



**THE NEMOURS FOUNDATION AND SUBSIDIARIES**

Combined Financial Statements and Supplementary Information  
and

Reports as Required by Title 2 U.S. Code of Federal Regulations Part 200,  
*Uniform Administrative Requirements, Cost Principles and Audit Requirements for  
Federal Awards* and Chapter 10.650 *Rules of the Auditor General, State of Florida*

December 31, 2015 and 2014

(With Independent Auditors' Reports Thereon)

# THE NEMOURS FOUNDATION AND SUBSIDIARIES

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**KPMG LLP**  
Suite 500  
501 Riverside Avenue  
Jacksonville, FL 32202

## **Independent Auditors' Report**

The Board of Directors  
The Nemours Foundation:

We have audited the accompanying combined financial statements of The Nemours Foundation and subsidiaries, which comprise the combined balance sheets as of December 31, 2015 and 2014, and the related combined statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the combined financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the combined financial position of The Nemours Foundation and subsidiaries as of December 31, 2015 and 2014, and the changes in their net assets and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



### **Other Matters**

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

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2016 on our consideration of The Nemours Foundation 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 The Nemours Foundation and subsidiaries' internal control over financial reporting and compliance.

**KPMG LLP**

Jacksonville, Florida  
April 29, 2016  
Certified Public Accountants

**THE NEMOURS FOUNDATION AND SUBSIDIARIES**

Combined Balance Sheets

December 31, 2015 and 2014

Assets	2015	2014
Current assets:		
Cash and cash equivalents	\$ 209,085,312	83,677,509
Short-term investments	21,879,021	32,318,007
Accounts receivable, less allowances for doubtful accounts of approximately \$45,770,000 in 2015 and \$55,699,000 in 2014	125,458,638	106,386,125
Supplies	5,428,485	4,906,467
Prepaid expenses and other current assets	23,627,278	19,201,542
Total current assets	385,478,734	246,489,650
Investments	66,553,592	69,433,306
Assets whose use is limited:		
Internally designated for self-insurance reserves	69,221,477	56,418,035
Internally designated for future Delaware construction	72,408,882	102,216,241
Other designated	45,504,439	47,143,507
	187,134,798	205,777,783
Temporarily restricted assets:		
Cash and investments	204,606,494	232,037,725
Pledges receivable, net	2,320,182	3,738,986
Land held for investment	106,095	106,095
Other assets	136,668	139,070
	207,169,439	236,021,876
Property and equipment:		
Land and land improvements	101,628,934	98,720,548
Buildings and leasehold improvements	832,344,214	819,198,194
Equipment	612,554,638	582,990,411
	1,546,527,786	1,500,909,153
Less accumulated depreciation	(610,090,259)	(540,591,380)
	936,437,527	960,317,773
Construction in progress	36,193,009	14,902,280
Net property and equipment	972,630,536	975,220,053
Other assets	11,990,232	9,716,877
Permanently restricted assets:		
Cash and investments	3,755,477	3,669,805
Beneficial interest in perpetual trust	2,040,404	—
Pledges receivable, net	88,691	60,610
	5,884,572	3,730,415
Inexhaustible assets	3,386,733	3,386,733
Total assets	\$ 1,840,228,636	1,749,776,693
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 49,972,029	44,577,426
Accrued compensation and benefits	88,547,267	81,383,479
Current portion of self-insurance reserves	9,580,000	—
Current portion of long-term debt	7,575,000	7,955,000
Deferred revenue	5,763,037	3,631,528
Total current liabilities	161,437,333	137,547,433
Self-insurance reserves	51,634,897	60,853,627
Long-term debt, less current portion	397,189,769	343,749,707
Liabilities for pension benefits	156,010,791	239,960,818
Total liabilities	766,272,790	782,111,585
Net assets:		
Unrestricted	858,532,088	725,543,070
Temporarily restricted	207,169,439	236,021,876
Permanently restricted	8,254,319	6,100,162
Total net assets	1,073,955,846	967,665,108
Commitments and contingencies		
Total liabilities and net assets	\$ 1,840,228,636	1,749,776,693

See accompanying notes to combined financial statements.

**THE NEMOURS FOUNDATION AND SUBSIDIARIES**

Combined Statements of Operations

Years ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Unrestricted revenues and other support:		
Patient service revenue (net of contractual allowances and discounts)	\$ 915,602,890	854,482,829
Provision for bad debts	<u>(29,031,745)</u>	<u>(44,680,742)</u>
Net patient service revenues less provision for bad debts	886,571,145	809,802,087
Distribution from the Alfred I. duPont Testamentary Trust	157,381,038	150,223,020
Net assets released from restrictions used for operations	29,766,911	33,848,404
Investment return	2,312,627	7,822,489
Contracted services revenue	23,515,705	20,523,180
Grant revenue	28,162,972	23,510,356
Other income	<u>12,445,650</u>	<u>13,751,128</u>
Total revenues and other support	<u>1,140,156,048</u>	<u>1,059,480,664</u>
Operating expenses:		
Salaries and benefits	713,775,244	643,197,843
Professional fees	33,095,633	32,343,439
Supplies	111,335,465	101,481,406
Repairs and maintenance	24,254,637	20,662,679
Purchased services	55,206,356	51,382,164
Depreciation	76,223,639	63,732,981
Rent and lease expense	17,463,223	15,339,425
Utilities and telephone	17,521,403	19,006,904
Insurance	10,820,471	29,514,292
Interest	9,740,509	8,659,031
Advertising	6,769,838	7,207,334
Other	<u>16,843,411</u>	<u>18,711,978</u>
Total operating expenses	<u>1,093,049,829</u>	<u>1,011,239,476</u>
Operating income	47,106,219	48,241,188
Net assets released from restrictions used for capital purchases	1,932,772	3,268,573
Pension liability adjustment	<u>83,950,027</u>	<u>(162,249,971)</u>
Increase (decrease) in unrestricted net assets	<u>\$ 132,989,018</u>	<u>(110,740,210)</u>

See accompanying notes to combined financial statements.

**THE NEMOURS FOUNDATION AND SUBSIDIARIES**

Combined Statements of Changes in Net Assets

Years ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Unrestricted net assets:		
Operating income	\$ 47,106,219	48,241,188
Net assets released from restrictions used for capital purchases	1,932,772	3,268,573
Pension liability adjustment	83,950,027	(162,249,971)
Increase (decrease) in unrestricted net assets	<u>132,989,018</u>	<u>(110,740,210)</u>
Temporarily restricted net assets:		
Net assets released from restrictions used for operations	(29,766,911)	(33,848,404)
Net assets released from restrictions used for capital purchases	(1,932,772)	(3,268,573)
Investment return	(1,369,938)	11,373,608
Contributions	4,217,184	4,393,653
Decrease in temporarily restricted net assets	<u>(28,852,437)</u>	<u>(21,349,716)</u>
Permanently restricted net assets:		
Contributions	2,154,157	27,240
Increase in permanently restricted net assets	<u>2,154,157</u>	<u>27,240</u>
Increase (decrease) in net assets	106,290,738	(132,062,686)
Net assets, beginning of year	<u>967,665,108</u>	<u>1,099,727,794</u>
Net assets, end of year	<u>\$ 1,073,955,846</u>	<u>967,665,108</u>

See accompanying notes to combined financial statements.

## THE NEMOURS FOUNDATION AND SUBSIDIARIES

### Combined Statements of Cash Flows

Years ended December 31, 2015 and 2014

	<b>2015</b>	<b>2014</b>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 106,290,738	(132,062,686)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	76,223,639	63,732,981
Premium amortization	(324,938)	(299,693)
Net realized and unrealized losses (gains) on investments	7,389,274	(9,663,839)
Net loss on disposal of property and equipment	2,464,159	195,326
Provision for bad debts	29,031,745	44,680,742
Restricted contributions	(6,371,341)	(4,420,893)
Increase in patient accounts receivable, net	(48,104,258)	(66,014,044)
Increase in supplies	(522,018)	(733,307)
Increase in prepaid expenses and other assets	(6,636,390)	(3,618,774)
Decrease in pledges receivable, net	1,390,723	1,165,364
Decrease in accounts payable and accrued expenses	(5,505,694)	(16,266,512)
Increase in accrued compensation and benefits	7,163,788	9,603,362
Increase (decrease) in deferred revenue	2,131,509	(466,474)
Increase in self-insurance reserves	361,270	4,555,706
(Decrease) increase in liabilities for pension benefits	(83,950,027)	162,249,971
Net cash provided by operating activities	81,032,179	52,637,230
Cash flows from investing activities:		
Purchases of property and equipment, net	(66,021,008)	(124,591,112)
Sales of investments	171,065,756	323,131,744
Purchases of investments	(121,188,190)	(242,028,555)
Decrease in other temporarily restricted assets	2,402	—
Proceeds from sale of property and equipment	823,024	184,795
Net cash used in investing activities	(15,318,016)	(43,303,128)
Cash flows from financing activities:		
Proceeds from issuance of notes payable	100,000,000	—
Payment of debt issue costs	(62,701)	—
Repayments of long-term debt	(46,615,000)	(7,715,000)
Restricted contributions	6,371,341	4,420,893
Net cash provided by (used in) financing activities	59,693,640	(3,294,107)
Net increase in cash and cash equivalents	125,407,803	6,039,995
Cash and cash equivalents at beginning of year	83,677,509	77,637,514
Cash and cash equivalents at end of year	\$ 209,085,312	83,677,509
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 8,073,664	8,227,083
Construction in progress in accounts payable	10,900,297	5,979,559

See accompanying notes to combined financial statements.

## THE NEMOURS FOUNDATION AND SUBSIDIARIES

### Notes to Combined Financial Statements

December 31, 2015 and 2014

#### (1) Organization

The Nemours Foundation (Nemours) was formed in 1936, pursuant to the last will and testament of Alfred I. duPont (the Will), for the primary purpose of providing for the care and treatment of crippled children, but not of incurables, and for the care of the elderly in Delaware, particularly couples. The Will specifically provided for the maintenance of a 300-acre Estate in Delaware (the Estate) and for the construction of a children's hospital, The Alfred I. duPont Hospital for Children (AIDHC), on the Estate.

Nemours Delaware Valley operations include the Estate, AIDHC, a specialty children's clinic in and around Delaware (Nemours Children's Clinic – Wilmington), Nemours New Jersey Physician Practice, a health clinic for the elderly in Delaware (Nemours SeniorCare) and Nemours Health and Prevention Services (H&PS).

Nemours Florida operations include Nemours Children's Hospital (NCH) located in Orlando, Florida, three specialty children's clinics (Nemours Children's Clinics in Jacksonville, Orlando, and Pensacola) and Pediatric Medical Services of Florida, Inc. (PMSI), a wholly owned subsidiary located in Central Florida.

Nemours also includes Dornoch Sutherland Assurance, Ltd. (Dornoch), a wholly owned captive insurance company based in the Cayman Islands, Cruden Bay Risk Retention Group, Inc. (Cruden), a wholly owned subsidiary based in the State of Vermont and a Home Office in Jacksonville, Florida, which provides management for the multidivisional corporate structure.

AIDHC, an operating division of Nemours, is a full-service, 260 licensed bed children's hospital serving the Delaware Valley.

NCH, an operating division of Nemours, is a full-service, 100 licensed bed children's hospital serving Central Florida.

The Nemours Children's Clinics (Clinics) and Nemours New Jersey Physician Practice provide services to children suffering from a multitude of crippling but not incurable disorders.

Nemours SeniorCare provides and supervises care and treatment for the elderly, particularly couples, through its facilities in Delaware. Services provided include dental, ear, and eye care.

H&PS has been established to promote children's health and strive to prevent disease before it arises by fashioning a holistic system of health and healthcare in Delaware.

PMSI was established by Nemours and Nemours is the corporation's sole member. PMSI operates Children's Health Alliance (CHA), which provides primary care services to pediatric patients in Central Florida.

Dornoch was established by Nemours through the investment of \$700,000 for 100% of the subsidiary's capital stock. Dornoch provides insurance coverage to Nemours for general and professional liability.

Cruden was established by Nemours through a contribution of \$1,000 and is the sole Class A Member. Cruden provides insurance coverage to Nemours' physicians practicing in Pennsylvania and Florida.

## THE NEMOURS FOUNDATION AND SUBSIDIARIES

### Notes to Combined Financial Statements

December 31, 2015 and 2014

As provided in the Will, Nemours received income from the Alfred I. duPont Testamentary Trust (the Trust) for use in the performance of the above-described activities. The trustees of the Trust are the Members of Nemours. During 2015 and 2014, Nemours received distributions from the Trust amounting to \$157,381,038 and \$150,223,020, respectively, which are recognized as unrestricted revenues and other support in the accompanying combined statements of operations. Certain trustees of the Trust also serve as Member Directors of Nemours.

#### (2) Significant Accounting Policies

##### (a) Principles of Combination

The combined financial statements include the accounts of Nemours, its operating divisions, and wholly owned subsidiaries. The assets and liabilities of the Trust are not included in these combined financial statements. Significant transactions between operating divisions and subsidiaries have been eliminated.

##### (b) Basis of Presentation

These combined financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on Nemours as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of net assets and transactions as unrestricted, temporarily restricted, and permanently restricted as follows:

- Unrestricted net assets are resources generated from operations and unrestricted donations and are not subject to donor-imposed stipulations.
- Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose. When a donor restriction expires or has been satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying combined statements of operations and changes in net assets as net assets released from restrictions (note 7).
- Permanently restricted net assets have been restricted by donors to be maintained in perpetuity (note 7).

##### (c) Use of Estimates

The preparation of combined financial statements, in conformity with U.S. generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

##### (d) Concentrations of Credit Risk

Financial instruments that potentially expose Nemours to concentrations of credit risk consist primarily of patient accounts receivable. Nemours has not experienced significant losses related to receivables from individual customers or groups of customers in a particular industry or geographic area. Due to

## THE NEMOURS FOUNDATION AND SUBSIDIARIES

### Notes to Combined Financial Statements

December 31, 2015 and 2014

these factors, management believes no additional credit risk beyond amounts provided for collection losses is inherent in Nemours' patient accounts receivable.

**(e) Cash and Cash Equivalents**

Nemours considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

**(f) Investments**

Investments are measured at fair value in the accompanying combined balance sheets. Investments in securities listed on a national securities exchange or securities traded in the over-the-counter market are stated at the last reported sale or bid prices.

Nonmarketable securities are those for which there is no public market. Nonmarketable securities, primarily partnerships, are carried at an estimated fair value as determined by the general partner of the partnership using the latest available information at the valuation date. Factors considered in valuing individual securities include the financial condition and operating results of the portfolio companies, prices of recent significant private placements of securities of the same issuer, the nature and duration of restriction on disposition of the securities, changes in the circumstances and prospects of the issuer, and any other factors, which the general partner considers to be relevant. Due to the inherent uncertainty of valuing these types of securities, the general partners' estimates of fair value may differ significantly from the values that would have been used had a ready market existed for the securities, and the difference could be material.

Nemours' investments include various types of investment securities in several companies within multiple markets. Investment securities are exposed to several risks, such as interest rate, market, and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities could occur in the near term and that such changes could materially affect the amounts reported in Nemours' combined financial statements.

Investment return (including realized and unrealized gains and losses on investments, interest, and dividends) is included in operating income unless such earnings are subject to donor-imposed restrictions or by law. Investment return restricted by donor stipulations is reported as an increase in temporarily restricted net assets.

**(g) Patient Accounts Receivable**

Patient accounts receivable are reported at net realizable value. Accounts are written off when they are determined to be uncollectible based upon management's assessment of individual accounts. In evaluating the collectibility of patient account receivable, Nemours analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. For receivables associated with services provided to patients who have third-party coverage (including patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), Nemours analyzes contractual amounts due and provides an allowance for doubtful accounts and a provision for bad debts, if necessary. For receivables associated with self-pay patients, Nemours records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable

## THE NEMOURS FOUNDATION AND SUBSIDIARIES

### Notes to Combined Financial Statements

December 31, 2015 and 2014

or unwilling to pay the portion of the amount for which they are financially responsible. The difference between the billed rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

Nemours routinely adjusts its allowance for doubtful accounts based on historical collection rates. Nemours updated its financial assistance policy in 2014 to conform to regulations outlined in the Affordable Care Act.

**(h) *Supplies***

Supplies are stated at the lower of cost or market. Cost is determined on a first-in, first-out basis.

**(i) *Assets Whose Use Is Limited***

Assets whose use is limited include designated assets set aside by the board of directors. These assets consist of cash and cash equivalents and investments as described in note 4.

**(j) *Debt Issue Costs***

Debt issue costs, net of accumulated amortization of \$386,000 and \$378,000, were approximately \$1,626,000 and \$1,696,000 and are included in other assets at December 31, 2015 and 2014, respectively. Debt issue costs are being amortized using the straight-line method over the life of the related debt, which approximates the effective-interest method. Amortization of debt issue costs for completed projects is included in interest expense in the combined statements of operations.

**(k) *Bond Premiums***

Bond premiums are amortized using the effective-interest method over the life of the related debt. Bond premiums, net of accumulated amortization of approximately \$1,673,000 and \$1,348,000, were approximately \$7,534,000 and \$7,859,000 and are included with the related debt in the accompanying combined balance sheets at December 31, 2015 and 2014, respectively.

**(l) *Property and Equipment***

Property and equipment have been recorded at historical cost at the date of acquisition or fair value at the date of donation. Major asset classifications and useful lives are generally in accordance with those recommended by the American Hospital Association and range from 3 to 40 years. The straight-line method of computing depreciation is used for all depreciable assets.

**(m) *Inexhaustible Assets***

Inexhaustible assets consist of the Nemours Mansion (Mansion), located on the Estate in Delaware, and contents that are primarily paintings and antiques stated at cost if purchased or the appraised value, if determinable, as of the date of donation. These assets are not subject to depreciation.

**(n) *Grant and Deferred Revenue***

Nemours defers recognition of grant revenue received from outside parties until expenditures are incurred or patients are seen.

## THE NEMOURS FOUNDATION AND SUBSIDIARIES

### Notes to Combined Financial Statements

December 31, 2015 and 2014

**(o) Net Patient Service Revenue**

Net patient service revenue is reported at the estimated net realizable amounts due from patients, third-party payors, and others for services rendered.

**(p) Contracted Services Revenue**

Nemours contracts to provide certain medical services to other healthcare providers. The reimbursement for these services is classified as contracted services revenue, and is recognized when earned.

**(q) Operating Income**

The combined statements of operations include operating income. Transactions deemed by Nemours to be ongoing, major, or central to the provision of services are reported as operating income.

**(r) Community Benefit**

Nemours has a long history of providing community benefits and has quantified these benefits into the following categories: financial assistance, community health improvement services, education for healthcare professionals, subsidized health services, research, and donations.

Nemours has policies related to providing financial assistance to patients requiring care but who have limited or no means to pay for that care. These policies provide free or discounted health and health-related services to patients who qualify under certain income and asset criteria. Because Nemours does not pursue collection of amounts determined to qualify for financial assistance, they are not reported as net patient service revenue. Nemours maintains records to identify and monitor levels of financial assistance it provides.

In addition to providing financial assistance, Nemours also provides other benefits for the community, the cost of which can exceed the revenue sources available. Examples of these community benefits include:

- Community health improvement services focused on leadership and programs dealing with not just healthcare, but also children's health promotion and disease prevention.
- Education for healthcare professionals centered on training the next generation of pediatric specialists as well as supporting continuing medical education.
- Research services to improve children's lives through the power of discovery. Nemours continues to integrate research findings at the bedside and exam room where they have the greatest impact on children.

## THE NEMOURS FOUNDATION AND SUBSIDIARIES

### Notes to Combined Financial Statements

December 31, 2015 and 2014

Nemours community benefits at cost for the years ended December 31, 2015 and 2014 are as follows:

	2015	2014
Charity care:		
Financial assistance	\$ 6,682,211	10,976,962
Unreimbursed Medicaid	111,991,171	108,218,927
Net unreimbursed financial assistance	118,673,382	119,195,889
Other community benefits:		
Community health improvement services	23,640,385	24,474,877
Education for healthcare professionals	3,957,055	4,476,411
Research	18,369,588	17,940,509
Donations	954,825	2,896,189
Total other benefits	46,921,853	49,787,986
Total community benefits	\$ 165,595,235	168,983,875

The cost of net unreimbursed financial assistance provided was determined by applying Nemours' overall patient care cost to charge ratio to total charges. Cost of the other community benefits represents actual expenses incurred net of any related revenue earned for providing such services.

**(s) Income Taxes**

Nemours, PMSI and Cruden are exempt from federal income taxes on related income under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3), and are also exempt from state income taxes. Management believes that the unrelated business income generated by Nemours is not material to the combined financial statements.

**(t) Impairment of Long-Lived Assets**

Management regularly evaluates whether events or changes in circumstances have occurred that could indicate impairment in the value of long-lived assets. In accordance with the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 360, *Property, Plant and Equipment*, if there is an indication that the carrying amount of an asset is not recoverable, Nemours estimates the projected undiscounted cash flows, excluding interest, to determine if an impairment loss should be recognized. The amount of impairment loss, if any, is determined by comparing the historical carrying value of the asset to its estimated fair value. No impairments were recorded during the years ended December 31, 2015 and 2014.

In addition to consideration of impairment upon the events or changes in circumstances described above, management regularly evaluates the remaining lives of its long-lived assets. If estimates are revised, the carrying value of affected assets is depreciated or amortized over the remaining lives. Nemours recorded an adjustment in the amount of approximately \$1,000,000 to reduce the life of a parking garage during the year ended December 31, 2015, which is reflected in depreciation on the combined statements of operations. No such adjustment was recorded during the year ended December 31, 2014.

## THE NEMOURS FOUNDATION AND SUBSIDIARIES

### Notes to Combined Financial Statements

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**(u) Pledges Receivable**

Nemours reports unconditional promises to give as contributions. If pledges are expected to be collected in less than one year, they are recorded at the estimated amount to be ultimately realized. If pledges are to be paid to the organization over a period of years, they are recorded at the present value of their estimated cash flows using the fair value as of the date of the donation. Amortization of discounts is included in contribution revenue. The allowance for uncollectible pledges receivable is determined based on management's evaluation of the collectibility of individual promises. Pledges that remain uncollected more than one year after their due date are written off unless the donors indicate that payment is merely postponed.

**(v) Beneficial Interest in Perpetual Trust**

Beneficial interest in perpetual trust represents resources neither in the possession nor under the control of Nemours but held and administered by an outside fiscal agent, with Nemours deriving income from such funds as beneficiary. The amount recorded on the balance sheets represents 33% of the fair value of the portfolio of underlying assets of the trust.

**(w) Fair Value Measurements**

Nemours applies the provisions of FASB ASC Topic 820, *Fair Value Measurement*, for fair value measurements and disclosures of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the combined financial statements on a recurring basis. FASB ASC 820 defines fair value as the exit price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a framework for measuring fair value and expands disclosures about fair value measurements requiring investments to be grouped into three categories based on certain criteria as noted below:

- Level 1: Fair value is determined by using quoted prices for identical assets or liabilities in active markets.
- Level 2: Fair value is determined by using other than quoted prices that are observable for the asset (e.g., quoted prices for identical assets in inactive markets, quoted prices for similar assets in active markets, observable inputs other than quoted prices, and inputs derived principally from or corroborated by observable market data by correlation or other means).
- Level 3: Fair value is determined by using inputs based on management assumptions that are not directly observable.

**(3) Net Patient Service Revenue**

Nemours has agreements with third-party payors that provide for payment to Nemours healthcare operations at amounts different from their established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustment under reimbursement agreements with third-party payors.

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Net patient service revenue consists of the following for the years ended December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Gross patient charges	\$ 2,401,748,264	2,193,874,404
Contractual adjustments	(1,486,145,374)	(1,339,391,575)
Provision for bad debts	<u>(29,031,745)</u>	<u>(44,680,742)</u>
Net patient service revenue	<u>\$ 886,571,145</u>	<u>809,802,087</u>

The 2015 and 2014 net patient revenue are comprised of the following:

	<u>2015</u>	<u>2014</u>
Payor:		
Managed Care	58%	56%
Medicaid – Managed Care	31	32
Medicaid – Traditional	7	7
Other	<u>4</u>	<u>5</u>
Total	<u>100%</u>	<u>100%</u>

***Medicaid***

Nemours, specifically AIDHC, serves patients from different states, mainly due to its location and proximity to multiple states. AIDHC’s two main sources of Medicaid revenue are Delaware and Pennsylvania. Inpatient services rendered to Delaware Medicaid program beneficiaries are reimbursed for services based on a case rate while outpatient services are reimbursed based, for the most part, on a fee schedule. Pennsylvania Medicaid reimburses for inpatient services based on a diagnostic-related group and outpatient services are paid based on a fee schedule. The reimbursable cost in the Medicaid cost report is not directly used to determine reimbursement for services in Delaware or Pennsylvania. Rather, the information in the cost report is used to update certain factors and to determine if AIDHC is eligible for Disproportionate Share Payments (DSH). Currently, AIDHC is not eligible for Pennsylvania Medicaid DSH payments. The state of Delaware has a DSH program; however, AIDHC is not eligible for Delaware DSH payment.

Medicaid is a significant payor for NCH. Florida Medicaid reimburses for inpatient services based on a diagnostic-related group. Florida Medicaid reimburses outpatient services based on an occasion of service rate. Due to provisions in the Certificate of Need agreement, the outpatient services rates are equal to the average of Miami Children’s Hospital and All Children’s Hospital Medicaid rates.

Medicaid reimburses for physician services (Clinics & CHA) primarily based on a fee schedule. The Clinics and CHA are not required to file Medicaid cost reports in any state.

The classification of patients and the appropriateness of their admission are subject to review by the fiscal intermediaries administering the Medicaid programs.

Laws and regulations governing the Medicaid programs are complex and subject to interpretation. As a result, a possibility exists that recorded estimates associated with this program will change by a material

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amount in the near term. Nemours believes that it is in compliance with all applicable laws and regulations. Compliance with such laws and regulations may be subject to future governmental review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicaid programs.

#### *Other Payors*

Nemours has also entered into payment arrangements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment under these arrangements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined rates. Some of these arrangements provide for review of paid claims for compliance with the terms of the contract and result in retroactive settlement with third parties. Retroactive adjustments for other third-party claims are recorded in the period when final settlement is determined.

#### **(4) Investments, Assets Whose Use is Limited, and Temporarily and Permanently Restricted Assets**

Nemours accounts for investments, excluding assets whose use is limited, based on the concept of pooling. In pooling, assets with similar time horizons are merged into a single pool for investment purposes and are managed under various asset diversification strategies depending upon the specific pool's objectives.

Investments are designated as current or noncurrent assets based upon the pool in which they are invested. Nemours has established three pools as follows:

- Short-term pool – composed of cash and money market securities and expected to be consumed within the next year.
- Intermediate pool – composed of fixed-income securities with an expected use in greater than one year but less than five years.
- Long-term pool – composed of equity, fixed-income securities, partnerships, hedge funds, and real estate with an expected use that exceeds five years.

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Investments, assets whose use is limited and temporarily and permanently restricted cash and investments, at December 31, 2015 and 2014 are summarized as follows:

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ 66,521,871	130,511,012
Mutual funds	11,230,707	15,008,548
U.S. Treasury bills, notes, and bonds	41,549,848	31,825,998
U.S. government agencies	10,307,691	621,826
Municipal bonds and notes	2,837,352	3,788,540
Asset-backed securities	6,136,486	6,689,647
Corporate bonds and notes	117,379,820	111,445,096
U.S. government mortgage obligations	27,687,429	35,693,638
Marketable equity securities	118,138,261	114,815,392
Partnerships	24,865,759	33,633,344
Private equity	26,934,071	24,116,189
Hedge funds	18,383,410	19,008,038
Real estate	10,489,177	14,472,947
Beneficial interest in perpetual trust	2,040,404	—
Interest receivable	1,467,500	1,606,411
	<u>485,969,786</u>	<u>543,236,626</u>
Less:		
Temporarily restricted cash and investments	204,606,494	232,037,725
Permanently restricted cash and investments	3,755,477	3,669,805
Permanently restricted beneficial interest in perpetual trust	2,040,404	—
Cash and investments	\$ <u>275,567,411</u>	<u>307,529,096</u>

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Investment return on assets whose use is limited, cash and cash equivalents, and investments comprise the following for the years ended December 31, 2015 and 2014:

	2015	2014
Unrestricted net assets:		
Investment return:		
Interest and dividend income, net	\$ 6,673,951	6,971,592
Realized losses on sales of securities	(124,878)	(1,009,126)
Net unrealized (losses) gains on investments	(4,236,446)	1,860,023
	\$ 2,312,627	7,822,489
Temporarily restricted net assets:		
Investment return:		
Interest and dividend income, net	\$ 1,658,012	2,560,666
Realized gains on sales of securities	3,815,186	10,502,894
Net unrealized losses on investments	(6,843,136)	(1,689,952)
	\$ (1,369,938)	11,373,608

#### (5) Long-Term Debt

On January 26, 2005, the Delaware Health Facilities Authority (Delaware Authority) issued \$50,950,000 in tax-exempt, auction rate revenue bonds (Delaware Bonds) pursuant to a bond trust indenture between the Delaware Authority and Nemours. The proceeds of the Delaware Bonds were used by Nemours to (a) finance the cost of the acquisition and renovation of an office building adjacent to the AIDHC campus; (b) finance the cost of the acquisition and installation of equipment to be used in connection with the operation of AIDHC; (c) finance the construction of a parking garage containing approximately 1,500 spaces located on the campus of AIDHC; and (d) pay certain expenses of issuing the Delaware Bonds. The Bonds were extinguished on June 12, 2015 using assets whose use is limited.

On October 15, 2009, the Orange County Health Facilities Authority (Florida Authority) issued \$167,035,000 in tax-exempt, fixed-rate bonds (Series 2009A bonds), \$100,000,000 in tax-exempt, variable-rate demand bonds (Series 2009B bonds), \$25,555,000 in tax-exempt, variable-rate demand bonds (Series 2009C1 bonds), and \$24,445,000 in tax-exempt, variable-rate demand bonds (Series 2009C2 bonds), collectively referred to as the 2009 bonds. The Series 2009 A, B and C1 bonds were issued for the purpose of providing funds, which, together with other available funds, were used (a) to finance a portion of the cost of the acquisition, construction, installation, and equipping of NCH and the outpatient clinic to be owned and operated by Nemours, and related facilities, equipment, fixtures, and furnishings, to be located in Orange County, Florida; (b) with respect to the Series 2009C2 bonds, to refund Jacksonville Health Facilities Authority Series 2007 Bonds issued for the benefit of Nemours; and (c) to pay certain expenses of issuing the 2009 bonds.

The Series 2009A bonds were issued at fixed rates between 4% and 5% and mature in various years beginning January 1, 2013 through January 1, 2039. The estimated fair value of the Series 2009A bonds at December 31, 2015 and 2014 was approximately \$174,112,000 and \$174,426,000, respectively.

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The Series 2009B bonds mature in various years beginning January 1, 2013 through January 1, 2037. The estimated fair value of the outstanding principal of the Series 2009B bonds was approximately \$90,650,000 and \$93,900,000 with an interest rate of 0.01% and 0.04% at December 31, 2015 and 2014, respectively. The Series 2009B bonds are supported by a \$91,693,096 irrevocable direct pay letter of credit issued by The Northern Trust Company to provide security for the payment of the principal amount, and premium, if any, plus accrued unpaid interest through April 30, 2019.

The Series 2009C1 bonds mature in various years beginning January 1, 2013 through January 1, 2039. The estimated fair value of the outstanding principal of the 2009C1 bonds was approximately \$23,135,000 and \$23,975,000 with an interest rate of 0.01% and 0.04% at December 31, 2015 and 2014, respectively.

The Series 2009C2 bonds mature in various years beginning in January 1, 2010 through January 1, 2036. The estimated fair value of the Series 2009C2 bonds at December 31, 2015 and 2014 was approximately \$22,565,000 and \$22,920,000, respectively. The interest rate at December 31, 2015 and 2014 was 0.01% and 0.04%, respectively.

The Series 2009C1 and 2009C2 bonds are supported by a \$46,526,357 irrevocable direct pay letter of credit issued by Wells Fargo Bank, N.A. to provide security for the payment of the principal amount, and premium, if any, plus accrued unpaid interest through February 3, 2017.

On June 10, 2015, Nemours executed a Master Loan Agreement dated June 1, 2015 with Century Bank and Trust (Century) for a \$44,000,000 Loan Note Series 2015-1 (Series 2015-1 note). Proceeds from the Series 2015-1 note will be used to finance various capital and improvement projects. Amounts outstanding under the Series 2015-1 note bear a fixed interest rate of LIBOR plus 50 basis points (0.74% as of December 31, 2015). The notes are payable in equal annual installments, commencing January 1, 2036 through January 1, 2045. The estimated fair value of the outstanding principal of the 2009C1 bonds was \$44,000,000.

On June 10, 2015, Nemours executed a Master Loan Agreement with Bank of America, N.A. (BOA) for a \$56,000,000 Loan Note Series 2015-2 (Series 2015-2 note). Proceeds from the Series 2015-2 note were used to finance various capital and improvement projects. Amounts outstanding under the Series 2015-2 note bear a fixed interest rate of 3.45%. The notes are payable in annual installments, commencing January 1, 2016 through January 1, 2027. The estimated fair value of the outstanding principal of the Series 2015-2 notes was approximately \$56,122,000.

The principal and interest payments for the Florida Authority Series bonds, Century notes, and BOA notes are unsecured general obligations of Nemours.

The master trust agreements and related documents for the 2009 Bonds, the Series 2015-1 note and the Series 2015-2 notes contain certain covenants and restrictions with which Nemours is required to comply. Noncompliance with any of these covenants or the occurrence of any other event of default, if not waived or corrected, could accelerate the maturity of the borrowings outstanding under the indenture. Management believes that Nemours is in compliance with such covenants at December 31, 2015.

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Long-term debt consists of the following at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Delaware Health Facilities Authority Revenue Bonds, The Nemours Foundation Project, Series 2005	\$ —	40,105,000
Orange County Health Facilities Authority Revenue Bonds, The Nemours Foundation Project, Series 2009A, including unamortized premium of \$7,534,769 and \$7,859,707 at December 31, 2015 and 2014, respectively	168,414,769	170,804,707
The Nemours Foundation Project, Series 2009B	90,650,000	93,900,000
The Nemours Foundation Project, Series 2009C1	23,135,000	23,975,000
The Nemours Foundation Project, Series 2009C2	22,565,000	22,920,000
Century Bank and Trust, Series 2015-1 Note	44,000,000	—
Bank of America, N.A., Series 2015-2 Note	56,000,000	—
	<u>404,764,769</u>	<u>351,704,707</u>
Less current portion of long-term debt	<u>7,575,000</u>	<u>7,955,000</u>
Long-term debt less current portion	<u>\$ 397,189,769</u>	<u>343,749,707</u>

Scheduled principal repayments of long-term debt as of December 31, 2015 are as follows:

2016	\$ 7,575,000
2017	8,300,000
2018	8,575,000
2019	9,165,000
2020	9,285,000
Thereafter	<u>354,330,000</u>
	397,230,000
Unamortized premium	<u>7,534,769</u>
	<u>\$ 404,764,769</u>

**(6) Construction in Progress**

Construction in progress at December 31, 2015 represents construction of the AIDHC outpatient and ambulatory facility as well as ongoing remodeling projects at various locations of approximately \$36,200,000.

Construction in progress at December 31, 2014 represents ongoing remodeling projects at various locations of approximately \$15,000,000.

At December 31, 2015, the remaining commitment under contract for the AIDHC outpatient and ambulatory facility capital project was approximately \$11,600,000.

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#### (7) Restricted Net Assets

Edward Ball, in his last will and testament, instructed his personal representatives, who were also directors of Nemours, to transfer all stock in his estate, not otherwise bequeathed in his will, to Nemours at their discretion at any time during the probate of the estate. He further directed his personal representatives to transfer the remainder of the estate to Nemours upon the completion of probate. All of the net assets at December 31, 2015 and 2014 are restricted to the care and treatment of physically handicapped children in Florida and are considered to be temporarily restricted for financial reporting purposes. The following is a summarization of the Edward Ball fund activity since inception:

Contributions received	\$	160,574,729
Net assets released from restrictions		(524,415,376)
Investment earnings		525,379,031
Unrealized gains on investments		35,715,649
Grant		<u>(600,000)</u>
Balance at December 31, 2015	\$	<u><u>196,654,033</u></u>

In addition to the Edward Ball temporarily restricted assets, Nemours has temporarily restricted gifts from other donors, including temporarily restricted investment return on permanently restricted endowments, of \$10,515,406 and \$11,128,818 at December 31, 2015 and 2014, respectively. Net assets were released from donor restrictions by incurring costs satisfying various restricted operating and capital purposes in the amount of \$31,699,683 and \$37,116,977 in 2015 and 2014, respectively.

Permanently restricted net assets consist of the following as of December 31, 2015 and 2014:

		<u>2015</u>	<u>2014</u>
Nemours Mansion and Gardens	\$	2,369,746	2,369,746
Suzanne Merrick Charitable Fund		2,040,404	—
Robison D. Harley Ophthalmology Endowment		1,511,902	1,511,902
Garrett B. Lyons Dental Program Endowment		575,831	575,777
Orthopedic Endowed Chair		938,006	937,413
Other endowments		<u>818,430</u>	<u>705,324</u>
	\$	<u><u>8,254,319</u></u>	<u><u>6,100,162</u></u>

Nemours' endowments have been established for a variety of purposes. As required by relevant accounting literature, net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions. There are restrictions on the use of the related income of all endowments. As discussed in note 4, Nemours has established investment pools. The endowment investments are a portion of the long-term pool and have a target allocation of approximately 50% equity, 20% fixed income, 15% real asset, and 15% absolute return investments.

In December 2015, Nemours received a one-third interest in the Suzanne Merrick Charitable Fund (the Fund), an irrevocable perpetual trust. Under the terms of the agreement, Nemours will receive one-third of

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the investment income earned on the Fund into perpetuity. As of December 31, 2015, Nemours had not received an income distribution from the Fund.

Nemours 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 accumulation is added to the Fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Nemours in a manner consistent with the donor designations.

#### **(8) Pension Plans**

##### **(a) Defined-Contribution Plan**

Nemours sponsors a 403(b) defined-contribution plan (403(b) Plan), which covers substantially all employees and includes base contributions and employer match provisions. Nemours' contribution to the 403(b) Plan were approximately \$14,037,000 and \$11,270,000 in 2015 and 2014, respectively, which is included in salaries and benefits expense in the accompanying combined statements of operations.

PMSI sponsors a 401(k) defined-contribution plan (401(k) Plan) for CHA employees. Nemours' contribution to the 401(k) Plan was approximately \$299,000 and \$215,000 in 2015 and 2014, respectively, which is included in salaries and benefits expense in the accompanying combined statements of operations.

##### **(b) Noncontributory Defined-Benefit Plan**

Nemours also sponsors a noncontributory defined-benefit pension plan (the Plan). Effective January 1, 2010, Nemours closed the Plan to new participants. On January 1, 2018, Nemours will adopt a hard freeze of the plan ceasing all pension accruals. Benefits under the Plan are based on years of service and the employee's final average compensation. Nemours funds amounts required to meet or exceed minimum Employee Retirement Income Security Act (ERISA) requirements.

The Plan permits early retirement at reduced retirement benefits to participants who have attained age 55 and have completed at least 10 years of credited service. In addition, the Plan allowed full retirement without reduced retirement benefits to eligible participants whose attained age plus completed years of credited service equaled or exceeded 80 prior to January 1, 2011.

The Plan provides annual benefits equal to 1.5% of the average annual earnings (represents the average of the employee's highest compensation for five consecutive years out of the last 10 years of service) for the first 10 years of credited service plus 2.0% of the average annual earnings for years of credited service greater than 10 years. Early retirement benefits are the accrued benefits as of the early retirement date reduced by one-half of 1.0% for each full month prior to the participant reaching age 65.

Effective January 1, 2011, the definition of average annual earnings changed and will be phased in for nongrandfathered participants. Nongrandfathered participants are active participants as of January 1,

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2011, who have not attained the age of 55 or whose age and years of vesting service, when added together, total less than 60. For these participants, average earnings will be calculated using the 10 consecutive years of the participant's last 15 years of service, which produce the highest average.

The following are deferred pension costs that have not yet been recognized in periodic pension expense but instead are accrued in unrestricted net assets, as of December 31, 2015 and 2014. Unrecognized actuarial losses represent unexpected changes in the projected benefit obligation and plan assets over time, primarily due to changes in assumed discount rates and investing experience. Unrecognized prior service cost is the impact of changes in plan benefits applied retrospectively to employee service previously rendered. Deferred pension costs are amortized into annual pension expense over the average remaining assumed service period for active employees:

	<b>Amounts recognized in unrestricted net assets at December 31, 2015</b>	<b>Amounts recognized in unrestricted net assets at December 31, 2014</b>
Net prior service credit	\$ (659,068)	(1,915,078)
Net actuarial loss	143,837,572	241,875,896
Total	\$ 143,178,504	239,960,818

Nemours contributed \$30,000,000 of the \$42,832,287 net periodic pension cost for the year ended December 31, 2015. Management has not yet determined its contribution for the year ended December 31, 2016. Management will consider the Plan's funded status and will make additional contributions in excess of the minimum required contributions. The funding decisions are made based on the actuarial studies performed by consulting actuaries as of January 1 and the disclosures are based on a measurement date of December 31.

The projected benefit obligation is the actuarial present value of that portion of the projected benefits attributable to employee service rendered to date and includes assumptions about future compensation levels. Benefit cost includes the actuarial present value of the portion of the projected benefits attributable to employee service rendered during the year and the interest cost on the benefit obligation.

The accumulated benefit obligation is the actuarial present value of benefits attributable to employee service rendered to date, which does not include assumptions about future compensation levels. The accumulated benefit obligation for the Plan was \$646,885,925 and \$634,495,455 at December 31, 2015 and 2014, respectively.

The benefits expected to be paid out of the Plan in each year for the years ending December 31, 2016 through December 31, 2020 are approximately \$14,188,000, \$16,315,000, \$18,575,000, \$21,187,000, and \$24,124,000, respectively. The aggregate benefits expected to be paid in the five years from 2021 through 2025 are approximately \$160,587,000. The expected benefits to be paid are based on the same assumptions used to measure the benefit obligation at December 31, 2015.

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Weighted average assumptions used to determine the benefit obligation at December 31, 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Discount rate	4.70%	4.25%
Expected return on plan assets	8.00	8.00
Rate of compensation increase	2.50%–6.00%	2.50%–6.00%

Weighted average assumptions used to determine the net periodic pension cost as of December 31, 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Discount rate	4.25%	5.20%
Expected return on plan assets	8.00	8.00
Rate of compensation increase	2.50%–6.00%	2.50%–6.00%

The assumption for the discount rate and expected long-term rate of return on assets is an estimate based on the current short-term interest rate environment and historical returns for portfolios heavily weighted toward long-term investments, such as long-term bonds and equity securities. The calculation of these pension benefits is dependent on the significant assumptions listed above. Any changes in the significant assumptions can materially affect the calculation. Nemours measured benefit obligations using the most recent RP-2014 mortality tables and MP-2014 mortality improvement scale in selecting mortality.

The change in projected benefit obligation for the Plan for the years ended December 31, 2015 and 2014 included the following components:

	<u>2015</u>	<u>2014</u>
Projected benefit obligation, beginning of year	\$ 741,221,436	544,574,981
Service cost	37,752,057	28,468,013
Interest cost	31,703,785	27,895,581
Benefit payments	(64,779,445)	(10,191,327)
Actuarial (gain) loss	<u>(78,974,524)</u>	<u>150,474,188</u>
Projected benefit obligation, end of year	\$ <u>666,923,309</u>	<u>741,221,436</u>

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The actuarially computed net periodic pension cost for the Plan for the years ended December 31, 2015 and 2014 included the following components:

	<b>2015</b>	<b>2014</b>
Service cost – benefits earned during the period	\$ 37,752,057	28,468,013
Interest cost on projected benefit obligation	31,703,785	27,895,581
Expected return on plan assets	(40,498,089)	(37,802,843)
Amortization of actuarial loss and prior service cost	14,801,010	1,775,921
Curtailment gain	(926,476)	—
Net periodic pension cost	\$ 42,832,287	20,336,672

The change in plan assets for the Plan for the years ended December 31, 2015 and 2014 included the following components:

	<b>2015</b>	<b>2014</b>
Fair value of plan assets at beginning of year	\$ 501,260,618	466,864,134
Employer contributions	30,000,000	20,336,672
Benefit payments	(12,264,595)	(10,191,327)
Administrative expenses	2,054,316	(1,925,763)
Actual (loss) gain on plan assets	(10,137,821)	26,176,902
Fair value of plan assets at end of year	\$ 510,912,518	501,260,618

The following table summarizes the components of the funded status of the Plan as of December 31, 2015 and 2014:

	<b>2015</b>	<b>2014</b>
Projected benefit obligation	\$ (666,923,309)	(741,221,436)
Fair value of plan assets	510,912,518	501,260,618
Funded status	\$ (156,010,791)	(239,960,818)

Plan assets for the pension plan consist principally of money market funds, government securities, asset-backed securities, corporate bonds, common stocks, and marketable debt and equity securities, which are managed by professional investment managers in accordance with an investment policy under the supervision of an independent pension investment committee. The plan assets are long term in nature and are intended to generate returns while preserving capital. The target allocation for investments is approximately 50% global equity, 15% real assets, 15% absolute return (primarily, hedge funds), and 20% fixed income, with a small portion of the assets held as cash to meet participant payment requirements.

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Weighted average asset allocations by asset category as of December 31, 2015 and 2014:

	<b>2015</b>	<b>2014</b>
Cash and cash equivalents	3%	3%
Mutual funds	3	4
Equities	45	46
Fixed income	13	14
Hedge funds	16	16
Real assets	10	8
Distressed debt and specialty finance	10	9
Total	<u>100%</u>	<u>100%</u>

The table below summarizes the fair values of plan assets as of December 31, 2015:

	<b>Fair value measurements at reporting date using</b>			
	<b>December 31, 2015</b>	<b>Quoted prices in active markets for identical assets (Level 1)</b>	<b>Significant other observable inputs (Level 2)</b>	<b>Significant unobservable inputs (Level 3)</b>
Assets:				
Cash	\$ 14,902,860	14,902,860	—	—
Mutual funds:				
International equity index	5,622,508	5,622,508	—	—
U.S. equity index	10,848,742	10,848,742	—	—
Marketable equity securities:				
International small cap	5,688,225	—	5,688,225	—
Global large cap	187,398,950	—	187,398,950	—
Emerging markets	36,403,830	7,229,238	29,174,592	—
Fixed-income securities:				
U.S. Treasury bills, notes, and bonds	32,105,604	—	32,105,604	—
U.S. government agencies	496,050	—	496,050	—
Municipal bonds and notes	971,022	—	971,022	—
Asset-backed securities	1,171,277	—	1,171,277	—
Corporate bonds and notes	12,350,924	300,444	12,050,480	—
U.S. government mortgage obligations	9,247,190	—	9,247,190	—
Emerging market debt	9,955,818	—	9,955,818	—

## THE NEMOURS FOUNDATION AND SUBSIDIARIES

### Notes to Combined Financial Statements

December 31, 2015 and 2014

	Fair value measurements at reporting date using			
	December 31, 2015	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Other types of investments:				
Equity long/short hedge funds (a)	\$ 28,490,095	—	—	28,490,095
Fixed-income long/short hedge funds (a)	1,220,573	—	1,220,573	—
Event-driven hedge funds (b)	16,543,378	—	—	16,543,378
Global opportunities hedge funds (c)	7,428,473	—	—	7,428,473
Multistrategy hedge funds (d)	29,881,820	—	—	29,881,820
Private real asset funds (e)	26,956,623	—	—	26,956,623
Public real asset funds (f)	23,942,792	2,093,619	11,409,402	10,439,771
Distressed and specialty finance debt funds (g)	35,621,923	—	—	35,621,923
Real estate	13,369,875	—	—	13,369,875
Receivables	293,966	293,966	—	—
Total	\$ 510,912,518	41,291,377	300,889,183	168,731,958

- (a) This class invests long and short primarily in common stocks and fixed income.
- (b) This class comprises strategies that invest long and short in equities and credit, dependent upon some catalyzing event or situation.
- (c) This class comprises strategies that invest in equities, fixed income, interest rates, and currencies to capitalize on opportunities relating to broad economic themes.
- (d) This class invests in multiple strategies to diversify risk and reduce volatility including arbitrage, distressed debt, event-driven, and private equity strategies.
- (e) This class invests in energy, natural resources/commodities, and infrastructure with the objective of generating long-term absolute returns, hedging against unanticipated inflation, and increasing overall diversification.
- (f) This class invests in energy and natural resources with the objective of generating long-term absolute returns, hedging against unanticipated inflation, and increasing overall diversification.
- (g) This class invests in distressed asset funds, middle market debt, royalties, and equity investments.

## THE NEMOURS FOUNDATION AND SUBSIDIARIES

### Notes to Combined Financial Statements

December 31, 2015 and 2014

The table below summarizes the fair values of plan assets as of December 31, 2014:

	<b>Fair value measurements at reporting date using</b>			
	<b>December 31, 2014</b>	<b>Quoted prices in active markets for identical assets (Level 1)</b>	<b>Significant other observable inputs (Level 2)</b>	<b>Significant unobservable inputs (Level 3)</b>
<b>Assets:</b>				
Cash	\$ 15,935,144	15,935,144	—	—
<b>Mutual funds:</b>				
International equity index	5,763,602	5,763,602	—	—
U.S. equity index	11,547,601	11,547,601	—	—
<b>Marketable equity securities:</b>				
International small cap	12,035,010	6,460,666	5,574,344	—
Global large cap	178,242,476	—	178,242,476	—
Emerging markets	38,710,166	6,598,807	32,111,359	—
<b>Fixed-income securities:</b>				
U.S. Treasury bills, notes, and bonds	32,174,023	—	32,174,023	—
U.S. government agencies	519,558	—	519,558	—
Municipal bonds and notes	1,251,538	—	1,251,538	—
Asset-backed securities	1,924,575	—	1,924,575	—
Corporate bonds and notes	13,902,178	307,265	13,594,913	—
U.S. government mortgage obligations	10,933,404	—	10,933,404	—
Emerging market debt	9,849,000	—	9,849,000	—
<b>Other types of investments:</b>				
Equity long/short hedge funds	(a) 22,582,688	—	—	22,582,688
Fixed-income long/short hedge funds	(a) 9,857,386	—	9,857,386	—
Event-driven hedge funds	(b) 11,088,053	—	—	11,088,053
Global opportunities hedge funds	(c) 9,376,260	—	—	9,376,260
Multistrategy hedge funds	(d) 29,419,735	—	—	29,419,735
Private real asset funds	(e) 23,688,720	—	—	23,688,720
Public real asset funds	(f) 17,420,816	2,264,828	8,973,486	6,182,502
Distressed and specialty finance debt funds	(g) 30,736,197	—	536,330	30,199,867
Real estate	13,992,755	—	—	13,992,755
Receivables	309,733	309,733	—	—
<b>Total</b>	<b>\$ 501,260,618</b>	<b>49,187,646</b>	<b>305,542,392</b>	<b>146,530,580</b>

(a) This class invests long and short primarily in common stocks and fixed income.

## THE NEMOURS FOUNDATION AND SUBSIDIARIES

### Notes to Combined Financial Statements

December 31, 2015 and 2014

- (b) This class comprises strategies that invest long and short in equities and credit, dependent upon some catalyzing event or situation.
- (c) This class comprises strategies that invest in equities, fixed income, interest rates, and currencies to capitalize on opportunities relating to broad economic themes.
- (d) This class invests in multiple strategies to diversify risk and reduce volatility including arbitrage, distressed debt, event-driven, and private equity strategies.
- (e) This class invests in energy, natural resources/commodities and infrastructure with the objective of generating long-term absolute returns, hedging against unanticipated inflation, and increasing overall diversification.
- (f) This class invests in energy and natural resources with the objective of generating long-term absolute returns, hedging against unanticipated inflation, and increasing overall diversification.
- (g) This class invests in distressed asset funds, middle market debt, royalties, and equity investments.

Nemours' policy is to recognize transfers in and transfers out of the different levels as of the actual date of the event or circumstance that caused the transfer. No assets were transferred between levels for the years ended December 31, 2015 and 2014.

The table below summarizes the changes in Level 3 assets for the year ended December 31, 2015:

	<b>Fair value measurements using significant unobservable inputs (Level 3)</b>					<b>Total</b>
	<b>Real estate</b>	<b>Hedge funds</b>	<b>Distressed and specialty finance debt</b>	<b>Private real asset funds</b>	<b>Public real asset funds</b>	
Beginning balance	\$ 13,992,755	72,466,736	30,199,867	23,688,720	6,182,502	146,530,580
Total gains included in changes in net assets	3,044,205	97,644	3,821,173	(4,037,187)	(739,008)	2,186,827
Purchases	2,852,633	13,096,162	7,123,566	9,069,702	5,000,000	37,142,063
Sales	—	(1,305,227)	—	—	(3,723)	(1,308,950)
Settlements	(6,519,718)	(2,011,549)	(5,522,683)	(1,764,612)	—	(15,818,562)
Ending balance	<u>\$ 13,369,875</u>	<u>82,343,766</u>	<u>35,621,923</u>	<u>26,956,623</u>	<u>10,439,771</u>	<u>168,731,958</u>

**THE NEMOURS FOUNDATION AND SUBSIDIARIES**

Notes to Combined Financial Statements

December 31, 2015 and 2014

The table below summarizes the changes in Level 3 assets for the year ended December 31, 2014:

	Fair value measurements using significant unobservable inputs (Level 3)					
	Real estate	Hedge funds	Distressed and specialty finance debt	Private real asset funds	Public real asset funds	Total
Beginning balance	\$ 14,312,090	61,304,168	25,596,828	16,278,635	3,281,550	120,773,271
Total gains included in changes in net assets	1,746,365	4,619,746	1,231,194	2,195,492	906,476	10,699,273
Purchases	2,551,224	7,280,671	6,699,890	7,337,711	2,000,000	25,869,496
Sales	—	(1,585)	—	—	(5,524)	(7,109)
Settlements	(4,616,924)	(736,264)	(3,328,045)	(2,123,118)	—	(10,804,351)
Ending balance	\$ 13,992,755	72,466,736	30,199,867	23,688,720	6,182,502	146,530,580

**(9) Concentrations of Credit Risk**

Nemours grants credit without collateral to its patients, most of whom are local patients, and are insured under third-party payor agreements. The percentage of receivables from patients and third-party payors at December 31, 2015 and 2014 was as follows:

	<u>2015</u>	<u>2014</u>
Managed care	35%	34%
Medicaid–Managed Care	31	30
Medicaid Traditional	13	9
Other	21	27
	<u>100%</u>	<u>100%</u>

**(10) Lease Commitments**

Nemours leases certain office space and equipment under cancelable and noncancelable operating leases. Rental expense relating to these leases was approximately \$17,463,000 and \$15,339,000 in 2015 and 2014, respectively. Minimum future rentals on existing noncancelable operating leases as of December 31, 2015 are as follows:

Year ending December 31:	
2016	\$ 13,325,504
2017	11,088,684
2018	7,179,915
2019	6,266,123
2020	5,882,773
	<u>\$ 43,742,999</u>

## THE NEMOURS FOUNDATION AND SUBSIDIARIES

### Notes to Combined Financial Statements

December 31, 2015 and 2014

#### (11) Commitments

Nemours has partnership interests with hedge funds and various venture capital, buyout, growth capital, real estate, energy, and distressed securities funds. Under the terms of the various partnership agreements, Nemours is potentially obligated to contribute approximately an additional \$9,378,000, in the aggregate, to such partnerships as of December 31, 2015.

#### (12) Functional Expenses

Nemours provides healthcare and other services to residents within its respective geographic locations and research, educational activities, and fund-raising. Expenses in 2015 and 2014 related to providing these services are as follows:

	<u>2015</u>	<u>2014</u>
Healthcare services	\$ 1,030,706,547	956,296,216
Research	41,753,098	34,530,659
Education	16,801,146	16,842,206
Fund-raising	3,789,038	3,570,395
	<u>\$ 1,093,049,829</u>	<u>1,011,239,476</u>

Expenses associated with occupying and maintaining the organization's facilities have been allocated to the respective functional area based on the square footage of space occupied by each program and supporting service.

**THE NEMOURS FOUNDATION AND SUBSIDIARIES**

Notes to Combined Financial Statements

December 31, 2015 and 2014

**(13) Fair Value Measurements**

The tables below summarize the fair values of Nemours significant financial assets as of December 31, 2015 and 2014:

	December 31, 2015	Fair value measurements at reporting date using		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Cash and cash equivalents	\$ 66,521,871	66,521,871	—	—
Mutual funds:				
U.S. equity index	6,881,755	6,881,755	—	—
International equity index	1,977,400	1,977,400	—	—
U.S. and International equity index	1,131	1,131	—	—
Fixed income	2,370,421	2,370,421	—	—
Marketable equity securities:				
Emerging markets	21,979,145	10,793,502	11,185,643	—
Large cap	87,443,180	10,779,324	76,663,856	—
Small cap	7,919,711	5,065,019	2,854,692	—
Preferred stock	796,225	750,477	45,748	—
Fixed income:				
U.S. Treasury bills, notes, and bonds	41,549,848	—	41,549,848	—
U.S. government agencies	10,307,691	—	10,307,691	—
Municipal bonds and notes	2,837,352	—	2,837,352	—
Asset-backed securities	6,136,486	—	6,136,486	—
Corporate bonds and notes	117,379,820	—	117,379,820	—
U.S. government mortgage obligations	27,687,429	—	27,687,429	—
Hedge funds (absolute return):				
Equity long/short	100,777	—	—	100,777
Global opportunities	6,223,943	—	—	6,223,943
Multistrategy	11,961,581	—	—	11,961,581
Public real assets	97,109	—	—	97,109

**THE NEMOURS FOUNDATION AND SUBSIDIARIES**

Notes to Combined Financial Statements

December 31, 2015 and 2014

	December 31, 2015	Fair value measurements at reporting date using		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Partnerships:	\$			
Distressed debt and specialty finance	10,752,685	—	—	10,752,685
Private real assets	14,113,074	—	—	14,113,074
Private equity	26,934,071	24,950	—	26,909,121
Real estate	10,489,177	—	—	10,489,177
Beneficial interest in perpetual trust	2,040,404	—	—	2,040,404
Interest receivable	1,467,500	1,467,500	—	—
Total	\$ <u>485,969,786</u>	<u>106,633,350</u>	<u>296,648,565</u>	<u>82,687,871</u>
Liabilities:				
Fixed-rate bonds	\$ 174,111,753	174,111,753	—	—
Variable-rate bonds	136,350,000	—	136,350,000	—
Fixed-rate notes	56,122,377	56,122,377	—	—
Variable-rate notes	44,000,000	—	44,000,000	—
Total	\$ <u>410,584,130</u>	<u>230,234,130</u>	<u>180,350,000</u>	<u>—</u>

## THE NEMOURS FOUNDATION AND SUBSIDIARIES

### Notes to Combined Financial Statements

December 31, 2015 and 2014

	December 31, 2014	Fair value measurements at reporting date using		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Cash and cash equivalents	\$ 130,511,012	130,511,012	—	—
Mutual funds:				
U.S. equity index	11,883,880	11,883,880	—	—
International equity index	1,641,573	1,641,573	—	—
Fixed income	1,483,095	1,483,095	—	—
Marketable equity securities:				
Emerging markets	24,155,053	12,791,393	11,363,660	—
Large cap	85,507,237	8,434,294	77,072,943	—
Small cap	5,153,102	2,365,156	2,787,946	—
Fixed income:				
U.S. Treasury bills, notes, and bonds	31,825,998	—	31,825,998	—
U.S. government agencies	621,826	—	621,826	—
Municipal bonds and notes	3,788,540	—	3,788,540	—
Asset-backed securities	6,689,647	—	6,689,647	—
Corporate bonds and notes	111,445,096	834,664	110,610,432	—
U.S. government mortgage obligations	35,693,638	—	35,693,638	—
Hedge funds (absolute return):				
Equity long/short	167,962	—	—	167,962
Global opportunities	6,493,287	—	—	6,493,287
Multistrategy	12,233,333	—	—	12,233,333
Public real assets	113,456	—	—	113,456
Partnerships:				
Distressed debt and specialty finance	12,290,337	—	—	12,290,337
Private real assets	21,343,007	—	—	21,343,007
Private equity	24,116,189	56,088	—	24,060,101
Real estate	14,472,947	—	—	14,472,947
Interest receivable	1,606,411	1,606,411	—	—
Total	<u>\$ 543,236,626</u>	<u>171,607,566</u>	<u>280,454,630</u>	<u>91,174,430</u>
Liabilities:				
Fixed-rate bonds	\$ 174,425,536	174,425,536	—	—
Variable-rate bonds	<u>180,900,000</u>	<u>—</u>	<u>180,900,000</u>	<u>—</u>
Total	<u>\$ 355,325,536</u>	<u>174,425,536</u>	<u>180,900,000</u>	<u>—</u>

## THE NEMOURS FOUNDATION AND SUBSIDIARIES

### Notes to Combined Financial Statements

December 31, 2015 and 2014

Level 1 assets include cash and cash equivalents, mutual funds, trading investments in marketable equity securities, corporate bonds and notes, private equity, and interest receivable and are valued at the quoted market prices. Level 1 liabilities include fixed-rate bonds and notes.

Level 2 assets include trading investments in Treasury bills, notes and bonds, trading investments in marketable equity securities, government agencies, asset-backed securities, corporate bonds and notes, municipal bonds and notes, and government mortgage obligations, with fair values modeled by external pricing vendors. Level 2 liabilities include variable-rate bonds and notes.

Level 3 assets include hedge funds, partnerships, private equity, real estate, and beneficial interest in perpetual trust.

Nemours' policy is to recognize transfers in and transfers out of the different levels as of the actual date of the event or circumstance that caused the transfer. No significant transfers occurred between Level 1 and Level 2 for the years ended December 31, 2015 and 2014.

The table below summarizes the changes in Level 3 assets for the year ended December 31, 2015:

	<b>Fair value measurements using significant unobservable inputs (Level 3)</b>					
	<b>Hedge funds</b>	<b>Partnerships</b>	<b>Real estate</b>	<b>Private equity</b>	<b>Perpetual Trust</b>	<b>Total</b>
Beginning balance	\$ 19,008,038	33,633,344	14,472,947	24,060,101	—	91,174,430
Total gains included in changes in net assets	(406,298)	(4,650,254)	1,097,473	3,857,883	—	(101,196)
Purchases	7,657	813,504	118,182	1,186,831	2,040,404	4,166,578
Sales	(225,987)	—	—	(375,304)	—	(601,291)
Settlements	—	(4,930,835)	(5,199,425)	(1,820,390)	—	(11,950,650)
Ending balance	<u>\$ 18,383,410</u>	<u>24,865,759</u>	<u>10,489,177</u>	<u>26,909,121</u>	<u>2,040,404</u>	<u>82,687,871</u>

The table below summarizes the changes in Level 3 assets for the year ended December 31, 2014:

	<b>Fair value measurements using significant unobservable inputs (Level 3)</b>					
	<b>Hedge funds</b>	<b>Partnerships</b>	<b>Real estate</b>	<b>Private equity</b>	<b>Perpetual trust</b>	<b>Total</b>
Beginning balance	\$ 19,192,581	37,811,552	18,754,097	24,567,593	—	100,325,823
Total gains included in changes in net assets	676,754	758,080	1,440,377	3,468,753	—	6,343,964
Purchases	—	1,967,924	297,940	1,761,909	—	4,027,773
Sales	(861,297)	—	—	(1,182,019)	—	(2,043,316)
Settlements	—	(6,904,212)	(6,019,467)	(4,556,135)	—	(17,479,814)
Ending balance	<u>\$ 19,008,038</u>	<u>33,633,344</u>	<u>14,472,947</u>	<u>24,060,101</u>	<u>—</u>	<u>91,174,430</u>

## THE NEMOURS FOUNDATION AND SUBSIDIARIES

### Notes to Combined Financial Statements

December 31, 2015 and 2014

Realized and unrealized gains (losses) for Level 3 assets included in changes in net assets for the years ended December 31, 2015 and 2014 are reported in investment return as follows:

	<b>2015</b>	<b>2014</b>
Total gains included in investment return	\$ (101,196)	6,343,964
Change in unrealized losses relating to assets still held at reporting date	(4,385,316)	(1,978,685)

Estimates of fair values are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could affect the estimates.

The fair values of the following investments have been estimated using the net asset value per share of the investments as of December 31, 2015:

	<b>Fair value</b>	<b>Unfunded commitments</b>	<b>Redemption frequency</b>	<b>Redemption notice period</b>	<b>Redemption restrictions</b>
Commingled funds	\$ 90,704,191	—	Ranges from weekly to monthly	Ranges from 3 to 30 days	No redemption restrictions
Hedge funds	18,286,301	—	Ranges from monthly to annually	Ranges from 60 to 180 days	1% by value (1 fund) is in liquidation with only side pockets remaining as of December 31, 2015. Full liquidation expected by December 31, 2016.
Private equity	26,909,121	2,737,969	Not eligible for redemption	Not eligible for redemption	Not eligible for redemption
Real assets	24,699,360	6,382,187	Not eligible for redemption	Not eligible for redemption	Not eligible for redemption
Distressed and specialty finance	10,752,685	257,462	73% by value are in private structures, with no redemption ability. For the rest, terms range from quarterly to annually.	90 days	Private funds not eligible for redemption
	<b>\$ 171,351,658</b>	<b>9,377,618</b>			

## THE NEMOURS FOUNDATION AND SUBSIDIARIES

### Notes to Combined Financial Statements

December 31, 2015 and 2014

The fair values of the following investments have been estimated using the net asset value per share of the investments as of December 31, 2014:

	<u>Fair value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>	<u>Redemption restrictions</u>
Commingled funds	\$ 91,117,204	—	Ranges from weekly to monthly	Ranges from 3 to 30 days	No redemption restrictions
Hedge funds	18,894,582	—	Ranges from monthly to annually	Ranges from 60 to 180 days	1% by value (1 fund) is in liquidation with only side pockets remaining as of December 31, 2014. Full liquidation expected by December 31, 2015.
Private equity	24,060,101	3,795,260	Not eligible for redemption	Not eligible for redemption	Not eligible for redemption
Real assets	35,929,410	6,564,210	Not eligible for redemption	Not eligible for redemption	Not eligible for redemption
Distressed and specialty finance	12,290,337	1,873,478	73% by value are in private structures, with no redemption ability. For the rest, terms range from quarterly to annually.	90 days	Private funds not eligible for redemption
	<u>\$ 182,291,634</u>	<u>12,232,948</u>			

#### (14) Contingencies

##### (a) *Self-Insurance Reserves*

Effective February 22, 1993, Nemours established a self-insurance trust fund to provide for losses sustained on general, professional, and patient care liability claims reported and incurred but not reported during the period subsequent to the effective date. The self-insurance trust fund is administered by a trustee and provides for the first layer of coverage of professional and patient care claims for Nemours healthcare operations. Professional insurance consultants have been utilized to determine funding requirements for this first layer. The self-insurance trust fund is reported as assets whose use is limited. Nemours has purchased a policy to cover claims occurring prior to but reported subsequent to February 22, 1993.

## THE NEMOURS FOUNDATION AND SUBSIDIARIES

### Notes to Combined Financial Statements

December 31, 2015 and 2014

Excess policy coverage has been purchased for losses exceeding the self-insurance trust fund's retention and for claims occurring prior to February 18, 2002, from an unrelated insurance company. With the establishment of Dornoch, effective February 18, 2002, Nemours' excess policy coverage for losses exceeding the self-insurance trust fund's retention has been secured through Dornoch and other unrelated insurance companies. Nemours funds Dornoch as required by the laws and regulations of the Cayman Islands.

The estimated reserves for general, professional, and patient care liabilities presented in the accompanying combined financial statements amounted to approximately \$47,165,000 and \$49,042,000 at December 31, 2015 and 2014, respectively. Reserves are estimated using an actuarial study that calculates the estimated liability for self-insured general, professional, and patient care liabilities. This study provides for estimates of losses from reported claims and incidents incurred but not reported at December 31, 2015 and 2014. These estimates are prepared using the discounted method of accounting for these risks and are discounted at a rate of 3% for 2015 and 2014. Estimated reserves on an undiscounted basis were approximately \$53,155,000 and \$55,161,000 at December 31, 2015 and 2014, respectively.

Current self-insurance liabilities for workers' compensation were \$7,470,000 and \$4,933,000 as of December 31, 2015 and 2014, respectively.

Self-insurance liabilities for health insurance were \$6,580,000 and \$6,879,000 as of December 31, 2015 and 2014, respectively.

Insurance expense for general, professional, and patient care liabilities recognized for the years ended December 31, 2015 and 2014 was approximately \$9,125,000 and \$27,850,000, respectively.

**(b) *Litigation***

Nemours is involved in litigation arising from the ordinary course of business. In the opinion of management, after consultation with legal counsel, these matters will be resolved without a material adverse effect to Nemours' financial position.

**(c) *Conditional Asset Retirement Obligation***

AIDHC has buildings that were constructed with certain asbestos products that, based on regulations, may require special handling and disposal if AIDHC undergoes major renovations. An asset retirement obligation has not been recorded as the fair value cannot be reasonably estimated. No activity requiring special treatment has occurred in the current year and no such activity is currently planned in future periods.

**(d) *Healthcare Industry***

The healthcare industry is highly regulated, and no assurance exists that the regulatory environment in which Nemours operates will not change significantly and adversely impact Nemours in the future. In general, regulation of healthcare providers and companies is increasing.

**THE NEMOURS FOUNDATION AND SUBSIDIARIES**

Notes to Combined Financial Statements

December 31, 2015 and 2014

Federal and state laws regulate the healthcare industry, the relationship between hospitals and physicians, and the relationship among physicians and other providers of healthcare services.

**(15) Subsequent Events**

Nemours evaluated events and transactions subsequent to December 31, 2015 as of April 29, 2016, the date on which the combined financial statements were available for issuance. Nemours determined that no disclosures or adjustments were required.

## **COMBINING INFORMATION**

**THE NEMOURS FOUNDATION AND SUBSIDIARIES**

Combining Schedule 1 – Balance Sheet Information

December 31, 2015

Assets	<u>The Nemours Foundation</u>	<u>Alfred L. duPont Hospital For Children</u>	<u>Nemours Children's Clinics</u>	<u>Nemours Senior Care</u>	<u>Nemours Health &amp; Prevention Services</u>	<u>Nemours Children's Hospital</u>	<u>Eliminations</u>	<u>Total</u>
Current assets:								
Cash and cash equivalents	\$ 209,064,319	2,550	15,943	550	—	1,950	—	209,085,312
Short-term investments	21,879,021	—	—	—	—	—	—	21,879,021
Accounts receivable, less allowances	(44,997)	79,028,072	33,545,464	36,734	—	12,893,365	—	125,458,638
Supplies	—	4,090,343	15,009	—	—	1,323,133	—	5,428,485
Due from affiliates	—	11,321,246	—	—	—	5,555,852	(16,877,098)	—
Prepaid expenses and other current assets	17,900,798	2,532,233	2,315,228	—	266,798	612,221	—	23,627,278
Total current assets	<u>248,799,141</u>	<u>96,974,444</u>	<u>35,891,644</u>	<u>37,284</u>	<u>266,798</u>	<u>20,386,521</u>	<u>(16,877,098)</u>	<u>385,478,734</u>
Investments	66,553,592	—	—	—	—	—	—	66,553,592
Assets whose use is limited	114,725,916	72,408,882	—	—	—	—	—	187,134,798
Temporarily restricted assets	205,620,014	1,053,462	220,797	—	—	275,166	—	207,169,439
Property and equipment:								
Land and land improvements	26,777,957	14,799,446	8,978,054	—	—	51,073,477	—	101,628,934
Buildings and leasehold improvements	47,592,017	432,709,599	49,645,888	319,128	—	302,077,582	—	832,344,214
Equipment	106,243,848	360,610,525	44,001,504	1,673,906	768,953	99,255,902	—	612,554,638
	<u>180,613,822</u>	<u>808,119,570</u>	<u>102,625,446</u>	<u>1,993,034</u>	<u>768,953</u>	<u>452,406,961</u>	<u>—</u>	<u>1,546,527,786</u>
Less accumulated depreciation	<u>(101,316,606)</u>	<u>(374,534,212)</u>	<u>(67,507,223)</u>	<u>(1,474,910)</u>	<u>(747,606)</u>	<u>(64,509,702)</u>	<u>—</u>	<u>(610,090,259)</u>
	79,297,216	433,585,358	35,118,223	518,124	21,347	387,897,259	—	936,437,527
Construction in progress	3,792,264	24,509,264	2,037,364	9,930	—	5,844,187	—	36,193,009
Net property and equipment	<u>83,089,480</u>	<u>458,094,622</u>	<u>37,155,587</u>	<u>528,054</u>	<u>21,347</u>	<u>393,741,446</u>	<u>—</u>	<u>972,630,536</u>
Other assets	6,065,998	75,000	4,117,782	—	650	1,730,802	—	11,990,232
Permanently restricted assets	5,804,074	1,209	27,830	—	—	51,459	—	5,884,572
Inexhaustible assets	3,386,733	—	—	—	—	—	—	3,386,733
Total assets	<u>\$ 734,044,948</u>	<u>628,607,619</u>	<u>77,413,640</u>	<u>565,338</u>	<u>288,795</u>	<u>416,185,394</u>	<u>(16,877,098)</u>	<u>1,840,228,636</u>
<b>Liabilities and Net Assets</b>								
Current liabilities:								
Accounts payable and accrued expenses	\$ 10,321,315	16,959,056	5,996,043	156,091	47,250	16,492,274	—	49,972,029
Accrued compensation and benefits	38,343,263	11,074,361	35,352,521	126,639	287,280	3,363,203	—	88,547,267
Current portion of self-insurance reserves	9,580,000	—	—	—	—	—	—	9,580,000
Current portion of long-term debt	1,010,000	—	—	—	—	6,565,000	—	7,575,000
Deferred revenue	4,603,918	113,948	997,304	—	46,563	1,304	—	5,763,037
Due to affiliates	54,115,754	—	(37,085,392)	(148,858)	(4,406)	—	(16,877,098)	—
Total current liabilities	<u>117,974,250</u>	<u>28,147,365</u>	<u>5,260,476</u>	<u>133,872</u>	<u>376,687</u>	<u>26,421,781</u>	<u>(16,877,098)</u>	<u>161,437,333</u>
Self-insurance reserves	50,371,688	1,263,209	—	—	—	—	—	51,634,897
Long-term debt, less current portion	121,555,000	—	—	—	—	275,634,769	—	397,189,769
Liabilities for pension benefits	156,010,791	—	—	—	—	—	—	156,010,791
Total liabilities	<u>445,911,729</u>	<u>29,410,574</u>	<u>5,260,476</u>	<u>133,872</u>	<u>376,687</u>	<u>302,056,550</u>	<u>(16,877,098)</u>	<u>766,272,790</u>
Net assets:								
Unrestricted	84,403,702	596,905,891	64,404,644	431,466	(87,892)	112,474,277	—	858,532,088
Temporarily restricted	200,453,235	2,238,426	2,919,670	—	—	1,558,108	—	207,169,439
Permanently restricted	3,276,282	52,728	4,828,850	—	—	96,459	—	8,254,319
Total net assets	<u>288,133,219</u>	<u>599,197,045</u>	<u>72,153,164</u>	<u>431,466</u>	<u>(87,892)</u>	<u>114,128,844</u>	<u>—</u>	<u>1,073,955,846</u>
Total liabilities and net assets	<u>\$ 734,044,948</u>	<u>628,607,619</u>	<u>77,413,640</u>	<u>565,338</u>	<u>288,795</u>	<u>416,185,394</u>	<u>(16,877,098)</u>	<u>1,840,228,636</u>

See accompanying independent auditors' report.

**THE NEMOURS FOUNDATION AND SUBSIDIARIES**

Combining Schedule 1 – Balance Sheet Information

December 31, 2014

Assets	<u>The Nemours Foundation</u>	<u>Alfred L. duPont Hospital For Children</u>	<u>Nemours Children's Clinics</u>	<u>Nemours Senior Care</u>	<u>Nemours Health &amp; Prevention Services</u>	<u>Nemours Children's Hospital</u>	<u>Eliminations</u>	<u>Total</u>
Current assets:								
Cash and cash equivalents	\$ 83,657,860	2,450	14,899	550	—	1,750	—	83,677,509
Short-term investments	32,318,007	—	—	—	—	—	—	32,318,007
Accounts receivable, less allowances	(220,635)	64,126,012	30,988,517	18,922	—	11,473,309	—	106,386,125
Supplies	—	3,329,495	7,251	—	—	1,569,721	—	4,906,467
Due from affiliates	—	16,947,690	18,319,445	45,715	4,406	11,230,189	(46,547,445)	—
Prepaid expenses and other current assets	12,915,936	1,925,931	3,200,342	347	585,658	573,328	—	19,201,542
Total current assets	<u>128,671,168</u>	<u>86,331,578</u>	<u>52,530,454</u>	<u>65,534</u>	<u>590,064</u>	<u>24,848,297</u>	<u>(46,547,445)</u>	<u>246,489,650</u>
Investments	69,433,306	—	—	—	—	—	—	69,433,306
Assets whose use is limited	103,561,542	102,216,241	—	—	—	—	—	205,777,783
Temporarily restricted assets	233,425,642	1,873,562	388,707	—	—	333,965	—	236,021,876
Property and equipment:								
Land and land improvements	25,736,851	10,999,712	10,919,561	—	—	51,064,424	—	98,720,548
Buildings and leasehold improvements	46,067,030	430,342,819	46,693,626	319,128	—	295,775,591	—	819,198,194
Equipment	101,477,060	344,970,857	43,198,744	1,611,988	768,954	90,962,808	—	582,990,411
	<u>173,280,941</u>	<u>786,313,388</u>	<u>100,811,931</u>	<u>1,931,116</u>	<u>768,954</u>	<u>437,802,823</u>	<u>—</u>	<u>1,500,909,153</u>
Less accumulated depreciation	<u>(90,078,793)</u>	<u>(340,719,867)</u>	<u>(63,311,292)</u>	<u>(1,340,429)</u>	<u>(732,120)</u>	<u>(44,408,879)</u>	<u>—</u>	<u>(540,591,380)</u>
	83,202,148	445,593,521	37,500,639	590,687	36,834	393,393,944	—	960,317,773
Construction in progress	3,222,160	5,137,930	3,095,725	—	—	3,446,465	—	14,902,280
Net property and equipment	86,424,308	450,731,451	40,596,364	590,687	36,834	396,840,409	—	975,220,053
Other assets	4,679,301	254,729	2,993,148	—	650	1,789,049	—	9,716,877
Permanently restricted assets	3,679,229	3,461	47,725	—	—	—	—	3,730,415
Inexhaustible assets	3,386,733	—	—	—	—	—	—	3,386,733
Total assets	<u>\$ 633,261,229</u>	<u>641,411,022</u>	<u>96,556,398</u>	<u>656,221</u>	<u>627,548</u>	<u>423,811,720</u>	<u>(46,547,445)</u>	<u>1,749,776,693</u>
<b>Liabilities and Net Assets</b>								
Current liabilities:								
Accounts payable and accrued expenses	\$ 10,719,530	14,806,592	5,108,582	140,890	163,719	13,638,113	—	44,577,426
Accrued compensation and benefits	26,037,114	14,731,679	36,021,870	195,760	474,343	3,922,713	—	81,383,479
Current portion of long-term debt	355,000	1,445,000	—	—	—	6,155,000	—	7,955,000
Deferred revenue	3,214,831	168,922	143,183	—	100,000	4,592	—	3,631,528
Due to affiliates	46,547,445	—	—	—	—	—	(46,547,445)	—
Total current liabilities	86,873,920	31,152,193	41,273,635	336,650	738,062	23,720,418	(46,547,445)	137,547,433
Self-insurance reserves	60,422,049	326,178	—	—	—	105,400	—	60,853,627
Long-term debt, less current portion	22,565,000	38,660,000	—	—	—	282,524,707	—	343,749,707
Liabilities for pension benefits	239,960,818	—	—	—	—	—	—	239,960,818
Total liabilities	<u>409,821,787</u>	<u>70,138,371</u>	<u>41,273,635</u>	<u>336,650</u>	<u>738,062</u>	<u>306,350,525</u>	<u>(46,547,445)</u>	<u>782,111,585</u>
Net assets:								
Unrestricted	(7,236,349)	568,207,119	49,262,268	319,571	(110,514)	115,100,975	—	725,543,070
Temporarily restricted	227,827,135	3,013,918	2,835,603	—	—	2,345,220	—	236,021,876
Permanently restricted	2,848,656	51,614	3,184,892	—	—	15,000	—	6,100,162
Total net assets	<u>223,439,442</u>	<u>571,272,651</u>	<u>55,282,763</u>	<u>319,571</u>	<u>(110,514)</u>	<u>117,461,195</u>	<u>—</u>	<u>967,665,108</u>
Total liabilities and net assets	<u>\$ 633,261,229</u>	<u>641,411,022</u>	<u>96,556,398</u>	<u>656,221</u>	<u>627,548</u>	<u>423,811,720</u>	<u>(46,547,445)</u>	<u>1,749,776,693</u>

See accompanying independent auditors' report.

**THE NEMOURS FOUNDATION AND SUBSIDIARIES**

Combining Schedule 2 – Revenue and Expense Information

Year ended December 31, 2015

	<u>The Nemours Foundation</u>	<u>Alfred I. duPont Hospital For Children</u>	<u>Nemours Children's Clinics</u>	<u>Nemours Senior Care</u>	<u>Nemours Health &amp; Prevention Services</u>	<u>Nemours Children's Hospital</u>	<u>Eliminations</u>	<u>Total</u>
Unrestricted revenues and other support:								
Patient service revenue (net of contractual allowances and discounts)	\$ 12,503,216	459,796,841	338,176,103	927,890	—	104,198,840	—	915,602,890
Provision for bad debts	(282,070)	(9,493,119)	(15,722,761)	(24,661)	—	(3,509,134)	—	(29,031,745)
Net patient service revenue less provision for bad debts	12,221,146	450,303,722	322,453,342	903,229	—	100,689,706	—	886,571,145
Distribution from the Alfred I. duPont Testamentary Trust	157,381,038	—	—	—	—	—	—	157,381,038
Net assets released from restrictions used for operations	27,329,772	400,733	710,548	—	—	1,325,858	—	29,766,911
Contributions from The Nemours Foundation	—	—	76,957,076	4,859,889	6,565,002	28,353,708	(116,735,675)	—
Investment return	1,912,694	399,933	—	—	—	—	—	2,312,627
Contracted services revenue	212,312	1,961,057	21,294,504	—	20,551	27,281	—	23,515,705
Grant revenue	25,089,405	288,921	1,193,629	—	1,513,883	77,134	—	28,162,972
Other income	6,431,860	2,127,472	10,582,461	5,153	2,750	1,877,723	(8,581,769)	12,445,650
Total revenues and other support	<u>230,578,227</u>	<u>455,481,838</u>	<u>433,191,560</u>	<u>5,768,271</u>	<u>8,102,186</u>	<u>132,351,410</u>	<u>(125,317,444)</u>	<u>1,140,156,048</u>
Operating expenses:								
Salaries and benefits	59,340,378	213,957,196	357,387,404	3,031,305	5,939,067	74,119,894	—	713,775,244
Professional fees	3,026,540	21,308,922	11,734,255	1,190,376	863,635	3,008,514	(8,036,609)	33,095,633
Supplies	5,945,929	67,946,235	16,244,416	539,957	61,946	20,596,982	—	111,335,465
Repairs and maintenance	2,331,195	9,845,848	7,524,682	96,078	62,407	4,394,427	—	24,254,637
Purchased services	10,294,708	24,658,328	9,156,865	63,306	453,032	10,580,117	—	55,206,356
Depreciation	4,131,182	42,343,240	8,028,569	172,936	53,368	21,494,344	—	76,223,639
Rent and lease expense	2,416,696	3,841,855	9,176,953	639,648	357,066	1,576,165	(545,160)	17,463,223
Utilities and telephone	983,616	9,319,262	3,594,797	33,035	39,661	3,551,032	—	17,521,403
Insurance	486,711	2,281,905	6,597,674	35,547	21,478	1,397,156	—	10,820,471
Interest	71,965	711,064	558,092	5,296	5,217	8,388,875	—	9,740,509
Advertising	336,892	2,878,985	1,237,476	2,135	33,683	2,280,667	—	6,769,838
Other	2,586,573	4,407,007	6,280,772	30,160	189,004	3,349,895	—	16,843,411
Distributions to Nemours Children's Clinics	76,957,076	—	—	—	—	—	(76,957,076)	—
Distributions to Nemours Health & Prevention Services	6,570,669	—	—	—	—	—	(6,570,669)	—
Distributions to Nemours SeniorCare	4,854,222	—	—	—	—	—	(4,854,222)	—
Distributions to NCH	28,353,708	—	—	—	—	—	(28,353,708)	—
Total operating expenses	<u>208,688,060</u>	<u>403,499,847</u>	<u>437,521,955</u>	<u>5,839,779</u>	<u>8,079,564</u>	<u>154,738,068</u>	<u>(125,317,444)</u>	<u>1,093,049,829</u>
Operating income (loss)	21,890,167	51,981,991	(4,330,395)	(71,508)	22,622	(22,386,658)	—	47,106,219
Net asset transfers from (to) affiliates	—	5,604,148	(5,604,148)	—	—	—	—	—
Net assets released from restrictions used for capital purchases	—	1,299,314	29,277	—	—	604,181	—	1,932,772
Pension liability adjustment	83,950,027	—	—	—	—	—	—	83,950,027
Distributions (to) from The Nemours Foundation for capital	(14,200,143)	(30,186,681)	25,047,642	183,403	—	19,155,779	—	—
Increase (decrease) in unrestricted net assets	<u>\$ 91,640,051</u>	<u>28,698,772</u>	<u>15,142,376</u>	<u>111,895</u>	<u>22,622</u>	<u>(2,626,698)</u>	<u>—</u>	<u>132,989,018</u>

See accompanying independent auditors' report.

**THE NEMOURS FOUNDATION AND SUBSIDIARIES**

Combining Schedule 2 – Revenue and Expense Information

Year ended December 31, 2014

	<u>The Nemours Foundation</u>	<u>Alfred I. duPont Hospital For Children</u>	<u>Nemours Children's Clinics</u>	<u>Nemours Senior Care</u>	<u>Nemours Health &amp; Prevention Services</u>	<u>Nemours Children's Hospital</u>	<u>Eliminations</u>	<u>Total</u>
Unrestricted revenues and other support:								
Patient service revenue (net of contractual allowances and discounts)	\$ 10,126,761	432,051,252	320,390,405	988,944	—	90,925,467	—	854,482,829
Provision for bad debts	(235,324)	(10,670,199)	(28,253,626)	(14,573)	—	(5,507,020)	—	(44,680,742)
Net patient service revenue less provision for bad debts	9,891,437	421,381,053	292,136,779	974,371	—	85,418,447	—	809,802,087
Distribution from the Alfred I. duPont Testamentary Trust	150,223,020	—	—	—	—	—	—	150,223,020
Net assets released from restrictions used for operations	33,056,571	135,160	461,290	—	281	195,102	—	33,848,404
Contributions from The Nemours Foundation	—	—	74,993,170	4,601,563	7,725,444	34,065,653	(121,385,830)	—
Investment return	7,634,152	188,337	—	—	—	—	—	7,822,489
Contracted services revenue	326,904	1,958,401	18,125,427	—	62,443	50,005	—	20,523,180
Grant revenue	19,758,348	836,421	821,347	—	2,020,239	74,001	—	23,510,356
Other income	5,621,673	4,789,899	11,911,678	3,524	(201,288)	247,393	(8,621,751)	13,751,128
Total revenues and other support	<u>226,512,105</u>	<u>429,289,271</u>	<u>398,449,691</u>	<u>5,579,458</u>	<u>9,607,119</u>	<u>120,050,601</u>	<u>(130,007,581)</u>	<u>1,059,480,664</u>
Operating expenses:								
Salaries and benefits	51,048,627	198,928,843	321,307,482	2,936,629	6,834,974	62,141,288	—	643,197,843
Professional fees	2,701,342	21,653,514	11,045,557	1,217,751	720,521	3,081,345	(8,076,591)	32,343,439
Supplies	5,681,178	62,843,980	14,828,995	507,907	102,303	17,517,043	—	101,481,406
Repairs and maintenance	1,942,041	8,113,553	6,630,579	79,398	62,096	3,835,012	—	20,662,679
Purchased services	8,289,888	23,587,131	8,447,479	60,898	751,700	10,245,068	—	51,382,164
Depreciation	4,076,377	30,335,386	8,241,965	196,327	161,410	20,721,516	—	63,732,981
Rent and lease expense	1,802,567	3,175,394	8,247,629	632,920	705,231	1,320,844	(545,160)	15,339,425
Utilities and telephone	1,075,076	9,764,209	4,186,665	38,489	58,711	3,883,754	—	19,006,904
Insurance	577,157	15,725,730	11,301,380	44,892	11,482	1,853,651	—	29,514,292
Interest	5,767	267,407	44,675	438	548	8,340,196	—	8,659,031
Advertising	365,199	3,698,485	863,075	868	27,405	2,252,302	—	7,207,334
Other	3,641,655	4,254,563	5,828,532	22,935	264,928	4,699,365	—	18,711,978
Distributions to Nemours Children's Clinics	74,993,170	—	—	—	—	—	(74,993,170)	—
Distributions to Nemours Health & Prevention Services	7,725,444	—	—	—	—	—	(7,725,444)	—
Distributions to Nemours SeniorCare	4,601,563	—	—	—	—	—	(4,601,563)	—
Distributions to NCH	34,065,653	—	—	—	—	—	(34,065,653)	—
Total operating expenses	<u>202,592,704</u>	<u>382,348,195</u>	<u>400,974,013</u>	<u>5,739,452</u>	<u>9,701,309</u>	<u>139,891,384</u>	<u>(130,007,581)</u>	<u>1,011,239,476</u>
Operating income (loss)	23,919,401	46,941,076	(2,524,322)	(159,994)	(94,190)	(19,840,783)	—	48,241,188
Net asset transfers (to) from affiliates	(91,000)	—	91,000	—	—	—	—	—
Net assets released from restrictions used for capital purchases	33,536	2,922,823	17,234	—	—	294,980	—	3,268,573
Pension liability adjustment	(162,249,971)	—	—	—	—	—	—	(162,249,971)
Distributions (to) from The Nemours Foundation for capital	(59,935,273)	25,146,067	20,765,909	130,210	—	13,893,087	—	—
(Decrease) increase in unrestricted net assets	\$ (198,323,307)	75,009,966	18,349,821	(29,784)	(94,190)	(5,652,716)	—	(110,740,210)

See accompanying independent auditors' report.

**SUPPLEMENTARY INFORMATION**



KPMG LLP  
Suite 500  
501 Riverside Avenue  
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**Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards***

The Board of Directors  
The Nemours Foundation:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the combined financial statements of The Nemours Foundation and subsidiaries (Nemours), which comprise the combined balance sheet as of December 31, 2015, and the related combined statements of operations, changes in net assets and cash flows for the year then ended, and the related notes to the combined financial statements, and have issued our report thereon dated April 29, 2016.

**Internal Control over Financial Reporting**

In planning and performing our audit of the combined financial statements, we considered Nemours' 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 combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of Nemours' internal control. Accordingly, we do not express an opinion on the effectiveness of Nemours' 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 Nemours' combined financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 results of that testing, and not to provide an opinion on the effectiveness of Nemours' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Nemours' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**KPMG LLP**

Jacksonville, Florida  
April 29, 2016  
Certified Public Accountants



KPMG LLP  
Suite 500  
501 Riverside Avenue  
Jacksonville, FL 32202

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

The Board of Directors  
The Nemours Foundation:

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

We have audited Nemours Foundation and subsidiaries' (Nemours) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Nemours' major federal programs for the year ended December 31, 2015. Nemours' 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

#### ***Auditors' Responsibility***

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

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

In our opinion, Nemours 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, 2015.

### **Report on Internal Control over Compliance**

Management of Nemours 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 Nemours' internal control over compliance with the types of



requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Nemours' 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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

We have audited the combined financial statements of Nemours as of and for the year ended December 31, 2015, and have issued our report thereon dated April 29, 2016, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the combined financial statements as a whole.

**KPMG LLP**

Jacksonville, Florida  
September 7, 2016  
Certified Public Accountants



KPMG LLP  
Suite 500  
501 Riverside Avenue  
Jacksonville, FL 32202

**Independent Auditors' Report on Compliance for Each Major State Project; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of State Financial Assistance Required by Chapter 10.650, Rules of the Auditor General**

The Board of Directors  
The Nemours Foundation:

**Report on Compliance for Each Major State Project**

We have audited Nemours Foundation and subsidiaries' (Nemours) compliance with the types of compliance requirements described in the *Florida Department of Financial Services' State Projects Compliance Supplement* that could have a direct and material effect on each of Nemours' major state projects for the year ended December 31, 2015. Nemours' major state projects 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 state projects.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of Nemours' major state projects based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Chapter 10.650, *Rules of the Auditor General, State of Florida* (Chapter 10.650). Those standards and Chapter 10.650 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 state project occurred. An audit includes examining, on a test basis, evidence about Nemours' 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 state project. However, our audit does not provide a legal determination of Nemours' compliance.

***Opinion on Each Major State Project***

In our opinion, Nemours 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 state projects for the year ended December 31, 2015.

**Report on Internal Control over Compliance**

Management of Nemours 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 Nemours' internal control over compliance with the types of



requirements that could have a direct and material effect on each major state project to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state project and to test and report on internal control over compliance in accordance with Chapter 10.650, 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 Nemours' 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 state project 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 state project 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 state project 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 Chapter 10.650. Accordingly, this report is not suitable for any other purpose.

#### **Report on Schedule of Expenditures of State Financial Assistance Required by Chapter 10.650**

We have audited the combined financial statements of Nemours as of and for the year ended December 31, 2015, and have issued our report thereon dated April 29, 2016, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The accompanying schedule of expenditures of state financial assistance is presented for purposes of additional analysis as required by Chapter 10.650 and is not a required part of the combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of state financial assistance is fairly stated in all material respects in relation to the combined financial statements as a whole.

**KPMG LLP**

Jacksonville, Florida  
September 7, 2016  
Certified Public Accountants

**THE NEMOURS FOUNDATION AND SUBSIDIARIES**

Schedule of Expenditures of Federal Awards

Year ended December 31, 2015

Federal grantor/contract name	CFDA number	Contract number	Pass-through entity	Passed through to subrecipients	Federal expenditures
Financial Assistance:					
Research and development awards:					
U.S. Department of Health and Human Services:					
Direct Financial Assistance:					
Health Resources and Services Administration/Bureau of Health Professions	93.191	D40HP25718-03-02		\$ —	39,867
National Institutes of Health/National Cancer Institute	93.395	IUGICA189958-01 /SUGICA189958-02		—	791,250
National Institutes of Health/National Cancer Institute	93.395	1R01CA191077-01/5R01CA191077-02		—	303,574
CFDA No. 93.395 subtotal				—	1,094,824
National Institutes of Health/National Heart, Lung, and Blood Institute	93.837	5K23HL096838-05		—	133,447
National Institutes of Health/National Heart, Lung, and Blood Institute	93.837	5R01HL114899-04/5R01HL114899-03		38,517	478,830
National Institutes of Health/National Heart, Lung, and Blood Institute	93.837	5R01HL108110-02 /5R01HL108110-03		182,276	334,098
CFDA No. 93.837 subtotal				220,793	946,375
National Institutes of Health/National Institute of Arthritis and Musculoskeletal	93.846	1K23AR066724-01/5K23AR066724-02		—	106,774
National Institutes of Health/National Institute of Diabetes and Digestive and Kidney Diseases	93.847	5R01DK080831-05		5,650	74,980
National Institutes of Health/National Institute of Diabetes and Digestive and Kidney Diseases	93.847	1DP3DK108198		14,931	57,073
CFDA No. 93.847 subtotal				20,581	132,053
National Institutes of Health/National Institute of Neurological Disorders	93.853	5R01NS058978-05		—	19,175
National Institutes of Health/National Institute of Neurological Disorders	93.853	5R21NS085691-02		—	144,271
CFDA No. 93.853 subtotal				—	163,446
National Institutes of Health/National Institute of Allergy and Infectious Diseases	93.855	1R21AI119841-01		—	55,897
National Institutes of Health/National Institute of General Medical Sciences	93.859	5P20GM103464-10		—	1,058,131
National Institutes of Health/National Institute of General Medical Sciences	93.859	1P30GM114736-01		—	386,718
National Institutes of Health/National Institute of General Medical Sciences	93.859	1P20GM109021-01		348,088	1,222,134
National Institutes of Health/National Institute of General Medical Sciences	93.859	5P20GM109021-02		248,404	1,074,210
CFDA No. 93.859 subtotal				596,492	3,741,193
National Institutes of Health/National Institute of Child Health and Human	93.865	1R01HD078463-01A1/5R01HD078463-02		1,543,551	2,067,606
National Institutes of Health/National Institute of Child Health and Human	93.865	5R01HD060769-04		48,628	131,689
CFDA No. 93.865 subtotal				1,592,179	2,199,295
Direct financial assistance total				2,430,045	8,479,724
Pass-through Assistance:					
National Institutes of Health/National Institute of Environmental Health	93.113	2001935318	Johns Hopkins University	—	30,710
National Institutes of Health/National Institute of Dental and Craniofacial	93.121	5-33434	The University of North Carolina Chapel Hill	—	73,382
Agency for Healthcare Research and Quality	93.226	134795	Cincinnati Children's Hospital Medical Center	—	11,872
Substance Abuse and Mental Health Services Administration	93.243	3209870916	Children's Hospital of Philadelphia	—	52,559
National Institutes of Health/National Institute on Alcohol Abuse and Alcoholism	93.273	701-5475-3-DE/701-5473-4-DE	Rhode Island Hospital	—	4,756
National Institutes of Health/National Institute on Drug Abuse	93.279	080-05000-S03001	Thomas Jefferson University	—	21,499
Centers for Disease Control and Prevention/National Center for Emerging and Zoonotic Infectious Diseases	93.283	080-36000-S08703	Thomas Jefferson University	—	8,707
National Institutes of Health/National Institute of Arthritis and Musculoskeletal	93.310	3208620713	Children's Hospital of Philadelphia	—	237
Health Resources and Services Administration/Bureau of Health Professions	93.359	37656/39944	The University of Delaware	—	271,086
National Institutes of Health/National Cancer Institute	93.395	N/A	Children's Oncology Group/Children's Hospital of Philadelphia	—	335
National Institutes of Health/National Cancer Institute	93.395	N/A	Children's Oncology Group/Children's Hospital of Philadelphia	—	573
National Institutes of Health/National Cancer Institute	93.395	9500060713-04C	Children's Oncology Group/Children's Hospital of Philadelphia	—	31
National Institutes of Health/National Cancer Institute	93.395	9500080215-12C	Children's Hospital of Philadelphia	—	667
National Institutes of Health/National Cancer Institute	93.395	9500080216	Children's Oncology Group/Children's Hospital of Philadelphia	—	36,943
National Institutes of Health/National Cancer Institute	93.395	9400270813	Children's Hospital of Philadelphia	—	1,586
CFDA No. 93.395 subtotal				—	40,135
National Institutes of Health/National Eye Institute	93.867	N/A	Jaeb Center for Health Research, Inc.	—	1,409
National Institutes of Health/National Eye Institute	93.867	3209850815	Children's Hospital of Philadelphia	—	476
National Institutes of Health/National Eye Institute	93.867	U10 EY11751	Jaeb Center for Health Research, Inc.	—	5,402
CFDA No. 93.867 subtotal				—	7,287
National Institutes of Health/National Heart, Lung, and Blood Institute	93.837	109659	Cincinnati Children's Hospital Medical Center	—	2,125
National Institutes of Health/National Heart, Lung, and Blood Institute	93.837	N/A	New England Research Institutes, Inc.	—	996
National Institutes of Health/National Heart, Lung, and Blood Institute	93.837	NEMHL098115	Pennsylvania State University	—	639
National Institutes of Health/National Heart, Lung, and Blood Institute	93.837	WFUHS 114135 BARD	Wake Forest University	—	131,942
National Institutes of Health/National Heart, Lung, and Blood Institute	93.837	WFUHS 114135 Nemours	Wake Forest University	—	12,933
National Institutes of Health/National Heart, Lung, and Blood Institute	93.837	WFUHS 114135 Nemours Infant Avica	Wake Forest University	—	6,991
National Institutes of Health/National Heart, Lung, and Blood Institute	93.837	WFUHS 114135 SIENA Nemours	Wake Forest University	—	93,791
National Institutes of Health/National Heart, Lung, and Blood Institute	93.837	WFUHS 114135 STICS Nemours	Wake Forest University	—	80,255
National Institutes of Health/National Heart, Lung, and Blood Institute	93.837	WFUHS 114146 Nemours	Wake Forest University	—	6,374
National Institutes of Health/National Heart, Lung, and Blood Institute	93.837	WFUHS 114146 BARD	Wake Forest University	—	93,404
National Institutes of Health/National Heart, Lung, and Blood Institute	93.837	WFUHS 114146 Nemours Infant Avica	Wake Forest University	—	77
National Institutes of Health/National Heart, Lung, and Blood Institute	93.837	WFUHS 114146 SIENA Nemours	Wake Forest University	—	55,714
National Institutes of Health/National Heart, Lung, and Blood Institute	93.837	WFUHS 114146 STICS Nemours	Wake Forest University	—	62,809
CFDA No. 93.837 subtotal				—	548,050

**THE NEMOURS FOUNDATION AND SUBSIDIARIES**

Schedule of Expenditures of Federal Awards

Year ended December 31, 2015

<u>Federal grantor/contract name</u>	<u>CFDA number</u>	<u>Contract number</u>	<u>Pass-through entity</u>	<u>Passed through to subrecipients</u>	<u>Federal expenditures</u>
National Institutes of Health/National Heart, Lung, and Blood Institute	93.838	10960SUB	Novartis Pharmaceuticals	\$ —	16,036
National Institutes of Health/National Heart, Lung, and Blood Institute	93.838	N/A	American Lung Association	—	2,774
National Institutes of Health/National Heart, Lung, and Blood Institute	93.838	74159	Boston Children's Hospital	—	12,835
CFDA No. 93.838 subtotal				—	31,645
National Institutes of Health/National Heart, Lung, and Blood Institute	93.839	132981	Cincinnati Children's Hospital Medical Center	—	7,462
National Institutes of Health/National Heart, Lung, and Blood Institute	93.839	9400350000-1204	Children's Oncology Group/Children's Hospital of Philadelphia	—	52
National Institutes of Health/National Heart, Lung, and Blood Institute	93.839	N/A	Children's Oncology Group/Children's Hospital of Philadelphia	—	9,349
National Institutes of Health/National Heart, Lung, and Blood Institute	93.839	FP00011560 A1 Sub02 01, 03, 04	Children's Hospital of Philadelphia	—	5,157
CFDA No. 93.839 subtotal				—	22,020
National Institutes of Health/National Institute of Arthritis and Musculoskeletal	93.846	W000396124	The University of Iowa	—	785
National Institutes of Health/National Institute of Diabetes and Digestive and Kidney Diseases	93.847	13-179296-02	Connecticut Children's Medical Center	—	3,790
National Institutes of Health/National Institute of Diabetes and Digestive and Kidney Diseases	93.847	5-33712	The University of North Carolina Chapel Hill	—	7,960
National Institutes of Health/National Institute of Diabetes and Digestive and Kidney Diseases	93.847	134230	Cincinnati Children's Hospital Medical Center	—	95,082
National Institutes of Health/National Institute of Diabetes and Digestive and Kidney Diseases	93.847	616310051/6119129500	The University of South Florida	—	10,693
National Institutes of Health/National Institute of Diabetes and Digestive and Kidney Diseases	93.847	N/A	The University of South Florida	—	1,747
National Institutes of Health/National Institute of Diabetes and Digestive and Kidney Diseases	93.847	T328556	Emory University	—	5,979
National Institutes of Health/National Institute of Diabetes and Digestive and Kidney Diseases	93.847	N/A	The University of South Florida	—	9,075
National Institutes of Health/National Institute of Diabetes and Digestive and Kidney Diseases	93.847	2002832568/2001055127	Johns Hopkins University	—	62,895
National Institutes of Health/National Institute of Diabetes and Digestive and Kidney Diseases	93.847	2002484201/2001055127	Thomas Jefferson University	—	90,674
National Institutes of Health/National Institute of Diabetes and Digestive and Kidney Diseases	93.847	N/A	The University of South Florida	—	8,602
National Institutes of Health/National Institute of Diabetes and Digestive and Kidney Diseases	93.847	N/A	Academic Pediatric Association	—	1,748
CFDA No. 93.847 subtotal				—	298,245
National Institutes of Health/National Institute of Arthritis and Musculoskeletal	93.853	30000327-04	Children's Research Institute	—	5,022
National Institutes of Health/National Institute of Neurological Disorders	93.853	107559	Cincinnati Children's Hospital Medical Center	—	1,553
National Institutes of Health/National Institute of Neurological Disorders	93.853	5R44NS067772-04	NeuroDx Development	—	1,187
National Institutes of Health/National Institute of Neurological Disorders	93.853	GB10094148465	The Rector and Visitors of the University of Virginia	—	14,787
National Institutes of Health/National Institute of Neurological Disorders	93.853	5-27534/416692	The University of Rochester	—	13,981
National Institutes of Health/National Institute of Neurological Disorders	93.853	W000750330	The University of Iowa	—	45,725
CFDA No. 93.853 subtotal				—	82,255
National Institutes of Health/National Institute of Allergy and Infectious Diseases	93.855	5600917811	Baylor College of Medicine	—	211
National Institutes of Health/National Institute of Child Health and Human	93.865	61143721-31576	Stanford University	—	6,456
National Institutes of Health/National Institute of Child Health and Human	93.865	112073	Brigham and Women's Hospital, Inc.	—	13,973
National Institutes of Health/National Institute of Child Health and Human	93.865	09-000148-13	Cincinnati Children's Hospital Medical Center	—	6,601
National Institutes of Health/National Institute of Child Health and Human	93.865	UWSC8392	The University of Washington	—	30,673
National Institutes of Health/National Institute of Child Health and Human	93.865	N/A	Saint Louis University	—	264,054
CFDA No. 93.865 subtotal				—	321,757
National Institutes of Health/National Institute of General Medical Sciences	93.859	602944	Christiana Care Health Services	—	1,041
National Institutes of Health/National Institute of General Medical Sciences	93.859	36372/40102	The University of Delaware	—	800,205
National Institutes of Health/National Institute of General Medical Sciences	93.859	36372	The University of Delaware	—	248,665
National Institutes of Health/National Institute of General Medical Sciences	93.859	37965	The University of Delaware	—	2,936
National Institutes of Health/National Institute of General Medical Sciences	93.859	40154	The University of Delaware	—	8,447
CFDA No. 93.859 subtotal				—	1,061,294
Pass-through assistance total				—	2,888,492
U.S. Department of Health and Human Services				2,430,045	11,368,216
U.S. Department of Defense					
Direct Financial Assistance:					
U.S. Army Medical Research Acquisition Activity/U.S. Army Medical Research	12.420	W81XWH-13-1-0316		520,888	874,189
Pass-through Assistance:					
U.S. Army Medical Research Acquisition Activity/U.S. Army Medical Research	12.420	W81XWH-15-1-0355	Children's Hospital of Philadelphia	—	22,932
U.S. Department of Defense				520,888	897,121
U.S. National Science Foundation					
National Science Foundation	47.075	R1003368	The University of Buffalo	—	509
<b>Research and development awards total</b>				2,950,933	12,265,846
Other Awards:					
U.S. Department of Health and Human Services:					
Direct Financial Assistance:					
Health Resources and Services Administration/Bureau of Health Professions	93.191	D40HP25718-02-00		—	52,459
Partnership to Improve Community Health	93.331	1U58DP005721-01/6NU58DP005721-02-01		332,996	535,050

**THE NEMOURS FOUNDATION AND SUBSIDIARIES**

Schedule of Expenditures of Federal Awards  
Year ended December 31, 2015

Federal grantor/contract name	CFDA number	Contract number	Pass-through entity	Passed through to subrecipients	Federal expenditures
Administration for Children and Families/Children's Bureau	93.551	90CB0190-03-00		\$ 102,524	355,776
Administration for Children and Families/Children's Bureau	93.551	90CB0190-04-00		23,927	97,622
CFDA No. 93.551 subtotal				126,451	453,398
Centers for Medicare and Medicaid Services	93.610	1C1CMS331017-03-02		—	815,936
Centers for Disease Control and Prevention/National Center for Chronic Disease Prevention and Health Promotion	93.742	6NU58DP004102-04-01		451,401	934,501
Centers for Disease Control and Prevention/National Center for Chronic Disease Prevention and Health Promotion	93.742	DP004102-02		726,268	726,268
Centers for Disease Control and Prevention/National Center for Chronic Disease Prevention and Health Promotion	93.742	DP004102-03		1,661,399	2,743,088
CFDA No. 93.742 subtotal				2,839,068	4,403,857
Direct financial assistance total				3,298,515	6,260,700
Pass-through assistance:					
Health Resources and Services Administration/Maternal and Child Health Bureau	93.110	N/A	Hemophilia of Georgia, Inc.	—	5,426
Health Resources and Services Administration/Maternal and Child Health Bureau	93.110	N/A	Genetic Alliance	—	316
CFDA No. 93.110 subtotal				—	5,742
Health Resources and Services Administration/Maternal and Child Health Bureau	93.127	0025248(124928-1)	The University of Pittsburgh	—	67,333
Health Resources and Services Administration/Maternal and Child Health Bureau	93.127	14-413	Delaware Department of Health and Social Services, Division of Public Health	—	27,428
CFDA No. 93.127 subtotal				—	94,761
Office of Minority Health/Division of Program Operations	93.137	320105	Delaware Technical Community College	—	47,689
Substance Abuse and Mental Health Services Administration	93.243	N/A	Managed Access to Child Health, Inc.	—	135,982
Substance Abuse and Mental Health Services Administration	93.243	N/A	Managed Access to Child Health, Inc.	—	4,965
Substance Abuse and Mental Health Services Administration	93.243	3029870915	Children's Hospital of Philadelphia	—	169,204
Substance Abuse and Mental Health Services Administration	93.243	16-2691	Delaware Department of Services for Children, Youth & Their Families	—	6,390
CFDA No. 93.243 subtotal				—	316,541
Centers for Disease Control and Prevention/National Center for Emerging and Zoonotic Infectious Diseases	93.283	2U27DD000862-04/1 NU27DD001155-01-00	Hemophilia of Georgia, Inc.	—	23,503
Centers for Disease Control and Prevention/National Center for Emerging and Zoonotic Infectious Diseases	93.283	15-124	Delaware Department of Health and Social Services, Division of Public Health	—	8,996
Centers for Disease Control and Prevention/National Center for Emerging and Zoonotic Infectious Diseases	93.283	16-123	Delaware Department of Health and Social Services, Division of Public Health	—	13,870
CFDA No. 93.283 subtotal				—	46,369
Centers for Disease Control and Prevention/National Center for Chronic Disease Prevention and Health Promotion	93.524	2014-112057	National Association of Country & City Health Officials	—	20,722
Centers for Disease Control and Prevention/National Center for Chronic Disease Prevention and Health Promotion	93.524	2015-070157	Delaware Department of Health and Social Services, Division of Public Health	—	7,929
CFDA No. 93.524 subtotal				—	28,651
Centers for Disease Control and Prevention/National Center for Chronic Disease Prevention and Health Promotion	93.945	16-097	Delaware Department of Health and Social Services, Division of Public Health	—	1,150
Centers for Disease Control and Prevention/National Center for Chronic Disease Prevention and Health Promotion	93.945	15-443	Delaware Department of Health and Social Services, Division of Public Health	—	25,909
Centers for Disease Control and Prevention/National Center for Chronic Disease Prevention and Health Promotion	93.945	16-097	Delaware Department of Health and Social Services, Division of Public Health	—	355
CFDA No. 93.945 subtotal				—	27,414
Office of the Secretary/Office of Preparedness and Emergency Operations	93.889	15-203	Delaware Department of Health and Social Services, Division of Public Health	—	54,873
Health Resources and Services Administration/Maternal and Child Health Bureau	93.994	COQVZ	Florida Department of Health	—	102,058
Pass-through assistance total				—	724,098
U.S. Department of Health and Human Services				3,298,515	6,984,798
U.S. Department of Agriculture:					
Food and Nutrition Services	10.557	15-259	Delaware Department of Health and Social Services, Division of Public Health	—	53,431
Food and Nutrition Services	10.557	16-183	Delaware Department of Health and Social Services, Division of Public Health	—	14,654
CFDA No. 10.557 subtotal				—	68,085
Food and Nutrition Services	10.561	38247	The University of Delaware	—	21,258
U.S. Department of Agriculture				—	89,343
U.S. National Science Foundation:					
National Science Foundation	47.075	N/A	Haskins Laboratories, Inc.	—	8,107
Other award total				3,298,515	7,082,248
ARRA Awards:					
U.S. Department of Health and Human Services:					
Health Resources and Services Administration/Bureau of Health Professions	93.403	080-36000-T13001	Thomas Jefferson University	—	13,313
Total expenditures of federal awards				\$ 6,249,448	19,361,407

See accompanying notes to schedules of federal awards and state financial assistance.

See accompanying report on schedule of expenditures of federal awards required by the Uniform Guidance.

**THE NEMOURS FOUNDATION AND SUBSIDIARIES**

Schedule of Expenditures of State Financial Assistance

Year ended December 31, 2015

<u>Federal grantor/contract name</u>	<u>CSEA number</u>	<u>Contract number</u>	<u>Pass-through entity</u>	<u>Passed through to subrecipients</u>	<u>Federal expenditures</u>
Direct Appropriations:					
Agency for Persons with Disabilities	67.035	WCX22		\$ —	681,024
Grants:					
Department of Health	64.022	COQVZ		—	102,058
Total expenditures of state financial assistance				\$ —	783,082

See accompanying notes to schedules of federal awards and state financial assistance.

See accompanying report on schedule of expenditures of state financial assistance required by Chapter 10.650.

## THE NEMOURS FOUNDATION AND SUBSIDIARIES

### Notes to Schedules of Expenditures of Federal Awards and State Financial Assistance

December 31, 2015

**(1) General**

The accompanying schedules of expenditures of federal awards and state financial assistance (the Schedules) present the activity of all federal programs and state projects, respectively, administered by The Nemours Foundation and subsidiaries (Nemours). Awards received directly from federal agencies, as well as those passed through other governmental agencies, are included on the schedule of expenditures of federal awards. The information is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements Cost Principles, and Audit Requirements for Federal Awards*. Awards received directly from state agencies, as well as those passed through other departments are included in the schedule of expenditures of state financial assistance. Therefore, some amounts presented may differ from amounts presented in, or used in the preparation of, the combined financial statements.

**(2) Basis of Accounting**

Federal programs and state projects administered by Nemours are accounted for within Nemours' operating funds. The accompanying Schedules have been prepared on the same basis of accrual accounting as the combined financial statements.

**(3) Relationships to Financial Statements**

Federal awards and state projects are reported in Nemours' combined financial statements as grant revenue.

**(4) Contingencies**

Grant monies received and disbursed by Nemours are for specific purposes and are subject to review by the grantor agencies. Such audits may result in requests for reimbursement due to disallowed expenditures. Based upon prior experience, Nemours does not believe that such disallowances, if any, would have a material effect on the combined financial position, results of operations, or cash flows of Nemours. Management is not aware of any material questioned or disallowed costs as a result of grant audits in process or completed.

**(5) Indirect Cost Rate Election**

Nemours received a negotiated indirect cost rate for federal awards and state projects; therefore, Nemours did not elect to charge de minimus rate of 10% for determining indirect cost amount.

**THE NEMOURS FOUNDATION AND SUBSIDIARIES**

Schedule of Findings and Questioned Costs

December 31, 2015

**Section I – Summary of Auditors’ Results**

***Financial Statements***

The type of report issued on whether the combined financial statements were prepared in accordance with generally accepted accounting principles: Unmodified

Internal control deficiencies over financial reporting disclosed by the audit of the combined financial statements:

- Material weaknesses: No
- Significant deficiencies: None Reported

Noncompliance material to the combined financial statements noted? No

***Federal Awards***

Internal control deficiencies over major programs disclosed by the audit:

- Material weaknesses: No
- Significant deficiencies: None Reported

The type of report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) No

***Major Programs***

<b>Name of federal program</b>	<b>CFDA number</b>
Research and Development Cluster Partnership to Improve Community Health	Various 93.331
Dollar threshold used to distinguish between Type A and Type B programs?	\$750,000
Auditee qualified as a low risk auditee?	Yes

**THE NEMOURS FOUNDATION AND SUBSIDIARIES**

Schedule of Findings and Questioned Costs

December 31, 2015

***State Financial Assistance***

Internal control deficiencies over major state projects disclosed by the audit:

- Material weaknesses: No
- Significant deficiencies: None Reported

The type of report issued on compliance for major state projects: Unmodified

Any audit findings disclosed that are required to be reported under Chapter 10.650? No

***Major State Projects***

<u>Name of state project</u>	<u>CSFA number</u>
Agency for Persons with Disabilities	67.035
Dollar threshold used to distinguish between Type A and Type B programs?	\$ 300,000

**Section II – Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards***

None

**Section III – Federal Awards Findings and Questioned Costs**

None

**Section IV – State Financial Assistance Findings and Questioned Costs**

None