7,383	8,451
Commodities – mutual fund	9,746	8,250
Private equity	1,772	–
Other	2,239	3,347
	<b>210,943</b>	<b>194,919</b>
Total assets limited as to use	<b>\$ 1,338,102</b>	<b>\$ 1,002,803</b>

## Nationwide Children's Hospital, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 5. Assets Limited as to Use (continued)

Nationwide Children's has committed capital yet to be called of approximately \$39,391,000 at December 31, 2014 to private equity funds over the next five to seven years.

The composition of the investment return on board designated and funds held by trustee recognized in the consolidated statement of operations is as follows for the year ended December 31:

	<b>2014</b>	<b>2013</b>
	<i>(In Thousands)</i>	
Investment return:		
Dividend and interest income	\$ 15,953	\$ 11,113
Realized gains on the sale of investments, net	30,152	46,333
Change in unrealized gains on investments, net	886	84,841
	<u>\$ 46,991</u>	<u>\$ 142,287</u>

#### 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.

## Nationwide Children's Hospital, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **6. Fair Value Measurements (continued)**

Cash and cash equivalents are principally invested in money market funds. The money market funds are valued at their net asset value. Net asset value is equal to the fair value of each money market fund's investments and other assets, less liabilities, divided by the number of fund shares. The money market funds are comprised of highly liquid investments with maturities of three months or less and are classified as Level 1 instruments. Equity securities or mutual funds are valued at the closing price on the exchange where the security is principally traded, a market based valuation technique. The instruments are classified as Level 1 because quoted prices in active markets are available. Nationwide Children's does not adjust quoted prices for such instruments.

U.S. Treasury bonds, U.S. Treasury notes, U.S. Government agencies, and corporate obligations are valued based upon a compilation of primarily observable market information or quoted prices that are not active. Mutual funds are valued at net asset values while foreign obligations are valued by using vendor evaluated prices. Because the evaluated prices for these fixed income securities are based upon observable inputs, such as available trade information, spreads, bids and offers, broker feeds and reported trades, adjustments for corporate actions, and benchmark yields, instruments in these categories are classified as Level 2. For interest rate swap liabilities, the Corporation uses a discounted cash flow analysis incorporating interest rates and LIBOR curves when assessing fair value, an income based valuation technique. Such instruments are generally classified as Level 2 securities. Private equity investments are accounted for using a method of accounting similar to the equity method of accounting. Private equity investments are not required to be marked to fair value on a recurring basis and therefore are not disclosed in the accompanying table. The carrying amount of private equity investments approximates fair value based upon the nature of the underlying investments.

The carrying amounts of the variable rate, long-term debt, as detailed in Note 8, 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, 2014 and 2013, is approximately \$300,033,000 (carrying value \$276,280,000) and \$286,325,000 (carrying value \$280,395,000), respectively. The Corporation's debt obligations are classified consistent with Level 2 of the fair value hierarchy.

Nationwide Children's Hospital, Inc. and Subsidiaries

Notes to Consolidated 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:

	2014			Total Fair Value
	Level 1	Level 2	Level 3	
<b>Assets</b>				
Cash and cash equivalents	\$ 36,196	\$ –	\$ –	\$ 36,196
Fixed income:				
U.S. Treasury bonds	–	4,198	–	4,198
U.S. Treasury notes	–	95,158	–	95,158
U.S. Government agencies	–	51,826	–	51,826
Corporate obligations	–	87,120	–	87,120
Foreign obligations	–	10,043	–	10,043
Mutual funds	49,510	3,610	–	53,120
Equities – mutual funds:				
Domestic large-cap indexed	475,507	–	–	475,507
Domestic mid-cap indexed	75,736	–	–	75,736
Domestic small-cap	56,850	–	–	56,850
International	259,091	–	–	259,091
Equities – domestic small-cap	52,866	–	–	52,866
Commodities – mutual fund	–	61,664	–	61,664
Other	–	2,239	–	2,239
Total assets	<u>\$ 1,005,756</u>	<u>\$ 315,858</u>	<u>\$ –</u>	<u>\$ 1,321,614</u>
<b>Liabilities</b>				
Interest rate swaps	\$ –	\$ 38,035	\$ –	\$ 38,035
Total liabilities	<u>\$ –</u>	<u>\$ 38,035</u>	<u>\$ –</u>	<u>\$ 38,035</u>

Nationwide Children's Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**6. Fair Value Measurements (continued)**

	<b>2013</b>			<b>Total Fair Value</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
<b>Assets</b>				
Cash and cash equivalents	\$ 26,668	\$ –	\$ –	\$ 26,668
Fixed income:				
U.S. Treasury bonds	–	3,717	–	3,717
U.S. Treasury notes	–	69,463	–	69,463
U.S. Government agencies	–	56,941	–	56,941
Corporate obligations	–	70,264	–	70,264
Foreign obligations	–	9,812	–	9,812
Mutual funds	1,158	3,740	–	4,898
Equities – mutual funds:				
Domestic large-cap indexed	372,831	–	–	372,831
Domestic mid-cap indexed	56,889	–	–	56,889
Domestic small-cap	46,864	–	–	46,864
International	189,101	–	–	189,101
Equities – domestic small-cap	44,064	–	–	44,064
Commodities – mutual fund	–	41,122	–	41,122
Other	–	3,347	–	3,347
<b>Total assets</b>	<b>\$ 737,575</b>	<b>\$ 258,406</b>	<b>\$ –</b>	<b>\$ 995,981</b>
<b>Liabilities</b>				
Interest rate swaps	\$ –	\$ 16,802	\$ –	\$ 16,802
<b>Total liabilities</b>	<b>\$ –</b>	<b>\$ 16,802</b>	<b>\$ –</b>	<b>\$ 16,802</b>

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 Consolidated 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, 2014, 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, 2014.

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 an annual rate of 1.45% at December 31, 2014 and 2013 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 Consolidated Financial Statements (continued)

**8. Long-Term Debt**

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

	<b>2014</b>	<b>2013</b>
	<i>(In Thousands)</i>	
Hospital Revenue Refunding Bonds, Adjustable Rate, Series 2014A	\$ 50	\$ –
Hospital Revenue Refunding Bonds, Adjustable Rate, Series 2014B	50	–
Hospital Revenue Refunding Bonds, Adjustable Rate, Series 2013A	41,980	43,370
Hospital Revenue Refunding Bonds, Adjustable Rate, Series 2013B	21,735	22,830
Hospital Improvement Revenue Bonds, Series 2012A	71,920	73,460
Hospital Improvement Revenue Bonds, Series 2009	95,280	97,010
Hospital Improvement Revenue Bonds, Series 2008A	44,690	44,925
Hospital Improvement Revenue Bonds, Variable Rate Demand, Series 2008B	44,695	44,930
Hospital Revenue Refunding Bonds, Variable Rate Demand, Series 2008C	13,670	14,675
Hospital Revenue Refunding Bonds, Variable Rate Demand, Series 2008D	46,620	46,620
Hospital Revenue Refunding Bonds, Variable Rate Demand, Series 2008F	36,600	38,110
Hospital Improvement Revenue Bonds, Series 2005C	64,390	65,000
Hospital Improvement Revenue Bonds, Variable Rate Demand, Series 1992B	–	900
	<b>481,680</b>	491,830
Less current portion	<b>(77,042)</b>	(77,795)
	<b>\$ 404,638</b>	\$ 414,035

In 2014, The County of Franklin, Ohio (the County) committed to the issuance of \$17,225,000 of Hospital Revenue Refunding Bonds (the 2014A Bonds) and \$45,580,000 of Hospital Revenue Refunding Bonds (the 2014B Bonds). An initial draw of \$50,000 was required at closing for both the 2014A and 2014B Bonds. In May 2015, the remaining 2014A Bonds will be issued for the purpose of current refunding of the 2005C Serial Bonds, and the remaining 2014B Bonds will be issued for the purpose of current refunding of the 2005C Term Bonds.

## Nationwide Children's Hospital, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **8. Long-Term Debt (continued)**

In June 2013, the County issued \$44,155,000 of Hospital Revenue Refunding Bonds (the 2013A Bonds). These bonds were purchased by a bank to which Nationwide Children's makes varying principal payments, beginning November 1, 2013 and ending November 1, 2023. On November 1, 2023, \$27,070,000 of unpaid principal will remain outstanding. The 2013A Bonds bear interest at an annual adjustable rate, which was 0.84% as of December 31, 2014, payable monthly.

In June 2013, the County issued \$22,830,000 of Hospital Revenue Refunding Bonds (the 2013B Bonds). These bonds were purchased by a bank to which Nationwide Children's makes varying principal payments, beginning May 1, 2014 and ending November 1, 2023. On November 1, 2023, \$10,025,000 of unpaid principal would remain outstanding. The 2013B Bonds bear interest at an annual adjustable rate, which was 0.84% as of December 31, 2014, payable monthly.

In May 2012, the County issued \$75,000,000 of Hospital Improvement Revenue Bonds (the 2012A Bonds). The 2012A Bonds consisted of \$21,920,000 and \$23,460,000 serial bonds as of December 31, 2014 and December 31, 2013, respectively, maturing in varying amounts from 2014 through 2027, and \$50,000,000 term bonds due in 2042. The serial bonds bear interest at rates ranging from 3% to 5% as of December 31, 2014 and December 31, 2013. The term bonds bear annual 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.

In December 2009, the County issued \$100,000,000 of Hospital Improvement Revenue Bonds (the 2009 Bonds). The 2009 Bonds consisted of \$22,685,000 and \$24,415,000 serial bonds as of December 31, 2014 and December 31 2013, respectively, 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 annual rates ranging from 4% to 5% and 3% to 5% as of December 31, 2014 and 2013, respectively. The term bonds due in 2029, 2034, and 2040 bear annual interest at 4.75%, 5% and 5.25%, respectively. 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.

## Nationwide Children's Hospital, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **8. Long-Term Debt (continued)**

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 annual interest at a variable rate, which was 0.03% as of December 31, 2014, payable monthly.

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 annual interest at a variable rate, which was 0.03% as of December 31, 2014, payable monthly.

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 annual interest at a variable rate, which was 0.03% as of December 31, 2014, payable monthly.

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 0.04% as of December 31, 2014, 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.

## Nationwide Children's Hospital, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **8. Long-Term Debt (continued)**

In May 2008, the County issued \$45,000,000 of Hospital Improvement Revenue Bonds (the 2008A Bonds). The 2008A Bonds consisted of \$2,760,000 and \$2,995,000 serial bonds as of December 31, 2014 and December 31, 2013, respectively, maturing generally in increasing amounts from 2014 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 annual interest at rates ranging from 4.125% to 5% and 3.75% to 5% as of December 31, 2014 and December 31, 2013, respectively. The term bonds due in 2028, 2033, and 2040 bear annual 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 \$18,810,000 and \$19,420,000 serial bonds as of December 31, 2014 and December 31, 2013, respectively, 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 annual interest at rates ranging from 4.125% to 5% and 4% to 5% as of December 31, 2014 and December 31, 2013, respectively. The term bonds due in 2030, 2035, and 2035 bear annual 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.

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 were subject to a mandatory sinking fund in which Nationwide Children's made annual principal payments in increasing amounts until December 1, 2014, at which time these bonds were fully amortized.

The owners of the 2008C, 2008D, and 2008F 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, six, and three years, respectively, in quarterly payments, plus any accrued interest.

## Nationwide Children's Hospital, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **8. Long-Term Debt (continued)**

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 \$14,297,000 and \$14,266,000 during 2014 and 2013, respectively.

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: 2015 – \$10,680,000; 2016 – \$10,950,000; 2017 – \$11,355,000 and 2018 – \$11,780,000. and 2019 – \$12,210,000.

## Nationwide Children's Hospital, Inc. and Subsidiaries

### Notes to Consolidated 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, 2008F, 2013A, 2013B, 2014A and 2014B 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 2008D	Series 2013A	Series 2008F	Series 2013B	Series 2014A	Series 2014B
<i>In Thousands</i>								
Notional amount at December 31, 2014	\$ 44,695	\$ 13,585	\$ 46,305	\$ 11,490	\$ 36,415	\$ 21,610	\$ 17,225	\$ 45,580
Effective date	5-1-08	12-12-02	9-18-03	11-1-06	9-1-05	9-23-05	5-1-15	5-1-15
Termination date	11-1-40	11-1-25	11-1-33	11-1-25	5-1-31	5-1-29	5-1-25	5-1-35
Fixed rate	4.13%	3.28%	3.22%	3.66%	3.57%	3.19%	1.78%	2.06%
Fair value at December 31, 2012	(13,222)	(2,389)	(10,442)	(2,307)	(7,672)	(3,593)	-	-
Unrealized gain (loss)	9,217	987	5,835	894	3,553	1,804	-	-
Credit Risk Adjustment	(1,061)	(51)	(509)	(49)	(249)	(99)	-	-
Fair value at December 31, 2013	(5,066)	(1,453)	(5,116)	(1,462)	(4,368)	(1,888)	-	-
Unrealized gain (loss)	<b>(8,908)</b>	<b>(155)</b>	<b>(4,767)</b>	<b>(91)</b>	<b>(1,620)</b>	<b>(716)</b>	<b>(484)</b>	<b>(2,513)</b>
Credit Risk Adjustment	<b>1,221</b>	<b>36</b>	<b>531</b>	<b>33</b>	<b>215</b>	<b>85</b>	<b>9</b>	<b>96</b>
Fair value at December 31, 2014	<b>\$ (12,753)</b>	<b>\$ (1,572)</b>	<b>\$ (9,352)</b>	<b>\$ (1,520)</b>	<b>\$ (5,773)</b>	<b>\$ (2,519)</b>	<b>\$ (475)</b>	<b>\$ (2,417)</b>

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 Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index, and will receive interest based on 100.89% of the 3 month London Interbank Offered Rate (LIBOR) rate under this interest rate swap agreement. The notional amount of this agreement was \$44,695,000 and \$44,930,000 at December 31, 2014 and 2013, respectively. The fair value of this agreement was \$2,298,000 and \$2,551,000 at December 31, 2014 and 2013, respectively.

Nationwide Children’s Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**9. Derivatives (continued)**

In September 2014, 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 2015. The notional amount of this interest rate swap agreement was \$40,000,000 at December 31, 2014. The effective date of this interest rate swap is July 1, 2015 and the fixed annual interest rate was 3%. The mandatory early termination date of this interest rate swap is July 1, 2015. The fair value of this agreement was \$(3,952,000) at December 31, 2014.

Nationwide Children’s has recorded the fair market value of these interest rate swap agreements of \$(38,035,000) and \$(16,802,000) in interest rate swaps and other long-term liabilities in the consolidated balance sheets as of December 31, 2014 and 2013, respectively. The change in fair market value of the interest rate swap agreements of \$(21,233,000) and \$20,763,000 in 2014 and 2013, respectively, is included in other nonoperating gains – 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, 2014:

(In Thousands)	Derivative Liabilities		
	Balance Sheet Location	Fair Value	Notional
Derivatives not designated as hedging instruments:			
	Interest rate swaps and other long-term liabilities	\$ 38,035	\$ 321,600
Interest rate contracts			

Nationwide Children’s made net payments on interest rate swaps of approximately \$6,092,000 and \$6,215,000 during 2014 and 2013, 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 Consolidated 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 components of net periodic benefit cost of the Plan:

	<b>December 31</b>	
	<b>2014</b>	<b>2013</b>
	<i>(In Thousands)</i>	
<b>Change in benefit obligation</b>		
Benefit obligation, beginning of the year	\$ 84,674	\$ 93,955
Service cost	295	338
Interest cost	3,537	3,149
Actuarial losses (gains)	14,106	(7,588)
Benefits paid	(5,234)	(5,180)
Benefit obligation, end of year	<u>97,378</u>	<u>84,674</u>
<b>Change in plan assets</b>		
Fair value of plan assets, beginning of the year	73,123	65,207
Actual return on plan assets	5,096	10,436
Employer contributions	1,677	2,660
Benefits paid	(5,234)	(5,180)
Fair value of plan assets, end of the year	<u>74,662</u>	<u>73,123</u>
<b>Funded status (deficit)</b>	<u>\$ (22,716)</u>	<u>\$ (11,551)</u>

Nationwide Children's Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**10. Defined Benefit Plan (continued)**

	<b>Year Ended December 31</b>	
	<b>2014</b>	<b>2013</b>
	<i>(In Thousands)</i>	
<b>Components of net periodic pension cost</b>		
Service cost	\$ 295	\$ 338
Interest cost	3,537	3,149
Expected return on plan assets	(4,644)	(4,444)
Amortization of net loss	1,070	1,535
Periodic pension expense	<u>\$ 258</u>	<u>\$ 578</u>

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

	<b>2014</b>	<b>2013</b>
Discount rate	<b>3.58%</b>	4.33%
Expected return on plan assets	<b>7.00%</b>	7.00%
	<b>RP-2014 with fully generational projection using scale MP-2014</b>	
Mortality		2014 PPA optional combined mortality

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

	<b>2014</b>	<b>2013</b>
Discount rate	<b>4.33%</b>	3.43%
Expected return on plan assets	<b>7.00%</b>	7.00%
	<b>2014 PPA optional combined mortality</b>	
Mortality		2013 PPA optional combined mortality

Nationwide Children’s Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**10. Defined Benefit Plan (continued)**

Included as a reduction in unrestricted net assets are actuarial losses of \$38,384,000 and \$25,800,000 at December 31, 2014 and 2013, respectively, which will be recognized in net periodic pension cost in future periods. The increase in the unrecognized actuarial loss during 2014 is due to changes in the mortality assumptions relating to plan participants and a reduction in the interest rate at which the pension obligation is discounted.

The accumulated benefit obligation of the Plan at December 31, 2014 and 2013 was \$97,378,000 and \$84,674,000, respectively.

Expected benefit payments for the next ten years are: 2015 – \$5,462,000; 2016 – \$5,633,000; 2017 – \$5,805,000; 2018 – \$5,922,000; 2019 – \$5,968,000 and 2020 through 2024 – \$30,117,000.

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

	<b>December 31</b>			
	<b>2014</b>		<b>2013</b>	
	<b>Actual</b>	<b>Target</b>	<b>Actual</b>	<b>Target</b>
Domestic equities	<b>52%</b>	<b>43%</b>	49%	43%
International equities	<b>8</b>	<b>7</b>	10	7
Fixed income and cash equivalents	<b>40</b>	<b>50</b>	41	50
	<b>100%</b>	<b>100%</b>	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 Consolidated Financial Statements (continued)

**10. Defined Benefit Plan (continued)**

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

	<b>2014</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total Fair Value</b>
	<i>(In Thousands)</i>			
Cash and cash equivalents	\$ 5,700	\$ –	\$ –	\$ 5,700
Fixed income:				
U.S. Treasury notes	–	6,167	–	6,167
U.S. Government agencies	–	8,276	–	8,276
Corporate obligations	–	8,892	–	8,892
Foreign obligations	–	514	–	514
Equities – mutual funds:				
Domestic large-cap indexed	27,406	–	–	27,406
Domestic mid-cap indexed	4,542	–	–	4,542
Domestic small-cap indexed	6,941	–	–	6,941
International	6,224	–	–	6,224
<b>Total</b>	<b>\$ 50,813</b>	<b>\$ 23,849</b>	<b>\$ –</b>	<b>\$ 74,662</b>

  

	<b>2013</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total Fair Value</b>
	<i>(In Thousands)</i>			
Cash and cash equivalents	\$ 7,386	\$ –	\$ –	\$ 7,386
Fixed income:				
U.S. Treasury notes	–	6,121	–	6,121
U.S. Government agencies	–	8,615	–	8,615
Corporate obligations	–	6,921	–	6,921
Foreign obligations	–	611	–	611
Equities – mutual funds:				
Domestic large-cap indexed	30,567	–	–	30,567
Domestic mid-cap indexed	5,577	–	–	5,577
International	7,325	–	–	7,325
<b>Total</b>	<b>\$ 50,855</b>	<b>\$ 22,268</b>	<b>\$ –</b>	<b>\$ 73,123</b>

## Nationwide Children's Hospital, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **10. Defined Benefit Plan (continued)**

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 \$1,555,000 to the Plan during 2015. The Hospital estimates that it will amortize approximately \$1,410,000 of the net actuarial losses from unrestricted net assets into net periodic pension cost during 2015.

#### **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 \$27,796,000 and \$24,109,000 during 2014 and 2013, respectively. PAA incurred expenses related to these plans totaling \$6,100,000 and \$5,600,000 during 2014 and 2013, respectively.

Nationwide Children’s Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**12. Property and Equipment**

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

	<b>2014</b>	<b>2013</b>
	<i>(In Thousands)</i>	
Land and land improvements	\$ 71,228	\$ 70,611
Buildings and improvements	1,030,341	998,776
Equipment	367,075	345,384
Construction-in-progress	55,229	38,215
	<b>1,523,873</b>	1,452,986
Allowances for depreciation	<b>(478,307)</b>	(420,132)
	<b>\$ 1,045,566</b>	\$ 1,032,854

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.

Capitalized computer software costs of \$15,631,000 and \$18,748,000 at December 31, 2014 and 2013, respectively, primarily related to clinical information systems, patient financial systems and enterprise resource planning software implementations are included in equipment. The related amortization included in depreciation expense in the consolidated statements of operations and changes in net assets was \$5,062,000 and \$5,236,000 for the years ended December 31, 2014 and 2013, respectively.

Outstanding commitments for the purchase of property and equipment were approximately \$24,937,000 and \$8,388,000 at December 31, 2014 and 2013, respectively. Nationwide Children’s expects to pay outstanding commitments at December 31, 2014 throughout the next year using 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 annual interest rate to the year in which the promise is received, which ranges from 0% to 4%.

Nationwide Children's Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**13. Pledges Receivable (continued)**

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

	<b>2014</b>	<b>2013</b>
	<i>(In Thousands)</i>	
Gross unconditional pledges receivable	\$ 24,159	\$ 25,845
Less:		
Allowance for uncollectible pledges	(1,416)	(1,232)
Unamortized discount	(1,104)	(3,874)
Net unconditional pledges receivable	<u>\$ 21,639</u>	<u>\$ 20,739</u>
Amounts due in:		
Less than one year	\$ 12,580	\$ 6,527
One to five years	10,706	18,464
Greater than five years	873	854
Total	<u>\$ 24,159</u>	<u>\$ 25,845</u>

**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:

	<b>2014</b>	<b>2013</b>
	<i>(In Thousands)</i>	
Healthcare services	\$ 1,185,795	\$ 1,126,175
General and administrative	292,037	267,989
Education	30,457	28,675
Foundation	5,573	4,162
Research	85,555	84,412
	<u>\$ 1,599,417</u>	<u>\$ 1,511,413</u>

Nationwide Children's Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**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:

	<b>December 31</b>	
	<b>2014</b>	<b>2013</b>
Medicaid	<b>51%</b>	53%
Commercial	<b>33</b>	32
Other third-party payors	<b>7</b>	5
Patients' responsibility	<b>9</b>	10
	<b>100%</b>	100%

**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:

	<b>December 31</b>	
	<b>2014</b>	<b>2013</b>
	<i>(In Thousands)</i>	
Temporarily restricted net assets:		
Program support	<b>\$ 99,752</b>	\$ 86,068
Research	<b>18,545</b>	19,365
	<b>\$ 118,297</b>	\$ 105,433
Permanently restricted net assets:		
Program support	<b>\$ 76,234</b>	\$ 71,929
Research	<b>27,458</b>	27,262
	<b>\$ 103,692</b>	\$ 99,191

## Nationwide Children's Hospital, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **16. Temporarily and Permanently Restricted Net Assets (continued)**

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.

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.

Nationwide Children's Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**16. Temporarily and Permanently Restricted Net Assets (continued)**

In 2014, Nationwide Children's had the following endowment-related activities:

	<b>Changes in Endowment Net Assets For the Year Ended December 31, 2014</b>		
	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 42,691	\$ 99,191	\$ 141,882
Investment return:			
Investment income	4,463	-	4,463
Unrealized gains	666	-	666
Total investment return	5,129	-	5,129
Contributions	-	4,501	4,501
Appropriation of endowment assets for expenditure from operations	(3,745)	-	(3,745)
Endowment net assets, end of year	<u>\$ 44,075</u>	<u>\$ 103,692</u>	<u>\$ 147,767</u>

In 2013, Nationwide Children's had the following endowment-related activities:

	<b>Changes in Endowment Net Assets For the Year Ended December 31, 2013</b>		
	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 28,366	\$ 90,598	\$ 118,964
Investment return:			
Investment income	7,199	-	7,199
Unrealized gains	10,100	-	10,100
Total investment return	17,299	-	17,299
Contributions	-	8,593	8,593
Appropriation of endowment assets for expenditure from operations	(2,974)	-	(2,974)
Endowment net assets, end of year	<u>\$ 42,691</u>	<u>\$ 99,191</u>	<u>\$ 141,882</u>

Nationwide Children's Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**17. Subsequent Events**

Nationwide Children's has performed an evaluation of subsequent events through April 23, 2015, which is the date the consolidated financial statements were available to be issued. Subsequent to year end, Nationwide Children's through the County plans to issue \$100 million of Hospital Improvement Revenue Bonds to fund a portion of building improvements to certain facilities on the Hospital's main campus and construction of an ambulatory facility to be located at the west end of the Hospital's main campus. No other subsequent events were identified that required recognition or disclosure in the consolidated financial statements.

# Supplementary Information

Nationwide Children's Hospital, Inc. and Subsidiaries

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2014

Federal Grantor/Pass Through/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Research and Development Cluster	Other	Federal Total Expenditures
<b>Department of Agriculture</b>					
Special Supplemental Nutrition Program for Women, Infants, and Children Pass-Through Columbus Department of Health	10.557	02520011WA0108	\$ -	\$ 567,700	\$ 567,700
<b>Department of Defense</b>					
Military Medical Research and Development Pass-Through Children's Hospital Medical Center Cincinnati	12.420	W81XWH	425,197	-	425,197
Trade Adjustment Assistance Community College and Career Training (TAACCT) Grants Pass-Through Massachusetts Eye and Ear Infirmary	12.420	W81XWH	4,502	-	4,502
	17.282	W81XWH	9,434	-	9,434
Air Force Defense Research Sciences Program Pass-Through Air Force Medical Services	12.420	W81XWH	62,795	-	62,795
Pass-Through Air Force Medical Services	12.800	FA7014-09-2	833,573	-	833,573
			1,335,501	-	1,335,501
<b>Department of Justice</b>					
Crime Victim Assistance Pass-Through Attorney General's Office	16.575	VACHAE107	-	118,328	118,328
<b>National Science Foundation</b>					
Biological Sciences	47.074		20,699	-	20,699
Engineering Grants Pass-Through Nanofiber Solutions, LLC	47.041	IIP1315524	57,485	-	57,485
			57,485	-	57,485
<b>Department of Education</b>					
National Institute on Disability and Rehabilitation Research Pass-Through Cincinnati Children's Hospital Medical Center	84.133	H133B090010	86,807	-	86,807
Special Education-Grants for Infants and Families Pass-Through Franklin County Department of Job & Family Services	84.181	FCFC-10-020	-	(258)	(258)
Pass-Through Ohio Department of Health	84.181	25300111HB	-	60,290	60,290
			86,807	60,032	146,839
<b>Department of Health and Human Services</b>					
Hospital Preparedness Program and Public Health Emergency Preparedness Aligned Cooperative Agreements Pass-Through Cincinnati Children's Hospital Medical Center	93.074	134586	47,154	-	47,154
Affordable Care Act Personal Responsibility Education Program Pass-Through Ohio Department of Health	93.092	PR0112	-	164,917	164,917
Food and Drug Administration Research Pass-Through John Hopkins University	93.103		32,910	-	32,910
Pass-Through Penn State College of Medicine	93.103	FD003898	1,889	-	1,889
		FD003410	1,303	-	1,303
			36,102	-	36,102
Maternal and Child Health Federal Consolidated Programs Pass-Through Massachusetts General Hospital	93.110		29,692	6,580	36,272
Pass-Through Ohio State University Office of Sponsored Programs	93.110	MC11054	38,589	-	38,589
Pass-Through Autism Speaks	93.110	T7MC0049	-	108,381	108,381
Pass-Through University of Rochester Medical Center	93.110	MC 11054	4,099	-	4,099
Pass-Through Partners Healthcare	93.110	416523	10,952	-	10,952
Pass-Through Hemophilia Foundation of Michigan/CDC	93.110	MC11054	125,952	-	125,952
		H30MC	-	12,508	12,508
			209,284	127,469	336,753
Environmental Health Pass-Through Columbia University	93.113	ES017875	1,093	-	1,093
Oral Diseases and Disorders Research Pass-Through The Forsyth Institute	93.121		112,751	-	112,751
Pass-Through The University of Utah	93.121	DE019117	31,681	-	31,681
Pass-Through The University of North Carolina	93.121	DE023519	19,934	-	19,934
		DE022566	85,059	-	85,059
			249,425	-	249,425
Emergency Medical Services for Children Pass-Through University of Michigan	93.127		138,925	-	138,925
	93.127	MC00003	138,925	-	138,925
Centers for Research and Demonstration for Health Promotion and Disease Control Pass-Through Ohio State University Office of Sponsored Programs	93.135	DP001912	11,145	-	11,145
Injury Prevention and Control Research and State and Community Based Programs Pass-Through Cincinnati Children's Hospital Medical Center	93.136		721,951	-	721,951
Pass-Through University of Washington	93.136	CE002129	200,276	-	200,276
	93.136	CE002196	52,087	-	52,087
			974,314	-	974,314
Human Genome Research Pass-Through Ohio State University Office of Sponsored Projects	93.172	HG006575	5,652	-	5,652
Pass-Through Case Western Reserve University	93.172	HG005691	22,308	-	22,308
			27,960	-	27,960

Nationwide Children's Hospital, Inc. and Subsidiaries

Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Pass Through/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Research and Development Cluster	Other	Federal Total Expenditures
Research Related to Deafness and Communication Disorders	93.173		\$ 2,541,563	\$ -	\$ 2,541,563
Pass-Through Ohio State University Office of Sponsored Programs	93.173	60042911	4,246	-	4,246
			<u>2,545,809</u>	<u>-</u>	<u>2,545,809</u>
Research and Training in Complementary and Alternative Medicine	93.213		396,637	-	396,637
Pass-Through Columbia University	93.213	COLUM-0000042182	13,867	-	13,867
			<u>410,504</u>	<u>-</u>	<u>410,504</u>
Research on Healthcare Costs, Quality and Outcomes	93.226		57,840	-	57,840
Pass-Through National Committee for Quality Assurance	93.226	HS020503	628,369	-	628,369
			<u>686,209</u>	<u>-</u>	<u>686,209</u>
Mental Health Research Grants	93.242		473,834	-	473,834
Pass-Through Ohio State University Office of Sponsored Programs	93.242	MH079080	(67,595)	-	(67,595)
Pass-Through Autism Speaks	93.242	MH081754	29,663	-	29,663
Pass-Through Ohio State University Office of Sponsored Programs	93.242	MH081105	37,395	-	37,395
Pass-Through Izaak Walton Killam Health Centre	93.242	MH093994	7,391	-	7,391
Pass-Through University of Missouri	93.242	MH097726	194,493	-	194,493
Pass-Through Rutgers University	93.242	MH068457	351,045	-	351,045
Pass-Through Cincinnati Children's Hospital Medical Center	93.242	MH073816	76,351	-	76,351
Pass-Through Cincinnati Children's Hospital Medical Center	93.242	MH083665	166,738	-	166,738
			<u>1,269,315</u>	<u>-</u>	<u>1,269,315</u>
Substance Abuse and Mental Health Services-Projects of Regional and National Significance	93.243		5,893	-	5,893
Pass-Through Ohio University		SM059345			
Advanced Nursing Education Grant Program	93.247		-	17,658	17,658
Pass-Through Ohio State University Office of Sponsored Programs		D09HP26960			
Poison Control Stabilization and Enhancement Grants	93.253		-	313,051	313,051
Occupational Safety and Health Program	93.262		87,153	-	87,153
Alcohol Research Programs	93.273		312,247	-	312,247
Pass-Through Rhode Island Hospital	93.242	701-5475-1-OHA	2,709	-	2,709
			<u>314,956</u>	<u>-</u>	<u>314,956</u>
Drug Abuse and Addiction Research Program	93.279		(562)	-	(562)
Pass-Through University of Pittsburgh	93.279	DA026312	297,480	-	297,480
			<u>296,918</u>	<u>-</u>	<u>296,918</u>
Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283		34,470	-	34,470
Pass-Through Hemophilia Foundation of Michigan	93.283	CCU513182	-	17,173	17,173
			<u>34,470</u>	<u>17,173</u>	<u>51,643</u>
Centers for Disease Control and Prevention Investigations and Technical Assistance	93.297		74,563	-	74,563
Pass-Through Ohio Health	93.297	90AP2668	61,762	-	61,762
Pass-Through Carnegie Mellon University		1090314-259822	<u>136,325</u>	<u>-</u>	<u>136,325</u>
Minority Health and Health Disparities Research	93.307		208,717	-	208,717
Trans-NIH Research Support	93.310		57,708	-	57,708
Pass-Through John Hopkins University		TR000966			
National Center for Advancing Translational Sciences	93.350		215,711	-	215,711
Pass-Through Ohio State University Office of Sponsored Programs	93.350	TR000090	359,068	-	359,068
Pass-Through The OSU Center for Clinical and Translational Research		TR001070	<u>574,779</u>	<u>-</u>	<u>574,779</u>
National Center for Research Resources	93.389		124,455	-	124,455
Pass-Through The OSU Center for Clinical and Translational Science		RR025754			
Cancer Cause and Prevention Research	93.393		836,780	-	836,780
Pass-Through Ann & Robert H. Lurie Children's	93.393	CA166790	48,695	-	48,695
Pass-Through Brigham and Women's Hospital	93.393	CA163205	32,552	-	32,552
Pass-Through Vanderbilt University Medical Center	93.393	CA118332	139,615	-	139,615
			<u>1,057,642</u>	<u>-</u>	<u>1,057,642</u>
Cancer Detection and Diagnosis Research	93.394		3,503,573	-	3,503,573
Pass-Through University of Michigan	93.394	CA114748	(380,624)	-	(380,624)
Pass-Through Gynecologic Oncology Group	93.394	CA114793	40,199	-	40,199
Pass-Through Children's Hospital of Los Angeles	93.394	CA182633	21,873	-	21,873
Pass-Through NSABP Foundation, Inc.	93.394	CA114793	84,853	-	84,853
Pass-Through Oregon Health Sciences University	93.394	CA037429	1,189,024	-	1,189,024
			<u>4,458,898</u>	<u>-</u>	<u>4,458,898</u>

Nationwide Children's Hospital, Inc. and Subsidiaries

Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Pass Through/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Research and Development Cluster	Other	Federal Total Expenditures
Cancer Treatment Research	93.395		\$ 1,784,695	\$ -	\$ 1,784,695
Pass-Through Gynecologic Oncology Group	93.395	CA114793	486,283	-	486,283
Pass-Through Gynecologic Oncology Group	93.395	CA27469	339,547	-	339,547
Pass-Through Children's Oncology Group	93.395	CA180886	33,454	-	33,454
Pass-Through Ohio State University Office of Sponsored Programs	93.395	CA173473	11,824	-	11,824
Pass-Through University of Cincinnati	93.395	CA158372	12,999	-	12,999
Pass-Through Children's Hospital of Philadelphia	93.395	CA098543	1,442,624	-	1,442,624
Pass-Through Children's Hospital of Philadelphia	93.395	CA180884	22,366	-	22,366
Pass-Through Children's Hospital of Philadelphia	93.395	CM62212	5,612	-	5,612
Pass-Through UT Health Science Center	93.395	CA165995	16,500	-	16,500
Pass-Through St. Jude Children's Research Hospital	93.395	CA055727	41,627	-	41,627
			4,197,531	-	4,197,531
Cancer Biology Research					
Pass-Through Ohio State University Office of Sponsored Programs	93.396	CA180057	16,837	-	16,837
Cancer Centers Support Grants					
Pass-Through Sarcoma Alliance for Research	93.397	CA168512	17,295	-	17,295
Emergency Medical Services for Children					
Pass-Through Columbia University	93.418	MC19289	7,508	-	7,508
Affordable Care Act Maternal, Infant, and Early Childhood Home Visiting Program					
Pass-Through Ohio Department of Health	93.505	MV0113	-	438,060	438,060
Health Care Innovation Awards	93.610	CMS330977	4,161,524	-	4,161,524
University Centers for Excellence in Developmental Disabilities Education, Research, and Service					
Pass-Through Ohio State University Office of Sponsored Programs	93.632	GRT00009547	22,124	-	22,124
Trans-NIH Recovery Act Research Support	ARRA-93.701		17,958	-	17,958
Pass-Through Children's Hospital of Philadelphia	ARRA-93.701	CA098543	11,757	83,298	95,055
			29,715	83,298	113,013
Comparative Effectiveness Research					
Pass-Through ImproveCareNow	93.715		20,034	-	20,034
Medical Assistance Program					
Pass-Through Ohio State University Office of Sponsored Programs	93.778	G1213070343	-	14,186	14,186
Pass-Through Ohio State University Office of Sponsored Programs	93.778	G1415070060	15,969	-	15,969
			15,969	14,186	30,155
Cardiovascular Diseases Research	93.837		1,460,590	176,573	1,637,163
Pass-Through Duke University	93.837	HL092403	26,128	-	26,128
Pass-Through University of Colorado Denver	93.837	HL096895	(4,959)	-	(4,959)
Pass-Through Washington University	93.837	HL065238	3,828	-	3,828
Pass-Through Ohio State University Office of Sponsored Programs	93.837	HL116533	4,883	-	4,883
Pass-Through University of Michigan	93.837	HL094345	3,450	-	3,450
Pass-Through Cleveland Clinic Lerner	93.837	HL119810	22,464	-	22,464
Pass-Through Emory University	93.837	HL112309	33,935	-	33,935
Pass-Through Vanderbilt University Medical Center	93.837	HL108173	338	-	338
Pass-Through Cincinnati Children's Hospital Medical Center	93.837	HL108752	4,053	-	4,053
			1,554,710	176,573	1,731,283
Lung Diseases Research	93.838		197,113	-	197,113
Pass-Through John Hopkins University	93.838	HL68927	400	-	400
Pass-Through Seattle Children's Hospital	93.838	HL114623	6,876	-	6,876
Pass-Through University of Alabama at Birmingham	93.838	HL119280	31,532	-	31,532
Pass-Through Wayne State University	93.838	HL113508	9,209	-	9,209
			245,130	-	245,130
Blood Diseases and Resources Research					
Pass-Through National Childhood Cancer Foundation	93.839	HL69294	39	-	39
Arthritis, Musculoskeletal and Skin Diseases Research	93.846		1,054,757	-	1,054,757
Pass-Through Ohio State University Office of Sponsored Programs	93.846	AR061513	11,202	-	11,202
Pass-Through Medical College of Wisconsin	93.846	AR059750	7,063	-	7,063
Pass-Through Milo Biotechnology, Inc.	93.846	AR063150	53,824	-	53,824
Pass-Through Dartmouth College	93.846	AR061643	25,796	-	25,796
			1,152,642	-	1,152,642

Nationwide Children's Hospital, Inc. and Subsidiaries

Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Pass Through/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Research and Development Cluster	Other	Federal Total Expenditures
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847		\$ 1,900,194	\$ -	\$ 1,900,194
Pass-Through Cincinnati Children's Hospital Medical Center	93.847	DK072493	30,559	-	30,559
Pass-Through Cincinnati Children's Hospital Medical Center	93.847	DK080020	2,046	-	2,046
Pass-Through Children's Hospital of Philadelphia	93.847	DK066174	19,669	-	19,669
Pass-Through University of South Florida	93.847	*	6,349	-	6,349
Pass-Through Children's University of Iowa	93.847	DK096327	1	-	1
Pass-Through University of Michigan	93.847	DK083912	104,239	-	104,239
Pass-Through Medical College of Wisconsin	93.847	DK068051	96,277	-	96,277
Pass-Through University of Pittsburgh	93.847	DK087870	6,462	-	6,462
Pass-Through Connecticut Children's Medical Center	93.847	DK095745	22,052	-	22,052
			2,187,848	-	2,187,848
Digestive Diseases and Nutrition Research					
Pass-Through University of Pennsylvania	93.848	DK080738	2,072	-	2,072
Kidney Diseases, Urology and Hematology Research					
Pass-Through New York School of Medicine	93.849	DK070341	877	-	877
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853		3,964,943	-	3,964,943
Pass-Through University of Washington	93.853	NS07208	15,698	-	15,698
Pass-Through Ohio State University Office of Sponsored Programs	93.853	NS077984	5,514	-	5,514
Pass-Through Ohio State University Office of Sponsored Programs	93.853	NS043246	7,701	-	7,701
Pass-Through Ohio State University Office of Sponsored Programs	93.853	NS077382	22,625	-	22,625
Pass-Through Ohio State University Office of Sponsored Programs	93.853	NS086484	18,038	-	18,038
Pass-Through Ohio State University Office of Sponsored Programs	93.853	NS080368	9,040	-	9,040
Pass-Through Ohio State University Office of Sponsored Programs	93.853	NS083804	33,796	-	33,796
Pass-Through University of Rochester Medical Center	93.853	NS061799	6,464	-	6,464
Pass-Through University of Pittsburgh	93.853	NS084014	12,207	-	12,207
Pass-Through Massachusetts General Hospital	93.853	NS077179	4,056	-	4,056
Pass-Through Cincinnati Children's Hospital Medical Center	93.853	NS045911	56,513	-	56,513
Pass-Through Cincinnati Children's Hospital Medical Center	93.853	NS084885	42,224	-	42,224
Pass-Through Cincinnati Children's Hospital Medical Center	93.853	NS076788	34,833	-	34,833
Pass-Through University of California San Francisco	93.853	NS062820	2,682	-	2,682
			4,236,334	-	4,236,334
Allergy, Immunology and Transplantation Research	93.855		2,397,488	6,000	2,403,488
Pass-Through Benaroya Research Institute	93.855	AI082110	90,475	-	90,475
Pass-Through Baylor Research Institute	93.855	AI057234	32,070	-	32,070
Pass-Through Baylor Research Institute	93.855	AI089987	213,145	-	213,145
Pass-Through Ohio State University Office of Sponsored Programs	93.855	AI102786	17,102	-	17,102
Pass-Through Ohio State University Office of Sponsored Programs	93.855	AI073971	75,277	-	75,277
Pass-Through Ohio State University Office of Sponsored Programs	93.855	AI109112	19,731	-	19,731
Pass-Through Washington University	93.855	AI077810	12,129	-	12,129
Pass-Through Children's Hospital Boston	93.855	AI084011	76,062	-	76,062
			2,933,479	6,000	2,939,479
Biomedical Research and Research Training	93.859		875,888	-	875,888
Pass-Through St. Jude Children's Research Hospital	93.859	GM092666	56,593	-	56,593
Pass-Through Ohio State University Office of Sponsored Programs	93.859	GM092655	25,979	-	25,979
			958,460	-	958,460
Child Health and Human Development Extramural Research	93.865		1,486,800	-	1,486,800
Pass-Through Cincinnati Children's Hospital Medical Center	93.865	HD073149	1,934	-	1,934
Pass-Through Cincinnati Children's Hospital Medical Center	93.865	HD067174	14,593	-	14,593
Pass-Through Cincinnati Children's Hospital Medical Center	93.865	HD042719	23,518	-	23,518
Pass-Through Michigan Public Health Institute	93.865	HD069039	24,185	-	24,185
Pass-Through RTI International	93.865	HD068278	234,376	-	234,376
Pass-Through Children's Research Institute at Children's National Medical Center	93.865	HD071601	(16,317)	-	(16,317)
Pass-Through Ohio State University Office of Sponsored Programs	93.865	HD073504	7,132	-	7,132
Pass-Through Ohio State University Office of Sponsored Programs	93.865	HD068345	14,160	-	14,160
Pass-Through Ohio State University Office of Sponsored Programs	93.865	HD075638	9,010	-	9,010
Pass-Through Ohio State University Office of Sponsored Programs	93.865	HD036801	169	-	169
Pass-Through UC Davis Medical Center	93.865	HD062417	71,310	-	71,310
Pass-Through Medical College of Wisconsin	93.865	HD071924	23,475	-	23,475
Pass-Through University of Kansas Medical Center	93.865	HD066629	1,600	-	1,600
Pass-Through George Washington University	93.865	HD078877	16,940	-	16,940
Pass-Through Wayne State	93.865	HD062477	304,501	-	304,501
			2,217,386	-	2,217,386

Nationwide Children's Hospital, Inc. and Subsidiaries

Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Pass Through/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Research and Development Cluster	Other	Federal Total Expenditures
Vision Research	93.867		\$ 370,283	\$ -	\$ 370,283
Pass-Through Children's Hospital of Philadelphia	93.867	EY17014	50,579	-	50,579
Pass-Through Children's Hospital of Philadelphia	93.867	EY021137	9,192	-	9,192
Pass-Through Jaeb Center for Health	93.867	EY11751	12,006	-	12,006
			<u>442,060</u>	<u>-</u>	<u>442,060</u>
Disabilities	93.869		845,132	432,529	1,277,661
National Bioterrorism Hospital Preparedness Program					
Pass-Through Case Western Reserve University Rainbow Babies and Children's Hospital	93.889	2012-0372	-	52,126	52,126
Rural Health Care Services Outreach					
Pass-Through Ohio University	93.912	RH26831	9,074	-	9,074
HIV Emergency Relief Project Grants					
Pass-Through Columbus Health Departments	93.914	02530012HT0112	-	245,926	245,926
Outpatient Early Intervention Services with Respect to HIV Disease	93.918		-	411,435	411,435
Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome					
Pass-Through Ohio Department of Health	93.943	02530012HT0112	-	45,119	45,119
International Research and Research Training					
Pass-Through Colorado State University	93.989	D43TW007257	1,701	-	1,701
National Electronic Injury Surveillance					
Pass-Through Consumer Product Safety Commission	93.CPSCN100053	CPSC-N-10-0053	129,770	-	129,770
HHSN					
Cancer Therapy Evaluation Program	93.HHSN261201000001C		1,855,070	-	1,855,070
Trialnet Oral Insulin					
Pass-Through University of South Florida	93.HHSN267200800019C	59-73-0209K	13,251	-	13,251
Cancer Genome Atlas					
Pass-Through Gynecologic Oncology Group	ARRA-93.HHSN261201000018I	HHSN261201000018I	5,263	-	5,263
BIQSF Study					
Pass-Through Children's Hospital of Philadelphia	93.HHSN261200800001E	HHSN261200800001E	2,016,783	-	2,016,783
Biospecimen Core Resource for the Cancer Genome Atlas Project					
Pass-Through SAIC-Frederick, Inc.	ARRA-93.HHSN261201000047C	HHSN261201000047C	6,194,634	-	6,194,634
Biospecimen Core Resource for the Cancer Genome Atlas Project					
Pass-Through Leidos Biomedical Research, Inc.	93.14X242T01	14X242T01	32,905	-	32,905
Intergovernmental Personnel Act	93.11ST1019	11ST1019	310,642	-	310,642
Pass-Through SAIC-Frederick, Inc.	93.12XS383	12XS383	131,548	-	131,548
Pass-Through SAIC-Frederick, Inc.	93.11XS089	11XS089	119,563	-	119,563
			<u>10,679,659</u>	<u>-</u>	<u>10,679,659</u>
<b>Agency for International Development</b>					
USAID Foreign Assistance for Programs Overseas	98.001		298,334	-	298,334
			<u>\$ 51,848,889</u>	<u>\$ 3,291,580</u>	<u>\$ 55,140,469</u>

\*Pass-through entity identifying number is unknown

See accompanying note to the Schedule of Expenditures of Federal Awards

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

Note to the Schedule of Expenditures of Federal Awards

December 31, 2014

**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, 2014. 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.

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

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

**1. Summary of Significant Accounting Policies (continued)**

**Subrecipients**

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

Program Title	CFDA Number	Amount Provided to Subrecipient
Military Medical Research and Development	12.420	\$ 52,206
Air Force Defense Research Sciences Program	12.800	174,286
Affordable Care Act Personal Responsibility Education Program	93.092	648
Maternal and Child Health Federal Consolidated Program	93.110	12,420
Injury Prevention and Control Research and State and Community Based Programs	93.136	97,877
Research Related to Deafness and Communication Disorders	93.173	591,046
Research and Training in Complementary and Alternative Medicine	93.213	9,872
Research on Healthcare Costs, Quality and Outcomes	93.226	24,356
Mental Health Research Grants	93.242	10,235
Minority Health and Health Disparities Research	93.307	4,573
Cancer Cause and Prevention Research	93.393	190,911
Cancer Detection and Diagnosis Research	93.394	387,160
Cancer Treatment Research	93.395	925,491
Health Care Innovation Awards	93.610	2,162,323
Trans-NIH Recovery Act Research Support	93.701	10,000
Cardiovascular Diseases Research	93.837	376,437
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	134,190
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	188,131
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	416,481
Allergy, Immunology and Transplantation Research	93.855	76,682
Biomedical Research and Research Training	93.859	79,549

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

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

**1. Summary of Significant Accounting Policies (continued)**

**Subrecipients (continued)**

<b>Program Title</b>	<b>CFDA Number</b>	<b>Amount Provided to Subrecipient</b>
Child Health and Human Development Extramural Research	93.865	327,924
Vision Research	93.867	27,305
Human Immunodeficiency Virus (HIV)	93.944	36,128
USAID Foreign Assistance for Programs Overseas	98.001	125,240
	93.HHSN26120100	
Cancer Therapy Evaluation Program	0001C	550,925
Biospecimen Core Resource for the Cancer Genome Atlas Project	93.HHSN26120080 0001E	403,748
		<u>\$ 7,396,144</u>

# Compliance and Internal Controls



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## 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*

Senior 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 balance sheet as of December 31, 2014, and the related consolidated statements of operations and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 23, 2015.

### **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 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether 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 23, 2015

## Report of Independent Auditors on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

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

### **Report on Compliance for Each Major Federal Program**

We have audited Nationwide Children's Hospital, Inc. and Subsidiaries' 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. and Subsidiaries' major federal programs for the year ended December 31, 2014. Nationwide Children's Hospital, Inc. and Subsidiaries' major federal programs are 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 each of Nationwide Children's Hospital, Inc. and Subsidiaries' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; 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. and Subsidiaries' 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 each major federal program. However, our audit does not provide a legal determination of Nationwide Children's Hospital, Inc. and Subsidiaries' compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, Nationwide Children’s Hospital, Inc. and Subsidiaries complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

### **Report on Internal Control Over Compliance**

Management of Nationwide Children’s Hospital, Inc. and Subsidiaries 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. and Subsidiaries’ internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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. and Subsidiaries’ 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 combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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



## **Purpose of this Report of Independent Auditors**

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 requirement of OMB Circular A-133. Accordingly, this communication is not suitable for any other purpose.

*Ernst & Young LLP*

Columbus, Ohio  
May 12, 2015

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

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2014

**Part I—Summary of auditor's results**

**Financial statements section**

Type of auditor's report issued (unmodified, qualified, adverse or disclaimer):

Unmodified Opinion

Internal control over financial reporting:

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

**Federal awards section**

Internal control over major federal programs:

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

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?

	_____	<b>yes</b>	<u>  X  </u>	<b>no</b>
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Nationwide Children’s Hospital, Inc. and Subsidiaries  
Single Audit Report

Schedule of Findings and Questioned Costs (continued)

Identification of major programs:

**CFDA numbers**

Various

**Name of federal program or cluster**

Research and development cluster

Dollar threshold used to distinguish  
between Type A and Type B programs:

\$1,654,214

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

**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.

None.

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

Summary of Prior Audit Findings

For the Year Ended December 31, 2014

**12-01**

**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 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.

Update:

Management’s corrective action was implemented in 2013.

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