



## **THE NEMOURS FOUNDATION AND SUBSIDIARIES**

Combined Financial Statements and Supplementary Information  
and Reports Required by Title 2 U.S. Code of Federal Regulations  
Part 200, *Uniform Administrative Requirements, Cost Principles and  
Audit Requirements for Federal Awards*

December 31, 2022

(With Independent Auditors' Reports Thereon)

## THE NEMOURS FOUNDATION AND SUBSIDIARIES

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## Independent Auditors' Report

The Board of Directors  
The Nemours Foundation:

### Report on the Audit of the Combined Financial Statements

#### *Opinion*

We have audited the combined financial statements of the Nemours Foundation and its subsidiaries (Nemours), which comprise the combined balance sheets as of December 31, 2022 and 2021, and the related combined statements of operations and changes in net assets without donor restrictions, changes in net assets, and cash flows for the years then ended, and the related notes to the combined financial statements.

In our opinion, the accompanying combined financial statements present fairly, in all material respects, the combined financial position of Nemours as of December 31, 2022 and 2021, and the results of its operations, the changes in its net assets, and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

#### *Basis for Opinion*

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Combined Financial Statements section of our report. We are required to be independent of Nemours and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Responsibilities of Management for the Combined Financial Statements*

Management is responsible for the preparation and fair presentation of the combined financial statements in accordance with U.S. generally accepted accounting principles, and for 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.

In preparing the combined financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Nemours' ability to continue as a going concern for one year after the date that the combined financial statements are available to be issued.



### *Auditors' Responsibilities for the Audit of the Combined Financial Statements*

Our objectives are to obtain reasonable assurance about whether the combined financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the combined financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the combined financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the combined financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Nemours' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the combined financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Nemours' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

### *Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The combining information included in Schedules 1 and 2 is presented for purposes of additional analysis 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 GAAS. In our opinion, the information 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 May 12, 2023, on our consideration of Nemours' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Nemours' 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 Nemours' internal control over financial reporting and compliance.

KPMG LLP

Jacksonville, Florida  
May 12, 2023

**THE NEMOURS FOUNDATION AND SUBSIDIARIES**

Combined Balance Sheets

December 31, 2022 and 2021

<b>Assets</b>	<b>2022</b>	<b>2021</b>
Current assets:		
Cash and cash equivalents	\$ 570,001,055	432,491,150
Short-term investments	46,936,379	43,541,480
Patient accounts receivable	289,710,742	258,522,439
Supplies	7,902,619	7,897,708
Prepaid expenses and other current assets	65,152,190	46,357,663
Total current assets	<u>979,702,985</u>	<u>788,810,440</u>
Investments	167,524,429	175,879,230
Assets whose use is limited:		
Internally designated for self-insurance reserves	79,439,550	95,790,277
Internally designated for future Delaware operations	62,096,364	34,627,401
Other designated	85,376,693	93,401,511
	<u>226,912,607</u>	<u>223,819,189</u>
Restricted assets:		
Cash	17,262,083	15,836,170
Investments	256,623,153	277,728,506
Pledges receivable, net	28,854,951	13,384,710
Other assets	217,319	217,319
	<u>302,957,506</u>	<u>307,166,705</u>
Property and equipment:		
Land and land improvements	111,342,384	110,635,515
Buildings and leasehold improvements	932,770,054	924,976,055
Equipment	966,003,577	955,077,928
	2,010,116,015	1,990,689,498
Less accumulated depreciation and amortization	<u>(1,011,615,742)</u>	<u>(959,225,255)</u>
	998,500,273	1,031,464,243
Construction in progress	26,810,263	12,298,416
Net property and equipment	<u>1,025,310,536</u>	<u>1,043,762,659</u>
Operating lease right-of-use assets	69,094,469	71,315,502
Other assets	3,907,085	4,262,030
Inexhaustible assets	3,386,733	3,386,733
Total assets	\$ <u><u>2,778,796,350</u></u>	\$ <u><u>2,618,402,488</u></u>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 77,722,309	81,680,641
Accrued compensation and benefits	189,518,042	194,568,625
Current portion of self-insurance reserves	13,264,000	10,283,390
Current portion of long-term debt	11,500,000	10,930,000
Current portion of obligations under operating leases	14,478,354	16,485,907
Deferred revenue	4,926,877	8,376,023
Total current liabilities	311,409,582	322,324,586
Self-insurance reserves, less current portion	113,754,593	86,010,416
Operating lease liabilities, less current portion	58,236,571	58,177,308
Long-term debt, less current portion	320,631,118	332,089,684
Liabilities for pension benefits	76,073,462	259,796,339
Total liabilities	<u>880,105,326</u>	<u>1,058,398,333</u>
Net assets:		
Without donor restrictions	1,593,363,771	1,250,467,703
With donor restrictions	305,327,253	309,536,452
Total net assets	1,898,691,024	1,560,004,155
Commitments and contingencies		
Total liabilities and net assets	\$ <u><u>2,778,796,350</u></u>	\$ <u><u>2,618,402,488</u></u>

See accompanying notes to combined financial statements.

**THE NEMOURS FOUNDATION AND SUBSIDIARIES**

Combined Statements of Operations and Changes in Net Assets Without Donor Restrictions

Years ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Revenues and other support:		
Net patient service revenue	\$ 1,475,015,744	1,365,416,781
Distribution from the Alfred I. duPont Charitable Trust	281,888,789	245,073,702
Net assets released from restrictions used for operations	11,312,495	10,430,918
Investment return, net	(14,191,615)	8,128,168
Contracted services revenue	63,247,672	58,599,573
Grant and contribution revenue	15,258,983	14,968,454
Other income	49,727,518	36,696,577
	<u>1,882,259,586</u>	<u>1,739,314,173</u>
Operating expenses:		
Salaries and benefits	1,082,616,907	988,764,414
Professional fees	50,721,921	42,451,921
Supplies	184,451,095	165,885,409
Repairs and maintenance	37,836,956	37,015,456
Purchased services	90,589,044	67,498,104
Depreciation and amortization	95,387,066	97,100,601
Rent and lease expense	24,148,000	24,024,032
Utilities and telephone	19,961,790	18,802,111
Insurance	55,848,348	25,202,452
Interest	8,918,085	7,305,610
Advertising	12,021,473	9,807,676
Other	42,470,120	40,061,955
	<u>1,704,970,805</u>	<u>1,523,919,741</u>
Total operating expenses		
Operating income	177,288,781	215,394,432
Nonoperating gains, net:		
Other components of net periodic pension benefit	10,034,206	8,470,617
	<u>187,322,987</u>	<u>223,865,049</u>
Excess of revenues and gains over expenses		
Net assets released from restrictions used for capital purchases	1,884,411	2,869,270
Pension-related changes other than net periodic pension benefit	153,688,670	27,085,420
	<u>342,896,068</u>	<u>253,819,739</u>
Increase in net assets without donor restrictions		

See accompanying notes to combined financial statements.

**THE NEMOURS FOUNDATION AND SUBSIDIARIES**

Combined Statements of Changes in Net Assets

Years ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Net assets without donor restrictions:		
Excess of revenues and gains over expenses	\$ 187,322,987	223,865,049
Net assets released from restrictions used for capital purchases	1,884,411	2,869,270
Pension-related changes other than net periodic pension benefit	<u>153,688,670</u>	<u>27,085,420</u>
Increase in net assets without donor restrictions	<u>342,896,068</u>	<u>253,819,739</u>
Net assets with donor restrictions:		
Net assets released from restrictions used for operations	(11,312,495)	(10,430,918)
Net assets released from restrictions used for capital purchases	(1,884,411)	(2,869,270)
Investment return, net	(19,716,333)	35,895,071
Contributions	<u>28,704,040</u>	<u>9,191,773</u>
Change in net assets with donor restrictions	<u>(4,209,199)</u>	<u>31,786,656</u>
Increase in net assets	338,686,869	285,606,395
Net assets, beginning of year	<u>1,560,004,155</u>	<u>1,274,397,760</u>
Net assets, end of year	<u>\$ 1,898,691,024</u>	<u>1,560,004,155</u>

See accompanying notes to combined financial statements.

**THE NEMOURS FOUNDATION AND SUBSIDIARIES**

Combined Statements of Cash Flows

Years ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Increase in net assets	\$ 338,686,869	285,606,395
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	95,387,066	97,100,601
Debt issue costs amortization	41,434	41,434
Pension-related changes other than net periodic pension cost	(153,688,670)	(27,085,420)
Net realized and unrealized loss (gains) on investments	46,110,244	(38,259,543)
Net (gain) loss on disposal of property and equipment	(19,647)	2,024,317
Restricted contributions	(28,704,040)	(9,191,773)
Increase in patient accounts receivable	(31,188,303)	(106,646,305)
Increase in supplies	(4,911)	(1,708,590)
Increase in prepaid expenses and other current assets	(18,794,526)	(4,028,647)
Increase in restricted pledges receivable, net	(15,470,241)	(1,930,626)
(Increase) decrease in prepaid operating leases	(18,708)	12,451
Increase (decrease) in deferred rent	291,451	(914,216)
(Decrease) increase in accounts payable and accrued expenses	(3,150,885)	30,005,182
(Decrease) increase in accrued compensation and benefits	(5,050,583)	13,361,575
Decrease in deferred revenue	(3,449,146)	(779,214)
Increase in self-insurance reserves	30,724,787	3,868,171
Decrease in liabilities for pension benefits	(30,034,207)	(28,470,617)
Net cash provided by operating activities	<u>221,667,984</u>	<u>213,005,175</u>
Cash flows from investing activities:		
Purchases of property and equipment, net	(77,440,374)	(62,455,528)
Sales of investments	371,556,666	238,037,370
Purchases of investments	(366,695,239)	(296,220,568)
Increase in other restricted assets	—	(2,500)
Proceeds from sale of property and equipment	72,575	57,851
Net cash used in investing activities	<u>(72,506,372)</u>	<u>(120,583,375)</u>
Cash flows from financing activities:		
Repayments of long-term debt	(10,930,000)	(10,740,000)
Proceeds from restricted contributions	28,704,040	9,191,773
Net cash provided by (used in) financing activities	<u>17,774,040</u>	<u>(1,548,227)</u>
Net increase in cash, cash equivalents and restricted cash	166,935,652	90,873,573
Cash, cash equivalents and restricted cash at beginning of year	<u>483,474,280</u>	<u>392,600,707</u>
Cash, cash equivalents and restricted cash at end of year	<u>\$ 650,409,932</u>	<u>483,474,280</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 7,530,203	6,768,015
Construction in progress in accounts payable	7,916,514	8,723,961
Amortization of operating lease right-of-use asset	14,267,035	15,920,519
Operating lease right-of-use asset noncash additions	12,318,745	6,898,306

See accompanying notes to combined financial statements.

## THE NEMOURS FOUNDATION AND SUBSIDIARIES

Notes to Combined Financial Statements

December 31, 2022 and 2021

### (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 Nemours Children's Hospital, Delaware (NCH-DE) on the Estate.

Nemours primarily operates in the Delaware Valley and Florida.

Nemours Delaware Valley operations include the Estate and the following:

- NCH-DE, an operating division of Nemours, is a full-service, 260 licensed bed children's hospital serving the Delaware Valley.
- Nemours Children's Health, Delaware Valley specialty clinics and Nemours New Jersey Physician Practices, P.C. (NJPP) 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.
- Nemours Value Based Services Organization promotes population health management and focuses on improving health outcomes, quality and accessibility of care, quality of life and reducing overall healthcare costs in Delaware.
- Delaware Children's Health Network (DCHN) creates a pediatric clinically and financially integrated system in order to integrate physicians and other healthcare providers into a clinical provider system.

Nemours Florida operations include the following:

- Nemours Children's Hospital, Florida (NCH-FL), an operating division of Nemours, is a full-service, 130 licensed bed children's hospital serving Central Florida.
- Nemours Children's Health, Florida in Jacksonville, Orlando, and Pensacola includes clinics that provide services to children suffering from a multitude of crippling but not incurable disorders.
- Pediatric Medical Services of Florida, Inc. (PMSI), a wholly owned subsidiary, was established by Nemours, which is PMSI's sole member. PMSI operates and is the sole member of Children's Health Alliance (CHA), which provides primary care services to pediatric patients in Central Florida.
- Nemours, Home Office, in Jacksonville, Florida, provides management for the multidivisional corporate structure.

Nemours Children's Health, Delaware Valley, Nemours Children's Health, Florida and Nemours New Jersey Physician Practices, P.C. are collectively referred to as the Clinics.

Nemours also includes Dornoch Sutherland Assurance, Ltd. (Dornoch), a wholly owned captive insurance company domiciled in the Cayman Islands. Dornoch provides insurance coverage to Nemours for general and professional liability.

## THE NEMOURS FOUNDATION AND SUBSIDIARIES

### Notes to Combined Financial Statements

December 31, 2022 and 2021

Nemours also includes Cruden Bay Risk Retention Group, Inc. (Cruden), a wholly owned subsidiary domiciled in the State of Vermont. Cruden provides insurance coverage to Nemours physicians and certain other healthcare providers practicing in Pennsylvania, New Jersey and Florida.

As provided in the Will, Nemours receives income from the Alfred I. duPont Charitable Trust (the Trust) for use in the performance of the above-described activities. The trustees of the Trust are the Members of Nemours. During 2022 and 2021, Nemours received distributions from the Trust amounting to \$281,888,789 and \$245,073,702, respectively, which Nemours recognized as revenues and other support without donor restrictions in the accompanying combined statements of operations and changes in net assets without donor restrictions. Additionally, the Trust provides investment management services with respect to the highly diversified Nemours investment portfolio.

#### **(2) Significant Accounting Policies**

##### **(a) Principles of Combination**

The accompanying 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. Accordingly, the net assets of Nemours and changes therein are classified as follows:

- Without donor restrictions – Net assets that are not subject to donor-imposed restrictions. Items that affect this net asset category principally consist of resources generated from operations and philanthropic support without restrictions.
- With donor restrictions – Net assets subject to donor-imposed restrictions that Nemours will meet through actions or the passage of time. Items that affect this net asset category are gifts for which donor-imposed restrictions have not been met in the year of receipt, pledges, and investment returns on endowment funds. Expiration of restrictions on net assets with donor restrictions are reported as net assets released from restrictions.

Also included in this category are net assets subject to donor-imposed restrictions maintained permanently by Nemours. This includes gifts wherein the donors stipulate that the corpus of the gift is to be held in perpetuity and that only income be made available for program operations or capital uses.

## THE NEMOURS FOUNDATION AND SUBSIDIARIES

### Notes to Combined Financial Statements

December 31, 2022 and 2021

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

#### **(c) Use of Estimates**

The preparation of the combined financial statements, in conformity with U.S. generally accepted accounting principles (GAAP), 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) Cash, Cash Equivalents and Restricted Cash**

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

The Federal Depository Insurance Corporation (FDIC) insures amounts on deposit with financial institutions up to limits prescribed by law. Nemours holds funds with various financial institutions in excess of the FDIC insured amounts. These financial institutions have not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on cash and cash equivalents.

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the combined balance sheets to the total shown in the combined statements of cash flows.

	2022	2021
Current assets:		
Cash and cash equivalents	\$ 570,001,055	432,491,150
Assets whose use is limited:		
Internally designated for self-insurance reserves	51,273	88,065
Internally designated for future Delaware operations	62,096,364	34,627,401
Other designated	999,157	431,494
Restricted assets:		
Restricted cash	17,262,083	15,836,170
	\$ 650,409,932	483,474,280

Amounts included in restricted cash represent gifts with donor-imposed restrictions that have not been met in the year of receipt. Cash equivalents classified as assets whose use is limited and held within Nemours' investment portfolios are excluded from cash and cash equivalents in the combined statements of cash flows as these funds are not used for operations.

## THE NEMOURS FOUNDATION AND SUBSIDIARIES

Notes to Combined Financial Statements

December 31, 2022 and 2021

### **(e) 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 reported using the estimated net asset value (NAV) as a practical expedient 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 restricted by law. Nemours reports investment return restricted by donor stipulations as a change in net assets with donor restrictions.

### **(f) Supplies**

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

### **(g) Assets Whose Use is Limited**

Assets whose use is limited include designated assets set aside in support of self-insurance and other contractual obligations. These assets consist of cash and cash equivalents and investments as described in Note 4.

### **(h) Debt Issue Costs**

Debt issue costs, net of accumulated amortization of approximately \$365,000 and \$324,000, were approximately \$724,000 and \$765,000 at December 31, 2022 and 2021, respectively, and are included as a direct deduction from the carrying amount of debt liabilities. 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 is included in interest expense in the combined statements of operations and changes in net assets without donor restrictions.

## THE NEMOURS FOUNDATION AND SUBSIDIARIES

Notes to Combined Financial Statements

December 31, 2022 and 2021

### **(i) 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. Depreciation expense was approximately \$95,032,000 and \$96,749,000 for the years ended December 31, 2022 and 2021, respectively, and is included in depreciation and amortization expense in the accompanying combined statements of operations and changes in net assets without donor restrictions.

### **(j) Leases**

Nemours accounts for leases in accordance with Accounting Standards Codification (ASC) Topic 842, *Leases* (ASC 842) (see Note 13).

Nemours is a lessee of noncancellable operating leases, primarily for office space and equipment. Nemours determines if an arrangement is a lease at the inception of a contract and determines the lease term by assuming exercise of renewal options that are reasonably certain to be exercised. The implicit interest rate or incremental borrowing rate for the related term is used to discount the lease payments based on information available at lease commencement. Generally, Nemours uses the incremental borrowing rate, updated quarterly, as the discount rate for the lease. Nemours recognizes a right of use (ROU) asset and a lease liability at commencement using the present value of lease payments.

The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for lease payments made at or before the lease commencement date, plus any initial direct costs incurred less any lease incentives received. For operating leases, the ROU asset is subsequently measured throughout the lease term at the carrying amount of the lease liability, plus initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received. Lease expense for lease payments is recognized on a straight line basis over the lease term.

Nemours has elected to not recognize ROU assets and lease liabilities for short term leases. Nemours recognizes short term lease payments on a straight line basis over the lease term.

Nemours has elected to exclude the non lease components from ROU assets and liabilities. Nemours' lease contracts generally include both base rent and non lease components such as equipment maintenance, property taxes or common area maintenance.

### **(k) Inexhaustible Assets**

Inexhaustible assets consist of the Nemours 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.

### **(l) Grant and Contribution Revenue**

Grants for basic research and other sponsored programs are generally subject to restrictions and conditions that must be met before Nemours is entitled to funding. Accordingly, advances from granting agencies are generally considered refundable in the unlikely event specified services are not

## THE NEMOURS FOUNDATION AND SUBSIDIARIES

Notes to Combined Financial Statements

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performed. Nemours recognizes revenues on grants for basic research and other sponsored programs as the awards for such programs are expended, since expenditures in accordance with award terms typically result in the simultaneous release of restrictions and conditions imposed by the grantor. Revenue from exchange contracts for applied research is recognized as Nemours' contractual performance obligations are substantially met. Indirect cost recovery by Nemours on U.S. government grants and contracts is based upon a predetermined negotiated rate and is recorded as grant and contribution revenue.

Philanthropic support from donors is considered to be available without restrictions, unless specifically restricted by the donor. Amounts received and designated for future periods or that are restricted by the donor for specific purposes are reported as changes in net assets with donor restrictions on the combined statements of changes in net assets.

### ***(m) 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 in the combined statements of operations and changes in net assets without donor restrictions, and is recognized when earned.

### ***(n) Other Income***

Other income comes from multiple sources. Nemours recognized approximately \$18,344,000 in Coronavirus Aid, Relief, and Economic Security (CARES) Act funding for the year ended December 31, 2022. No CARES Act funding was received for the year ended December 31, 2021 (see Note 15(e)). Amounts are recognized as revenue when there is reasonable assurance that the terms and conditions associated with the distributions have been met.

### ***(o) Performance Indicator***

The performance indicator is the excess of revenues and gains over expenses.

### ***(p) 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, unreimbursed Medicaid, 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.

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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 the following:

- 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.

Nemours community benefits at cost for the years ended December 31, 2022 and 2021 are as follows:

	<b>2022</b>	<b>2021</b>
Charity care:		
Financial assistance	\$ 14,390,675	17,914,120
Unreimbursed Medicaid	130,145,573	88,483,880
Net unreimbursed financial assistance	144,536,248	106,398,000
Other community benefits:		
Community health improvement services	18,751,448	19,048,760
Education for healthcare professionals	1,405,792	2,820,878
Research	36,535,559	29,278,249
Donations	16,608,328	16,473,766
Total other benefits	73,301,127	67,621,653
Total community benefits	\$ 217,837,375	174,019,653

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. The methodology for calculating charity care includes the impact of charity care adjustments based on a post-visit analysis of guarantor income limits.

#### **(q) Income Taxes**

Nemours, NJPP, PMSI, DCHN, and Cruden are exempt from federal income taxes on related income under Section 501(a) of the Internal Revenue Code as organizations described in Section 501(c)(3), and are also exempt from state income taxes. Dornoch is exempted through 2042 from all local income, profit or capital gains taxes under the Cayman Islands Tax Concessions Law. Management believes that the unrelated business income generated by Nemours is not material to the combined financial statements.

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### **(r) Impairment of Long-Lived Assets**

Management regularly evaluates whether events or changes in circumstances have occurred that could indicate impairment of the value of long-lived assets. In accordance with the provisions of Financial Accounting Standards Board (FASB) 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. Nemours did not record any impairment losses for the years ended December 31, 2022 and 2021.

In addition to consideration of impairment upon the events or changes in circumstances described above, management regularly evaluates the estimated remaining useful lives of its long-lived assets. If management revises estimates, the carrying value of affected assets is depreciated or amortized over the newly determined remaining lives. Nemours evaluated the estimated useful lives of its long-lived assets and determined no adjustment was needed for the years ended December 31, 2022 and 2021.

### **(s) Pledges Receivable**

Nemours reports unconditional promises to give as contributions. Pledges expected to be collected in less than one year are recorded at the estimated amount to be ultimately realized. Pledges to be paid to Nemours over a period of years 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 collectability 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.

### **(t) Fair Value Measurements**

Nemours applies the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (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 financial statements on a recurring basis.

FASB ASC Topic 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 at the measurement date. FASB ASC Topic 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.

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Investments for which fair value is measured using net asset value as a practical expedient have not been categorized within the fair value hierarchy.

The carrying amounts of all applicable financial instruments (excluding long-term debt) reported in the accompanying combined balance sheets approximate their estimated fair values at December 31, 2022 and 2021.

#### **(u) Goodwill**

Goodwill has resulted from the acquisition of various healthcare businesses. Goodwill, net of accumulated amortization of approximately \$1,066,000 and \$711,000, was approximately \$2,486,000 and \$2,841,000 at December 31, 2022 and 2021, respectively, and is included in other assets in the combined balance sheets. Goodwill is being amortized using the straight-line method. Amortization of goodwill is included in depreciation and amortization expense in the combined statements of operations and changes in net assets without donor restrictions. Nemours reviews goodwill for impairment at least annually or whenever events or circumstances indicate that the carrying value may not be recoverable in accordance with the provisions of Financial Accounting Standards Board Accounting Standards Codification (ASC) Topic 350, Accounting for Intangibles – Goodwill and Other. The annual impairment test was completed, and it was determined that no impairment existed at December 31, 2022.

#### **(v) Reclassifications**

Certain reclassifications are reflected in the 2021 combined financial statements to conform to the 2022 presentation.

### **(3) Net Patient Service Revenue**

Nemours uses a portfolio approach to account for categories of patient contracts as a collective group rather than recognizing revenue on an individual contract basis. The portfolios consist of major payor classes for hospital and physician services. Based on historical collection trends and other analyses, Nemours believes that revenue recognized by utilizing the portfolio approach approximates the revenue that would have been recognized if an individual contract approach were used.

Nemours' initial estimate of the transaction price for services provided to patients subject to revenue recognition is determined by reducing the total standard charges related to the patient services provided by various elements of variable consideration, including contractual adjustments, discounts, implicit price concessions, and other reductions to Nemours standard charges. Nemours determines the transaction price associated with services provided to patients who have third-party payor coverage on the basis of contractual or formula-driven rates for the services rendered (see description of third-party payor payment programs below). The estimates for contractual allowances and discounts are based on contractual agreements, Nemours discount policies and historical experience. For uninsured and underinsured patients who do not qualify for charity care, Nemours determines the transaction price associated with services on the basis of charges reduced by implicit price concessions. Implicit price concessions included in the estimate of the transaction price are based on Nemours historical collection experience for applicable patient portfolios. Under Nemours' charity care policy, patients who meet the criteria are provided care

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without charge or at amounts substantially less than established rates. Such amounts determined to qualify as charity care are not reported as revenue.

Generally, Nemours bills patients and third-party payors several days after the services are performed and/or the patient is discharged. Net patient service revenue is recognized as performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided by Nemours. Net patient service revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total charges. Nemours believes that this method provides a reasonable depiction of the transfer of services over the term of the performance obligations based on the services needed to satisfy the obligations. Generally, performance obligations satisfied over time relate to patients receiving inpatient acute care services. Nemours measures the performance obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or the completion of the outpatient visit.

As substantially all of its performance obligations relate to contracts with a duration of less than one year, Nemours has elected to apply the optional exemption provided in ASU 2014-09, *Revenue from Contracts with Customers*, and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period for patients who remain admitted at that time (in-house patients). The performance obligations for in-house patients are generally completed when the patients are discharged, which for the majority of Nemours' in-house patients occurs within days or weeks after the end of the reporting period.

Nemours records subsequent changes to the estimate of the transaction price as adjustments to net patient service revenue in the period of the change. For the years ended December 31, 2022 and 2021, changes in Nemours estimates of expected payments for performance obligations satisfied in prior years were not significant. Portfolio collection estimates are updated annually based on collection trends. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay (determined on a portfolio basis when applicable) are recorded as bad debt expense. Bad debt expense for the years ended December 31, 2022 and 2021 was not significant.

Nemours determined that the nature, amount, timing and uncertainty of revenue and cash flows are affected by the following factors: payors, lines of business and timing of when revenue is recognized. The tables below provide details of these factors.

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The 2022 and 2021 net patient service revenue disaggregated by payor comprises the following:

	<u>2022</u>	<u>2021</u>
Payor:		
Managed care	\$ 725,972,402	657,474,212
Medicaid – managed care	620,425,265	588,536,015
Medicaid – traditional	63,401,941	55,311,914
Other	65,216,136	64,094,640
Total	\$ <u>1,475,015,744</u>	<u>1,365,416,781</u>

The 2022 and 2021 net patient service revenue, disaggregated by region, line of business and timing comprises the following:

	<u>2022</u>		
	<u>Total</u>	<u>Delaware Valley</u>	<u>Florida</u>
Service lines:			
Hospital	\$ 962,736,303	694,004,920	268,731,383
Physician services	506,682,844	267,905,256	238,777,588
Research	2,450,860	2,450,860	—
Senior care	748,829	748,829	—
Other	2,396,908	1,596,611	800,297
Total	\$ <u>1,475,015,744</u>	<u>966,706,476</u>	<u>508,309,268</u>

Timing of revenue recognition:

Date of service	\$ 1,475,015,744	966,706,476	508,309,268
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	<u>2021</u>		
	<u>Total</u>	<u>Delaware Valley</u>	<u>Florida</u>
Service lines:			
Hospital	\$ 877,345,522	630,087,987	247,257,535
Physician services	482,397,929	252,670,543	229,727,386
Research	3,381,777	3,381,777	—
Senior care	592,440	592,440	—
Other	1,699,113	1,123,811	575,302
Total	\$ <u>1,365,416,781</u>	<u>887,856,558</u>	<u>477,560,223</u>

Timing of revenue recognition:

Date of service	\$ 1,365,416,781	887,856,558	477,560,223
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### Notes to Combined Financial Statements

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The 2022 and 2021 net patient service revenue, disaggregated by Nemours subsidiary comprises the following:

	<b>2022</b>		
	<b>Total</b>	<b>Delaware Valley</b>	<b>Florida</b>
The Nemours Foundation (including PMSI)	\$ 33,160,185	4,047,471	29,112,714
Nemours Children's Hospital, Delaware	694,004,920	694,004,920	—
Nemours Children's Clinics	478,255,061	267,789,890	210,465,171
Nemours Value Based Service Organization	115,366	115,366	—
Nemours SeniorCare	748,829	748,829	—
Nemours Children's Hospital, Florida	268,731,383	—	268,731,383
Total	<u>\$ 1,475,015,744</u>	<u>966,706,476</u>	<u>508,309,268</u>

  

	<b>2021</b>		
	<b>Total</b>	<b>Delaware Valley</b>	<b>Florida</b>
The Nemours Foundation (including PMSI)	\$ 31,526,469	4,505,588	27,020,881
Nemours Children's Hospital, Delaware	630,087,987	630,087,987	—
Nemours Children's Clinics	455,952,350	252,670,543	203,281,807
Nemours SeniorCare	592,440	592,440	—
Nemours Children's Hospital, Florida	247,257,535	—	247,257,535
Total	<u>\$ 1,365,416,781</u>	<u>887,856,558</u>	<u>477,560,223</u>

Nemours does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to Nemours' expectation that the period of time between the service being provided and billing will be one year or less. However, Nemours does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed significant to the contract. As of December 31, 2022 and 2021, patient accounts receivable was approximately \$289,711,000 and \$258,522,000, respectively.

Nemours considers settlements with third-party payors (see description of third-party payor payment programs below) for cost report filings and retroactive adjustments due to ongoing and future audits, reviews or investigations variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and Nemours historical settlement activity (for example, cost report final settlements or repayments related to recovery audits), including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Such estimates are determined through an estimate of the most likely amount, depending on the circumstances related to a given estimated settlement item. Estimated settlements are adjusted in future

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periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from a change in the transaction price were not significant for the years ended December 31, 2022 and 2021.

Nemours has agreements with third-party payors that typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third party-payors follows:

#### *Medicaid*

Nemours, specifically NCH-DE, serves patients from different states, mainly due to its location and proximity to multiple states. NCH-DE's main sources of Medicaid revenue are Delaware, Pennsylvania and New Jersey. Inpatient services rendered to Delaware Medicaid program beneficiaries are reimbursed for services based on a case rate while outpatient services are reimbursed, for the most part, on a fee schedule. Pennsylvania and New Jersey Medicaid reimburse for inpatient services based on a diagnosis-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, Pennsylvania and New Jersey. Rather, the information in the cost report is used to update certain factors and to determine if NCH-DE is eligible for Disproportionate Share Payments (DSH). Currently, NCH-DE is eligible for Pennsylvania Medicaid DSH payments. The states of Delaware and New Jersey each have a DSH program; however, NCH-DE is not eligible for Delaware or New Jersey DSH payments.

Medicaid is a significant payor for NCH-FL. Florida Medicaid reimburses for inpatient services based on APR-DRG groupings and outpatient services based on the Enhanced Ambulatory Patient Group (EAPG) system. This EAPG classification system was developed by 3M and financially customized for the state of Florida. This is a prospective payment system.

Nemours, specifically NCH-FL, participated in the Directed Payment Program, a new Medicaid program enhancing payments to hospital providers and recognized approximately \$56,232,000 and \$54,298,000 which has been included in patient accounts receivable and net patient service revenue in the accompanying combined balance sheets and statements of operations and changes in net assets without donor restrictions as of and for the years ended December 31, 2022 and 2021, respectively. To participate in the program, NCH-FL was required to pay a tax of approximately \$2,532,000 and \$3,953,000 for the years ended December 31, 2022 and 2021, respectively which was recorded as an other operating expense. Further, NCH-FL supports community activities of other health care providers and committed funding of approximately \$14,500,000 and \$14,374,000 which is included in accounts payable and accrued expenses and other operating expenses in the accompanying financial statements as of and for the years ended December 31, 2022 and 2021, respectively. Such amounts are considered to be a community benefit as described in note 2(p).

Medicaid reimburses for physician services (Clinics and 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 these programs will change by a material amount in the near term. Nemours believes it is in compliance with all applicable laws and regulations. Compliance with such laws and regulations may be

## THE NEMOURS FOUNDATION AND SUBSIDIARIES

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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 Restricted Investments**

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 assets with an expected use that exceeds five years.

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Nemours summarized unrestricted investments, assets whose use is limited (AWUL) and restricted investments, at December 31, 2022 and 2021 as follows:

					<b>2022</b>					
					<u>Total</u>	<u>Unrestricted</u>	<u>AWUL</u>	<u>Restricted</u>		
Cash and cash equivalents	\$	83,389,141			1,697,486	72,717,580	8,974,075			
Mutual funds		56,382,441			—	49,038,642	7,343,799			
Fixed income		196,216,829			113,291,984	62,156,640	20,768,205			
Equity securities		75,067,959			363,520	18,656,686	56,047,753			
Commingled funds		134,389,550			98,515,174	4,649,316	31,225,060			
Hedge funds		49,351,964			—	6,396,010	42,955,954			
Private equity		57,170,720			—	7,409,320	49,761,400			
Real assets		29,196,257			—	3,783,832	25,412,425			
Distressed debt and specialty finance		16,160,339			—	2,094,378	14,065,961			
Interest receivable		671,368			592,644	10,203	68,521			
	\$	<u>697,996,568</u>			<u>214,460,808</u>	<u>226,912,607</u>	<u>256,623,153</u>			

					<b>2021</b>					
					<u>Total</u>	<u>Unrestricted</u>	<u>AWUL</u>	<u>Restricted</u>		
Cash and cash equivalents	\$	65,571,313			1,789,846	52,837,592	10,943,875			
Mutual funds		51,332,054			—	51,332,054	—			
Fixed income		196,058,851			116,153,070	64,765,471	15,140,310			
Equity securities		34,334,562			357,120	19,003,671	14,973,771			
Commingled funds		224,898,256			100,610,370	16,362,076	107,925,810			
Hedge funds		55,460,894			—	7,301,237	48,159,657			
Private equity		51,345,832			—	6,759,504	44,586,328			
Real assets		22,492,606			—	2,961,075	19,531,531			
Distressed debt and specialty finance		18,879,390			—	2,485,407	16,393,983			
Interest receivable		594,647			510,304	11,102	73,241			
	\$	<u>720,968,405</u>			<u>219,420,710</u>	<u>223,819,189</u>	<u>277,728,506</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, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Net assets without donor restrictions:		
Investment return:		
Interest and dividend income	\$ 10,156,610	4,681,613
Realized gains on sales of securities	5,127,699	2,762,493
Net unrealized (loss) gains on investments	(29,107,491)	1,069,716
Less investment related expenses	<u>(368,433)</u>	<u>(385,654)</u>
	<u>\$ (14,191,615)</u>	<u>8,128,168</u>
Net assets with donor restrictions:		
Investment return:		
Interest and dividend income	\$ 2,745,477	1,673,284
Realized gains on sales of securities	45,494,806	19,479,158
Net unrealized (loss) gains on investments	(67,625,258)	14,948,176
Less investment related expenses	<u>(331,358)</u>	<u>(205,547)</u>
	<u>\$ (19,716,333)</u>	<u>35,895,071</u>

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**(5) Fair Value Measurements**

The tables below summarize the fair values of Nemours' investments, assets whose use is limited and restricted investments as of December 31, 2022 and 2021:

	Fair value measurements at reporting date using				
	2022	Quoted price in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Investments measured at NAV
Cash and cash equivalents	\$ 83,389,141	83,389,141	—	—	—
Mutual funds	56,382,441	56,382,441	—	—	—
Investments in securities:					
Fixed income:					
U.S. Treasury bills, notes, and bonds	83,229,993	—	83,229,993	—	—
U.S. government agencies	2,475,725	—	2,475,725	—	—
Municipal bonds and notes	1,276,215	—	1,276,215	—	—
Asset-backed securities	7,206,683	—	7,206,683	—	—
Corporate bonds and notes	58,655,307	—	58,655,307	—	—
U.S. government mortgage obligations	43,372,906	—	43,372,906	—	—
Equity securities	75,067,959	75,067,959	—	—	—
Investments in Partnerships:					
Commingled funds	134,389,550	—	—	—	134,389,550
Hedge funds (absolute return)	49,351,964	—	—	—	49,351,964
Private equity	57,170,720	—	—	—	57,170,720
Real asset	29,196,257	—	—	—	29,196,257
Distressed debt and specialty finance	16,160,339	—	—	—	16,160,339
Interest receivable	671,368	671,368	—	—	—
Total	\$ 697,996,568	215,510,909	196,216,829	—	286,268,830

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	Fair value measurements at reporting date using				
	2021	Quoted price in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Investments measured at NAV
Cash and cash equivalents	\$ 65,571,313	65,571,313	—	—	—
Mutual funds	51,332,054	51,332,054	—	—	—
Investments in securities:					
Fixed income:					
U.S. Treasury bills, notes, and bonds	74,535,895	—	74,535,895	—	—
U.S. government agencies	2,277,422	—	2,277,422	—	—
Municipal bonds and notes	794,062	—	794,062	—	—
Asset-backed securities	7,162,384	—	7,162,384	—	—
Corporate bonds and notes	62,187,247	—	62,187,247	—	—
U.S. government mortgage obligations	49,101,841	—	49,101,841	—	—
Equity securities	34,334,562	34,334,562	—	—	—
Investments in Partnerships:					
Commingled funds	224,898,256	—	62,948,620	—	161,949,636
Hedge funds (absolute return)	55,460,894	—	—	—	55,460,894
Private equity	51,345,832	—	—	—	51,345,832
Real asset	22,492,606	—	—	—	22,492,606
Distressed debt and specialty finance	18,879,390	—	—	—	18,879,390
Interest receivable	594,647	594,647	—	—	—
<b>Total</b>	<b>\$ 720,968,405</b>	<b>151,832,576</b>	<b>259,007,471</b>	<b>—</b>	<b>310,128,358</b>

Level 1 assets include cash and cash equivalents, mutual funds, investments in equity securities, and interest receivable and are valued at the quoted market prices.

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

Nemours had no Level 3 assets as of December 31, 2022 and 2021.

Nonmarketable securities are reported using the estimated net asset value (NAV) as a practical expedient for fair value.

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.

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Nemours estimated the fair values of the following investments using the net asset value per share of the investments as a practical expedient for fair value as of December 31, 2022:

	<u>Strategy</u>	<u>Fair value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>	<u>Redemption restrictions</u>
Commingled funds	Global equities funds, primarily long only and emerging market debt	\$ 134,389,550	—	Range from monthly to annually	Range from 4 to 90 days	2% by value (3 funds) are locked up as of December 31, 2022. No other redemption restrictions.
Hedge funds	Global equities and fixed income fund in market neutral strategies	49,351,964	1,022,418	Range from quarterly to annually	Range from 60 to 90 days	2% by value (1 funds) is a Private structure fund and not eligible for redemption. 24% by value (5 funds) is locked up as of December 31, 2022.
Private equity	Venture capital and buyout in the United States and international	57,170,720	25,266,277	Not eligible for redemption	Not eligible for redemption	Not eligible for redemption.
Real assets	Real estate, energy, natural resources/ commodities, and timberland in the United States and international	29,196,257	12,445,425	Quarterly	Range from 45 to 60 days	71% by value are private structure funds not eligible for redemption.
Distressed debt and specialty finance	Distressed asset funds, middle market debt, royalties, and equity investments	16,160,339	3,378,827	Range from quarterly to annually	Range from 90 to 180 days	58% by value (2 funds) are private structure funds not eligible for redemption. 20% by value (2 funds) is locked up as of December 31, 2022.
		<u>\$ 286,268,830</u>	<u>42,112,947</u>			

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Nemours estimated the fair values of the following investments using the net asset value per share of the investments as a practical expedient for fair value as of December 31, 2021:

	<u>Strategy</u>	<u>Fair value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>	<u>Redemption restrictions</u>
Commingled funds	Global equities funds, primarily long only and emerging market debt	\$ 161,949,636	3,350,000	Range from monthly to annually	Range from 4 to 90 days	3% by value (4 funds) are locked up as of December 31, 2021. No other redemption restrictions.
Hedge funds	Global equities and fixed income fund in market neutral strategies	55,460,894	1,650,776	Range from quarterly to annually	Range from 60 to 90 days	11% by value (2 funds) is a Private structure fund and not eligible for redemption. 6% by value (1 fund) is locked up as December 31, 2021.
Private equity	Venture capital and buyout in the United States and international	51,345,832	27,443,163	Not eligible for redemption	Not eligible for redemption	Not eligible for redemption.
Real assets	Real estate, energy, natural resources/ commodities, and timberland in the United States and international	22,492,606	14,231,356	Quarterly	Range from 45 to 60 days	63% by value are private structure funds not eligible for redemption.
Distressed debt and specialty finance	Distressed asset funds, middle market debt, royalties, and equity investments	18,879,390	4,365,511	Range from quarterly to annually	Range from 90 to 180 days	46% by value are private structure funds not eligible for redemption.
		<u>\$ 310,128,358</u>	<u>51,040,806</u>			

**(6) Long-Term Debt**

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 Series 2009 bonds. The Series 2009 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-FL and the outpatient clinic to be owned and operated by Nemours, and related facilities, equipment, fixtures, and

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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 Series 2009 bonds.

The Series 2009B bonds mature in various years beginning January 1, 2013 through January 1, 2039. Interest rates reset weekly. The interest rate was 3.45% and 0.09% at December 31, 2022 and 2021, respectively. The Series 2009B bonds are supported by an 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 May 31, 2024.

The Series 2009C1 bonds mature in various years beginning January 1, 2013 through January 1, 2039. Interest rates reset weekly. The interest rate was 3.45% and 0.09% at December 31, 2022 and 2021, respectively.

The Series 2009C2 bonds mature in various years beginning January 1, 2010 through January 1, 2037. Interest rates reset weekly. The interest rate was 3.45% and 0.09% at December 31, 2022 and 2021, respectively.

The Series 2009C1 and 2009C2 bonds are supported by an irrevocable direct pay letter of credit issued by TD Bank, N.A. to provide security for the payment of the principal amount, and premium, if any, plus accrued unpaid interest through August 7, 2026.

On June 10, 2015, Nemours executed a Master Loan Agreement with Eastern Bank (formally known as Century Bank and Trust) for a \$44,000,000 Loan Note Series 2015-1 (Series 2015-1 note). Proceeds from the Series 2015-1 note were used to finance various capital and improvement projects. Amounts outstanding under the Series 2015-1 note bear a variable interest rate of LIBOR plus 50 basis points (4.62% and 0.60% as of December 31, 2022 and 2021, respectively). The notes are payable in equal annual installments, commencing January 1, 2036 through January 1, 2045.

On June 10, 2015, Nemours executed a Master Loan Agreement with Bank of America, N.A. 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, with the remaining outstanding principal due June 9, 2027.

On October 5, 2018, Nemours entered into a legal defeasance of the Florida Authority Series 2009A bonds in the amount of \$151,080,000. At the same time, the Florida Authority issued \$152,105,000 in tax-exempt, fixed rate revenue bonds (Series 2018 bonds). The proceeds from the Series 2018 bonds along with a deposit from Nemours of \$4,702,618 were placed into a separate irrevocable trust fund to provide for future debt service payments of the defeased debt. Accordingly, the trust account asset and liability of the defeased bonds are not included in the accompanying combined financial statements.

The Series 2018 bonds were issued at a fixed rate of 3.19% and mature in various years beginning January 1, 2020 through January 1, 2039.

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The principal and interest payments for the Series 2009 bonds, Series 2015-1 note, Series 2015-2 note and Series 2018 bonds are unsecured general obligations of Nemours. The master trust agreements and related documents for the 2009 Bonds, Series 2015-1 note, Series 2015-2 notes and Series 2018 bonds contain certain covenants and restrictions with which Nemours is required to comply.

Long-term debt consists of the following at December 31, 2022 and 2021:

	2022	2021
Orange County Health Facilities Authority Revenue Bonds:		
The Nemours Foundation Project, Series 2009B	\$ 64,180,000	68,380,000
The Nemours Foundation Project, Series 2009C1	16,275,000	17,365,000
The Nemours Foundation Project, Series 2009C2	19,380,000	19,935,000
The Nemours Foundation Project, Series 2018	141,140,000	144,870,000
Century Bank and Trust, Series 2015-1 Note	44,000,000	44,000,000
Bank of America, N.A., Series 2015-2 Note	47,880,000	49,235,000
	332,855,000	343,785,000
Less unamortized debt issue costs	(723,882)	(765,316)
	332,131,118	343,019,684
Less current portion of long-term debt	(11,500,000)	(10,930,000)
Long-term debt less current portion	\$ 320,631,118	332,089,684

Scheduled principal repayments of long-term debt as of December 31, 2022 are as follows:

2023	\$ 11,500,000
2024	11,810,000
2025	12,275,000
2026	12,710,000
2027	13,080,000
Thereafter	271,480,000
	\$ 332,855,000

#### (7) Construction in Progress

Construction in progress of approximately \$26,810,000, at December 31, 2022, primarily represents activities at NCH-DE for infrastructure improvements and relocation of clinic in Delaware Valley. At December 31, 2022, the remaining commitment under contract for the various on-going capital projects was approximately \$37,683,000.

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**(8) Net Assets with Donor Restrictions**

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 related net assets at December 31, 2022 and 2021 are restricted to the care and treatment of physically handicapped children in Florida and are considered assets with donor restrictions 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	(568,979,422)
Investment earnings	642,437,437
Unrealized gains on investments	6,448,430
Grant	<u>(600,000)</u>
Balance at December 31, 2022	\$ <u>239,881,174</u>

Net assets with donor restrictions are restricted for the following purposes as of December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Available for release from restrictions:		
Edward Ball Fund	\$ 239,881,174	265,238,249
Capital	2,591,834	2,316,643
Education and scholarships	1,231,285	1,646,352
Health – clinical operations	5,136,760	3,153,146
Operational support	3,352,270	4,099,207
Research	<u>5,057,331</u>	<u>4,798,650</u>
Total available for release from restrictions	<u>257,250,654</u>	<u>281,252,247</u>
Endowments, including accumulated earnings:		
Education and scholarships	1,383,308	1,635,012
Health – clinical operations	11,160,585	6,291,274

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	<b>2022</b>	<b>2021</b>
Operational support	\$ 1,391,826	1,478,970
Research	2,916,183	3,124,493
Total endowments, including accumulated earnings	16,851,902	12,529,749
Inexhaustible assets:		
The Estate	2,369,746	2,369,746
Pledged:		
Available for future release from restrictions:		
Capital	468,889	821,862
Education and scholarships	4,063,414	4,610,905
Health – clinical operations	2,263,734	2,481,036
Operational support	435,686	356,322
Research	2,955,148	4,299,496
Endowment:		
Health – clinical operations	18,485,025	633,476
Education and scholarships	183,055	181,613
Total pledged	28,854,951	13,384,710
Total net assets with donor restrictions	\$ 305,327,253	309,536,452

**(9) Endowments**

Nemours' net assets with donor restrictions include donor-restricted endowments. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

**(a) Relevant Law**

Under the Uniform Prudent Management of Institutional Funds Act (UPMIFA), the governing board has the discretion to determine how much to appropriate of a donor-restricted endowment fund in accordance with a robust set of guidelines about what constitutes prudent spending. UPMIFA permits Nemours to appropriate or accumulate so much of an endowment fund as Nemours determines to be prudent for the uses, benefits, purposes and duration for which the endowment fund is established. Seven criteria are to be used to guide Nemours in its yearly expenditure decisions: 1) duration and preservation of the endowment fund; 2) the purposes of Nemours and the endowment fund; 3) general economic conditions; 4) effect of inflation or deflation; 5) the expected total return from income and the appreciation of investments; 6) other resources of Nemours; and 7) the investment policy of Nemours.

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UPMIFA broadens and clarifies the latitude of institutions to manage overall endowment returns without specifically isolating those particular endowments that, because of the timing of the gift and market conditions, are deemed underwater. Under UPMIFA, the Board is permitted to determine and continue a prudent payout amount, even if the market value of the endowment is below historic dollar value. Although UPMIFA offers short term spending flexibility, the explicit consideration of the preservation of funds among factors for prudent spending suggests that a donor-restricted endowment fund is still perpetual in nature. There is an expectation that, over time, the historic dollar value will remain intact.

#### **(b) Endowment Classifications**

The principal of a donor-restricted endowment is: (a) the original value of initial and subsequent gifts, restricted to the endowment, (b) accumulation or additions stipulated by the applicable donor gift instrument to be added to principal and (c) for perpetual endowments only, accumulations stipulated by UPMIFA, if any, to be held in perpetuity. The appreciation of donor-restricted endowment is: (a) accumulated net investment gains and losses net of fees and (b) amounts appropriated for spending by the Board. The fair value of a donor-restricted endowment is the combination of principal and appreciation.

A donor-restricted endowment is classified as either perpetual (donor stipulates investment in perpetuity of certain net assets) or term (donor stipulates investment for a specific time period for certain net assets). Unless stipulated by the donor as a term endowment, all donor-restricted endowment funds are classified as perpetual. As of December 31, 2022 and 2021, all Nemours endowments are perpetual.

A board designated quasi-endowment is created when the Board (not the donor) authorizes investment of net assets into an endowment pool. Board-designated quasi-endowments are created primarily from net assets without donor restriction; however, the Board may designate unexpended net assets with donor restrictions to be invested in an endowment pool until expended per the donor's restrictions. As of December 31, 2022 and 2021, Nemours did not have any quasi-endowments.

#### **(c) Endowment Spending Policy**

The Endowment Funds policy governs the rate at which funds are made available for use. Nemours must hold endowment gifts a minimum of twenty-four full months prior to the release for spending. Nemours uses a disciplined spending rule of 5% of endowment market value. Year-to-year fluctuations due to changes in endowment value are moderated by a smoothing rule, which uses an eight quarter moving average of portfolio market value. The amount available for spending will be determined after the last quarter of the calendar year preceding the fiscal year in which the funds are made available. Nemours makes every effort to fully spend the funds made available within the same year they are granted to ensure Nemours is meeting the donors' wishes in accordance with Nemours fiduciary duties.

#### **(d) Endowment Financial Position**

As discussed in note 4, Nemours has established investment pools. The donor-restricted endowments are a part of the long-term pool and have a target allocation of approximately 58% equity, 16% absolute return investments (primarily hedge funds), 15% fixed income, and 11% real assets.

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**(e) Endowment Changes in Net Assets**

	<u>2022</u>	<u>2021</u>
Endowment net assets, beginning of year	\$ 12,529,749	10,723,911
Changes in endowment net assets with donor restrictions:		
Contributions	5,394,566	384,901
Investment return, net	(881,443)	1,556,464
Release from restrictions	<u>(190,970)</u>	<u>(135,527)</u>
	<u>4,322,153</u>	<u>1,805,838</u>
Endowment net assets, end of year	\$ <u>16,851,902</u>	<u>12,529,749</u>

**(10) Liquidity and Availability**

Nemours regularly monitors liquidity required to meet its operating needs, liabilities and other obligations as they become due. As of December 31, 2022 and 2021, Nemours has ample cash, cash equivalents and investments to cover operating expenses. The following financial assets could be readily made available within one year of the combined balance sheet dates to meet cash needs for general expenditures.

	<u>2022</u>	<u>2021</u>
Financial assets:		
Current assets:		
Cash and cash equivalents	\$ 570,001,055	432,491,150
Short-term investments	46,936,379	43,541,480
Patient accounts receivable	289,710,742	258,522,439
Prepaid expenses and other current assets	65,152,190	46,357,663
Investments	167,524,429	175,879,230
Assets whose use is limited	226,912,607	223,819,189
Restricted assets:		
Cash	17,262,083	15,836,170
Less those unavailable for general expenditures within one year due to:		
Prepaid expenses	(22,638,645)	(23,262,281)
Assets whose use is limited	(226,912,607)	(223,819,189)
Restricted by donor with time or purpose restriction	<u>(17,262,083)</u>	<u>(15,836,170)</u>
Financial assets available to meet cash needs for general expenditures within one year	\$ <u>1,116,686,150</u>	<u>933,529,681</u>

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### (11) 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. Certain employees became eligible for base contributions and employer match provisions in the 403(b) plan in 2018 as a result of Nemours' noncontributory defined-benefit plan (see Note 11(b)) being frozen effective January 1, 2018. Nemours' contributions to the 403(b) Plan were approximately \$50,276,000 and \$46,199,000 in 2022 and 2021, respectively, which are included in salaries and benefits expense in the accompanying combined statements of operations and changes in net assets without donor restrictions.

PMSI sponsors a 401(k) defined-contribution plan (401(k) Plan) for CHA employees. Nemours' contributions to the 401(k) Plan were approximately \$795,000 and \$794,000 in 2022 and 2021, respectively, which are included in salaries and benefits expense in the accompanying combined statements of operations and changes in net assets without donor restrictions.

#### (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 froze the Plan ceasing all pension accruals. Benefits under the Plan are based on years of service and the employee's compensation as described below. Nemours funds amounts required to meet or exceed minimum Employee Retirement Income Security Act 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 allows 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, 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 net assets without donor restrictions, as of December 31, 2022 and 2021. 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

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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 net assets without donor restrictions at December 31</b>	
	<u>2022</u>	<u>2021</u>
Net actuarial loss	\$ 194,640,212	348,328,882

Nemours contributed \$20,000,000 to the Plan during each of the years ended December 31, 2022 and 2021. Management has not yet determined its contribution to the Plan for the year ending December 31, 2023. Management will consider the Plan's funded status and will make additional contributions that will meet or exceed 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 effect of freezing the Plan as of January 1, 2018 resulted in a reduction of the projected benefit obligation to the amount of the Plan's accumulated 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 \$673,220,992 and \$984,431,218 at December 31, 2022 and 2021, respectively.

The benefits expected to be paid out of the Plan in each year for the years ending December 31, 2023 through December 31, 2027 and the aggregate benefits expected to be paid in the five years from 2028 through 2032 are approximately as follows:

2023	\$ 37,593,999
2024	39,546,478
2025	41,551,692
2026	43,470,029
2027	45,113,839
2028 through 2032	244,640,008

The expected benefits to be paid are based on the same assumptions used to measure the benefit obligation at December 31, 2022.

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Weighted average assumptions used to determine the benefit obligation at December 31, 2022 and 2021 were as follows:

	<u>2022</u>	<u>2021</u>
Discount rate	5.85 %	3.15 %

Weighted average assumptions used to determine the net periodic pension benefit for the years ended December 31, 2022 and 2021 were as follows:

	<u>2022</u>	<u>2021</u>
Discount rate	3.15 %	3.05 %
Expected return on plan assets	7.00	7.25

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.

Under ASU 2018-14, an explanation for significant impacts related to the changes in the benefits obligations is required. Below is a summary of items which Nemours deemed significant.

- The actual return on the fair value of plan assets since the prior measurement date was less than assumed, which caused the funded position to deteriorate.
- Contributions to the plan during the prior year improved the funded status.
- The discount rate increased 270 basis points compared to the prior year (from 3.15% to 5.85%), which decreased the obligation by approximately \$286.4 million.
- The fiscal 2022 results reflected the approximately \$25.9 million retiree annuity purchase transaction completed in September 2022.

On September 7, 2022, Nemours purchased group annuity contracts for certain participants of the Plan. Payments made to Nationwide Financial in connection with the purchase of group annuity contracts amounted to \$25,909,102.

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The change in projected benefit obligation for the Plan for the years ended December 31, 2022 and 2021 included the following components:

	<u>2022</u>	<u>2021</u>
Projected benefit obligation, beginning of year	\$ 984,431,218	993,309,811
Interest cost	30,602,760	29,940,060
Benefit payments	(33,557,773)	(31,632,552)
Benefit payments – group annuity purchase	(25,909,102)	—
Actuarial gain	<u>(282,346,111)</u>	<u>(7,186,101)</u>
Projected benefit obligation, end of year	\$ <u>673,220,992</u>	<u>984,431,218</u>

The actuarially computed net periodic pension benefit for the Plan for the years ended December 31, 2022 and 2021 included the following components:

	<u>2022</u>	<u>2021</u>
Interest cost on projected benefit obligation	\$ 30,602,760	29,940,060
Expected return on plan assets	(50,207,666)	(48,726,257)
Amortization of actuarial loss	<u>9,570,700</u>	<u>10,315,580</u>
Other components of net periodic pension benefit income	\$ <u>(10,034,206)</u>	<u>(8,470,617)</u>

The change in plan assets for the Plan for the years ended December 31, 2022 and 2021 included the following components:

	<u>2022</u>	<u>2021</u>
Fair value of plan assets at beginning of year	\$ 724,634,879	677,957,435
Employer contributions	20,000,000	20,000,000
Benefit payments – annuity	(33,557,773)	(31,632,552)
Benefit payments – group annuity purchase	(25,909,102)	—
Administrative expenses	(4,452,493)	(4,071,857)
Actual return on plan assets	<u>(83,567,981)</u>	<u>62,381,853</u>
Fair value of plan assets at end of year	\$ <u>597,147,530</u>	<u>724,634,879</u>

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The following table summarizes the components of the funded status of the Plan as of December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Projected benefit obligation	\$ (673,220,992)	(984,431,218)
Fair value of plan assets	<u>597,147,530</u>	<u>724,634,879</u>
Funded status	<u>\$ (76,073,462)</u>	<u>(259,796,339)</u>

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 46% global equity, 8% real assets, 16% absolute return (primarily hedge funds), and 30% fixed income, with a small portion of the assets held as cash to meet participant payment requirements.

Weighted average asset allocations by asset category as of December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	5 %	3 %
Mutual funds	3	—
Equities	26	1
Fixed income	21	16
Commingled funds	14	51
Hedge funds	19	17
Real assets	8	7
Distressed debt and specialty finance	<u>4</u>	<u>5</u>
Total	<u>100 %</u>	<u>100 %</u>

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The table below summarizes the fair values of plan assets as of December 31, 2022:

	Fair value measurements at reporting date using				
	2022	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Investments measured at NAV
Cash and cash equivalents	\$ 28,709,714	28,709,714	—	—	—
Mutual funds	19,552,424	19,552,424	—	—	—
Investments in securities:					
Fixed income:					
U.S. Treasury bills, notes, and bonds	63,448,360	—	63,448,360	—	—
U.S. government agencies	1,604,553	—	1,604,553	—	—
Municipal bonds and notes	980,624	—	980,624	—	—
Asset-backed securities	3,494,882	—	3,494,882	—	—
Corporate bonds and notes	27,877,844	—	27,877,844	—	—
U.S. government mortgage obligations	26,559,658	—	26,559,658	—	—
Equity securities	(a) 157,603,139	157,603,139	—	—	—
Investments in Partnerships:					
Commingled funds	(b) 82,080,995	—	—	—	82,080,995
Hedge funds (absolute return)	(c) 112,102,569	—	—	—	112,102,569
Real asset	(d) 45,786,412	—	—	—	45,786,412
Distressed debt and specialty finance	(e) 26,321,958	—	—	—	26,321,958
Interest receivable	1,024,398	1,024,398	—	—	—
<b>Total</b>	<b>\$ 597,147,530</b>	<b>206,889,675</b>	<b>123,965,921</b>	<b>—</b>	<b>266,291,934</b>

**THE NEMOURS FOUNDATION AND SUBSIDIARIES**

Notes to Combined Financial Statements

December 31, 2022 and 2021

The table below summarizes the fair values of plan assets as of December 31, 2021:

	Fair value measurements at reporting date using				
	2021	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Investments measured at NAV
Cash and cash equivalents	\$ 22,718,632	22,718,632	—	—	—
Investments in securities:					
Fixed income:					
U.S. Treasury bills, notes, and bonds	67,518,878	—	67,518,878	—	—
U.S. government agencies	1,307,340	—	1,307,340	—	—
Municipal bonds and notes	957,079	—	957,079	—	—
Asset-backed securities	3,762,237	—	3,762,237	—	—
Corporate bonds and notes	20,038,764	—	20,038,764	—	—
U.S. government mortgage obligations	20,505,623	—	20,505,623	—	—
Equity securities (a)	8,123,648	8,123,648	—	—	—
Investments in Partnerships:					
Commingled funds (b)	372,684,202	—	185,700,015	—	186,984,187
Hedge funds (absolute return) (c)	121,168,436	—	—	—	121,168,436
Real asset (d)	52,392,464	—	—	—	52,392,464
Distressed debt and specialty finance (e)	33,251,983	—	—	—	33,251,983
Interest receivable	205,593	205,593	—	—	—
<b>Total</b>	<b>\$ 724,634,879</b>	<b>31,047,873</b>	<b>299,789,936</b>	<b>—</b>	<b>393,797,070</b>

- (a) This class invests in publicly traded ownership of companies across regions, market cap sizes, and sectors.
- (b) This class invests in funds which pool capital from several investors and primarily invest in long only global equities and debt securities.
- (c) This class invests principally in publicly traded assets, such as stocks, bonds, currencies, commodities, and derivatives. Funds may use leverage or trading strategies that generate returns with substantially different risk and return exposures than those found in traditional investment pools.
- (d) This class invests in real estate, natural resources, and infrastructure with the objective of generating long term absolute returns, hedging against unanticipated inflation and increasing overall diversification.
- (e) 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, 2022 and 2021

The fair value of the following plan assets have been estimated using the net asset value per share of the investments as a practical expedient for fair value as of December 31, 2022:

	<u>Strategy</u>	<u>Fair value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>	<u>Redemption restrictions</u>
Commingled funds	Global equities funds, primarily long only and emerging market debt	\$ 82,080,995	—	Ranges from monthly to annually	Ranges from 4 days to 6 months	8% by value (1 funds) are locked up as of December 31, 2022. No other redemption restrictions.
Hedge funds	Global equities and fixed income fund in market neutral strategies	112,102,569	1,353,858	1% by value are in private structures, with no redemption ability. For the rest, terms range from monthly to annually.	Ranges from 60 to 90 days	Private structure funds not eligible for redemption. 16% by value (4 funds) are locked up as of December 31, 2022.
Real assets	Real estate, energy, natural resources/ commodities, and infrastructure in the United States and international	45,786,412	7,627,536	74% by value are in private structures, with no redemption ability. For the rest, redemptions are quarterly.	Ranges from 45 to 60 days	Private structure funds not eligible for redemption. No lock ups as of December 31, 2022.
Distressed debt and specialty finance	Distressed asset funds, middle market debt, royalties and equity investments	26,321,958	1,790,363	55% by value are in private structures, with no redemption ability. For the rest, terms range from quarterly to annually.	Ranges from 90 to 180 days	Private structure funds not eligible for redemption. 24% by value (2 funds) are locked up December 31, 2022.
		<u>\$ 266,291,934</u>	<u>10,771,757</u>			

**THE NEMOURS FOUNDATION AND SUBSIDIARIES**

Notes to Combined Financial Statements

December 31, 2022 and 2021

The fair value of the following plan assets have been estimated using the net asset value per share of the investments as a practical expedient for fair value as of December 31, 2021:

	<u>Strategy</u>	<u>Fair value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>	<u>Redemption restrictions</u>
Commingled funds	Global equities funds, primarily long only and emerging market debt	\$ 186,984,187	5,000,000	Ranges from monthly to semi-annually	Ranges from 4 days to 6 months	13% by value (2 funds) are locked up as of December 31, 2021. No other redemption restrictions.
Hedge funds	Global equities and fixed income fund in market neutral strategies	121,168,436	2,824,709	1% by value are in private structures, with no redemption ability. For the rest, terms range from monthly to annually.	Ranges from 60 to 90 days	Private structure funds not eligible for redemption. 12% by value (2 funds) are locked up as of December 31, 2021.
Real assets	Real estate, energy, natural resources/ commodities, and infrastructure in the United States and international	52,392,464	8,312,835	66% by value are in private structures, with no redemption ability. For the rest, redemptions are quarterly.	Ranges from 45 to 60 days	Private structure funds not eligible for redemption. No lock ups as of December 31, 2021.
Distressed debt and specialty finance	Distressed asset funds, middle market debt, royalties and equity investments	33,251,983	2,216,010	53% by value are in private structures, with no redemption ability. For the rest, terms range from quarterly to annually.	Ranges from 90 to 180 days	Private structure funds not eligible for redemption. No lock up as of December 31, 2021.
		<u>\$ 393,797,070</u>	<u>18,353,554</u>			

**THE NEMOURS FOUNDATION AND SUBSIDIARIES**

Notes to Combined Financial Statements

December 31, 2022 and 2021

**(12) 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, 2022 and 2021 was as follows:

	<u>2022</u>	<u>2021</u>
Managed care	33 %	28 %
Medicaid – managed care	44	46
Medicaid – traditional	10	12
Other	13	14
	<u>100 %</u>	<u>100 %</u>

Management does not believe any other significant concentrations of credit risk exist as of December 31, 2022 or 2021.

**(13) Leases**

Nemours has non-cancellable operating leases, primarily for office equipment and office space that expire over the next thirteen years. The office space leases generally contain renewal options for periods ranging from one to five years while the office equipment leases contain a month to month renewal option. Based upon historical renewal experience, if available, Nemours will establish appropriate exercise renewal options in determining the lease term. Associated potential option payments are excluded from lease payments. Nemours' leases generally exclude termination options for either party to the lease or restrictive financial or other covenants.

Payments due under the lease contracts include fixed payments as leases relate to fixed square footage of office space or specific equipment. Nemours has not entered into any variable lease payment contracts.

Nemours is not a party to lease contracts that include residual value guarantees.

Nemours has elected to separate lease components from non-lease components. The ROU assets and lease liabilities only include lease components like base rent and exclude non-lease components like common area maintenance and property taxes.

The components of lease cost, included in rent and lease expense in the combined statements of operations and changes in net assets without donor restrictions, for the years ended December 31, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Operating lease cost	\$ 20,315,376	21,280,749
Short-term lease cost	1,577,086	860,877
Total lease cost	<u>\$ 21,892,462</u>	<u>22,141,626</u>

**THE NEMOURS FOUNDATION AND SUBSIDIARIES**

Notes to Combined Financial Statements

December 31, 2022 and 2021

Other information related to operating leases as of December 31, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Weighted average remaining lease terms	5.08 years	5.83 years
Weighted average discount rates	2.97 %	3.19 %

Maturities of operating lease liabilities under noncancellable leases as of December 31, 2022 are as follows:

2023	\$ 16,523,750
2024	15,076,745
2025	13,273,828
2026	11,425,915
2027	10,009,732
Thereafter	<u>13,394,345</u>
Total undiscounted lease payments	79,704,315
Less imputed interest	<u>(6,989,390)</u>
Total lease liabilities	<u>\$ 72,714,925</u>

In 2021, Nemours entered into an office space lease that pre-dates the rent commencement. Nemours has not received control of the office space in Malvern, PA which remains with the landlord for building construction purposes through March 2023 when Nemours takes possession, with an estimated occupancy date of March 2024.

**(14) Functional Expenses**

Nemours has summarized the costs of program and supporting activities in the combined statements of operations and changes in net assets without donor restrictions. The expense analysis in the tables below present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The combined financial statements report certain categories of expenses that are attributable to more than one program or support function. The expenses that are allocated include salaries and benefits which are allocated based upon department and job classification and management and general tasks. Expenses associated with occupying and maintaining Nemours facilities have been allocated to the respective functional area based on the square footage of space occupied by each program and supporting service. Other costs are classified in each functional category based on the underlying purpose of each transaction.

## THE NEMOURS FOUNDATION AND SUBSIDIARIES

### Notes to Combined Financial Statements

December 31, 2022 and 2021

Functional expenses for the year ended December 31, 2022 are summarized as follows:

	Total	Program activities			Supporting activities	
		Health services	Research	Education	Fundraising	Management and general
Salaries and benefits	\$ 1,082,616,907	881,684,156	36,911,161	12,617,477	6,179,026	145,225,087
Professional fees	50,721,921	21,355,819	2,237,145	8,516,769	1,707,051	16,905,137
Supplies	184,451,095	161,437,668	2,832,357	1,353,373	780,920	18,046,777
Repairs and maintenance	37,836,956	18,348,656	391,589	6,518	976	19,089,217
Purchased services	90,589,044	72,531,976	2,805,371	272,035	486,050	14,493,612
Depreciation and amortization	95,387,066	67,524,166	7,377,529	554,137	144,438	19,786,796
Rent and lease	24,148,000	18,158,343	3,038,869	35,963	336,143	2,578,682
Utilities and telephone	19,961,790	14,112,703	1,269,689	93,334	22,677	4,463,387
Insurance	55,848,348	50,844,709	38,385	8,455	1,032	4,955,767
Interest	8,918,085	5,575,583	122,787	55,479	—	3,164,236
Advertising	12,021,473	10,894,690	12,455	3,115	813,247	297,966
Other	42,470,120	38,393,108	843,602	866,001	1,432,525	934,884
Total expenses	\$ 1,704,970,805	1,360,861,577	57,880,939	24,382,656	11,904,085	249,941,548

Functional expenses for the year ended December 31, 2021 are summarized as follows:

	Total	Program activities			Supporting activities	
		Health services	Research	Education	Fundraising	Management and general
Salaries and benefits	\$ 988,764,414	779,139,439	39,562,487	21,151,723	4,866,797	144,043,968
Professional fees	42,451,921	13,271,535	1,001,566	8,423,194	1,970,558	17,785,068
Supplies	165,885,409	148,076,815	2,794,336	1,438,952	299,698	13,275,608
Repairs and maintenance	37,015,456	16,643,202	272,498	108,827	554	19,990,375
Purchased services	67,498,104	51,383,977	1,920,905	323,690	180,037	13,689,495
Depreciation and amortization	97,100,601	69,122,563	7,436,195	893,936	44,319	19,603,588
Rent and lease	24,024,032	17,942,977	2,862,055	207,926	14,798	2,996,276
Utilities and telephone	18,802,111	12,870,279	1,191,977	109,016	32,074	4,598,765
Insurance	25,202,452	24,345,204	5,292	21,566	465	829,925
Interest	7,305,610	4,677,642	94,399	76,734	—	2,456,835
Advertising	9,807,676	8,843,025	7,130	800	548,771	407,950
Other	40,061,955	36,318,203	349,584	849,224	725,586	1,819,358
Total expenses	\$ 1,523,919,741	1,182,634,861	57,498,424	33,605,588	8,683,657	241,497,211

### (15) 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, 2022 and 2021

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 balance sheets amounted to approximately \$108,330,000 and \$77,505,000 at December 31, 2022 and 2021, 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, 2022 and 2021.

Insurance expense for general, professional, and patient care liabilities recognized for the years ended December 31, 2022 and 2021 was approximately \$53,734,000 and \$22,528,000, respectively, and is reflected in the accompanying combined statements of operations and changes in net assets without donor restrictions.

Self-insurance liabilities for workers' compensation were approximately \$7,425,000 and \$8,250,000 as of December 31, 2022 and 2021, respectively, and are included in the accompanying combined balance sheets.

Self-insurance liabilities for health insurance were approximately \$10,746,000 and \$10,005,000 as of December 31, 2022 and 2021, respectively, and are included in the accompanying combined balance sheets.

Self-insurance liabilities for short-term disability was approximately \$180,000 and \$278,000 as of December 31, 2022 and 2021, respectively, and are included in the accompanying combined balance sheets.

Self-insurance liabilities for dental insurance was approximately \$284,000 and \$256,000 as of December 31, 2022 and 2021, respectively, and are included in the accompanying combined balance sheets.

Self-insurance liabilities for Spousal Advantage Value Incentive (SAVI) benefit were approximately \$54,000 as of December 31, 2022 and are included in the accompanying combined balance sheets.

#### **(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.

## THE NEMOURS FOUNDATION AND SUBSIDIARIES

Notes to Combined Financial Statements

December 31, 2022 and 2021

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

NCH-DE has buildings that were constructed with certain asbestos products that, based on regulations, may require special handling and disposal if NCH-DE 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.

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.

### **(e) Novel Coronavirus (COVID-19)**

The COVID-19 pandemic has had numerous and varied medical, economic, and social impacts, all of which have adversely affected Nemours' business and financial results.

The Coronavirus Aid, Relief, and Economic Security (CARES) Act is an economic stimulus bill passed on March 27, 2020 providing among other provisions, financial relief to hospitals and healthcare providers affected by the pandemic. Nemours recognized approximately \$18,344,000 in CARES Act funding which has been included in other income in the accompanying combined statement of operations and changes in net assets without donor restrictions for the year ended December 31, 2022. No CARES Act funding was received for the year ended December 31, 2021.

The CARES Act permits employers to defer the payment of the employer's portion of social security taxes incurred between March 27, 2020 and December 31, 2020. Half of the deferred payments were paid by December 31, 2021. The total deferred payroll tax payment of approximately \$11,341,000 as of December 31, 2021 was paid as of December 31, 2022.

Nemours received approximately \$880,000 from the Medicare Advanced Payment Program provided under the CARES Act for the year ended December 31, 2020. Repayment began in April 2021 and the total remaining Medicare Advanced Payment of approximately \$456,000 as of December 31, 2021 was paid as of December 31, 2022.

### **(16) Subsequent Events**

Nemours evaluated events and transactions subsequent to December 31, 2022 as of May 12, 2023 the date on which the combined financial statements available to be issued. Nemours determined that no disclosures or adjustments were required.

## **COMBINING INFORMATION**

THE NEMOURS FOUNDATION AND SUBSIDIARIES

Combining Schedule 1 – Balance Sheet Information

December 31, 2022

Assets	The Nemours Foundation	Nemours Children's Hospital, Delaware	Nemours Children's Clinics	Nemours Senior Care	Nemours Value Based Services Organization	Nemours Children's Hospital, Florida	Eliminations	Total
Current assets:								
Cash and cash equivalents	\$ 569,977,268	2,550	18,812	550	—	1,875	—	570,001,055
Short-term investments	46,936,379	—	—	—	—	—	—	46,936,379
Patient accounts receivable	2,694,724	153,448,743	44,447,923	79,416	77,046	88,962,890	—	289,710,742
Supplies	—	4,841,049	37,594	—	—	3,023,976	—	7,902,619
Due from affiliates	—	86,769	30,618,897	120,350	436,359	9,037,595	(40,299,970)	—
Prepaid expenses and other current assets	36,655,344	8,853,973	15,423,431	108,312	1,846,887	2,264,243	—	65,152,190
Total current assets	656,263,715	167,233,084	90,546,657	308,628	2,360,292	103,290,579	(40,299,970)	979,702,985
Investments	167,524,429	—	—	—	—	—	—	167,524,429
Assets whose use is limited	164,816,243	62,096,364	—	—	—	—	—	226,912,607
Restricted assets	295,387,704	446,420	5,426,903	—	—	1,696,479	—	302,957,506
Property and equipment:								
Land and land improvements	33,307,415	15,022,583	9,571,799	—	—	53,440,587	—	111,342,384
Buildings and leasehold improvements	58,070,402	465,719,785	87,849,957	—	—	321,129,910	—	932,770,054
Equipment	155,749,547	592,768,568	69,683,159	2,001,880	409,055	145,391,368	—	966,003,577
	247,127,364	1,073,510,936	167,104,915	2,001,880	409,055	519,961,865	—	2,010,116,015
Less accumulated depreciation and amortization	(165,073,807)	(542,463,257)	(111,821,013)	(1,611,680)	(325,510)	(190,320,475)	—	(1,011,615,742)
	82,053,557	531,047,679	55,283,902	390,200	83,545	329,641,390	—	998,500,273
Construction in progress	1,846,387	16,630,685	7,867,666	—	5,397	460,128	—	26,810,263
Net property and equipment	83,899,944	547,678,364	63,151,568	390,200	88,942	330,101,518	—	1,025,310,536
Operating lease right-of-use assets	16,609,165	15,130,986	36,151,421	—	—	1,202,897	—	69,094,469
Other assets	1,650,380	—	1,909,267	—	—	347,438	—	3,907,085
Inexhaustible assets	3,386,733	—	—	—	—	—	—	3,386,733
Total assets	\$ 1,389,538,313	792,585,218	197,185,816	698,828	2,449,234	436,638,911	(40,299,970)	2,778,796,350
<b>Liabilities and Net Assets</b>								
Current liabilities:								
Accounts payable and accrued expenses	\$ 13,719,873	19,667,324	7,915,469	142,464	303,661	35,973,518	—	77,722,309
Accrued compensation and benefits	83,670,826	22,302,109	73,816,625	150,917	1,065,390	8,512,175	—	189,518,042
Current portion of self-insurance reserves	13,264,000	—	—	—	—	—	—	13,264,000
Current portion of long-term debt	1,985,000	—	—	—	—	9,515,000	—	11,500,000
Current portion of obligations under operating leases	4,056,266	2,654,879	7,272,668	—	—	494,541	—	14,478,354
Deferred revenue	3,402,009	127,565	1,267,658	—	—	129,645	—	4,926,877
Due to affiliates	40,299,970	—	—	—	—	—	(40,299,970)	—
Total current liabilities	160,397,944	44,751,877	90,272,420	293,381	1,369,051	54,624,879	(40,299,970)	311,409,582
Self-insurance reserves, less current portion	113,754,593	—	—	—	—	—	—	113,754,593
Operating lease liabilities, less current portion	13,774,230	12,851,665	30,878,464	—	—	732,212	—	58,236,571
Long-term debt, less current portion	109,094,674	—	—	—	—	211,536,444	—	320,631,118
Liabilities for pension benefits	76,073,462	—	—	—	—	—	—	76,073,462
Total liabilities	473,094,903	57,603,542	121,150,884	293,381	1,369,051	266,893,535	(40,299,970)	880,105,326
Net assets:								
Without donor restrictions	637,409,538	730,617,095	58,219,218	405,447	973,223	165,739,250	—	1,593,363,771
With donor restrictions	279,033,872	4,364,581	17,815,714	—	106,960	4,006,126	—	305,327,253
Total net assets	916,443,410	734,981,676	76,034,932	405,447	1,080,183	169,745,376	—	1,898,691,024
Total liabilities and net assets	\$ 1,389,538,313	792,585,218	197,185,816	698,828	2,449,234	436,638,911	(40,299,970)	2,778,796,350

See accompanying independent auditors' report.

THE NEMOURS FOUNDATION AND SUBSIDIARIES

Combining Schedule 1 – Balance Sheet Information

December 31, 2021

Assets	The Nemours Foundation	Nemours Children's Hospital, Delaware	Nemours Children's Clinics	Nemours Senior Care	Nemours Value Based Services Organization	Nemours Children's Hospital, Florida	Eliminations	Total
<b>Current assets:</b>								
Cash and cash equivalents	\$ 432,466,463	2,550	18,812	550	—	2,775	—	432,491,150
Short-term investments	43,541,480	—	—	—	—	—	—	43,541,480
Patient accounts receivable	1,752,244	135,534,712	36,883,713	28,663	—	84,323,107	—	258,522,439
Supplies	—	5,302,508	35,378	—	—	2,559,822	—	7,897,708
Due from affiliates	—	2,508,917	27,342,692	44,937	605,290	4,749,033	(35,250,869)	—
Prepaid expenses and other current assets	33,119,768	2,695,211	5,379,174	—	2,797,132	2,366,378	—	46,357,663
<b>Total current assets</b>	<b>510,879,955</b>	<b>146,043,898</b>	<b>69,659,769</b>	<b>74,150</b>	<b>3,402,422</b>	<b>94,001,115</b>	<b>(35,250,869)</b>	<b>788,810,440</b>
Investments	175,879,230	—	—	—	—	—	—	175,879,230
Assets whose use is limited	189,191,788	34,627,401	—	—	—	—	—	223,819,189
Restricted assets	298,539,149	63,390	6,438,557	—	—	2,125,609	—	307,166,705
<b>Property and equipment:</b>								
Land and land improvements	32,584,404	15,032,170	9,578,354	—	—	53,440,587	—	110,635,515
Buildings and leasehold improvements	53,577,405	463,811,750	86,466,226	2,218	—	321,118,456	—	924,976,055
Equipment	151,502,756	586,003,082	70,005,830	2,018,620	177,106	145,370,534	—	955,077,928
	237,664,565	1,064,847,002	166,050,410	2,020,838	177,106	519,929,577	—	1,990,689,498
Less accumulated depreciation and amortization	(155,384,655)	(521,258,401)	(106,230,070)	(1,614,768)	(146,751)	(174,590,610)	—	(959,225,255)
	82,279,910	543,588,601	59,820,340	406,070	30,355	345,338,967	—	1,031,464,243
Construction in progress	5,511,519	5,772,190	851,125	—	—	163,582	—	12,298,416
Net property and equipment	87,791,429	549,360,791	60,671,465	406,070	30,355	345,502,549	—	1,043,762,659
Operating lease right-of-use assets	18,711,495	11,804,300	39,115,158	—	—	1,684,549	—	71,315,502
Other assets	1,745,162	—	2,169,430	—	—	347,438	—	4,262,030
Inexhaustible assets	3,386,733	—	—	—	—	—	—	3,386,733
<b>Total assets</b>	<b>\$ 1,286,124,941</b>	<b>741,899,780</b>	<b>178,054,379</b>	<b>480,220</b>	<b>3,432,777</b>	<b>443,661,260</b>	<b>(35,250,869)</b>	<b>2,618,402,488</b>
<b>Liabilities and Net Assets</b>								
<b>Current liabilities:</b>								
Accounts payable and accrued expenses	\$ 17,106,933	22,109,527	5,498,466	128,132	602,893	36,234,690	—	81,680,641
Accrued compensation and benefits	87,978,053	23,039,785	74,763,964	147,839	845,883	7,793,101	—	194,568,625
Current portion of self-insurance reserves	10,283,390	—	—	—	—	—	—	10,283,390
Current portion of long-term debt	1,910,000	—	—	—	—	9,020,000	—	10,930,000
Current portion of obligations under operating leases	4,053,323	2,680,325	8,970,060	—	—	782,199	—	16,485,907
Deferred revenue	5,958,812	1,024,695	1,189,916	—	—	202,600	—	8,376,023
Due to affiliates	35,250,869	—	—	—	—	—	(35,250,869)	—
<b>Total current liabilities</b>	<b>162,541,380</b>	<b>48,854,332</b>	<b>90,422,406</b>	<b>275,971</b>	<b>1,448,776</b>	<b>54,032,590</b>	<b>(35,250,869)</b>	<b>322,324,586</b>
Self-insurance reserves, less current portion	86,010,416	—	—	—	—	—	—	86,010,416
Operating lease liabilities, less current portion	15,968,928	9,656,257	31,673,147	—	—	878,976	—	58,177,308
Long-term debt, less current portion	111,070,775	—	—	—	—	221,018,909	—	332,089,684
Liabilities for pension benefits	259,796,339	—	—	—	—	—	—	259,796,339
<b>Total liabilities</b>	<b>635,387,838</b>	<b>58,510,589</b>	<b>122,095,553</b>	<b>275,971</b>	<b>1,448,776</b>	<b>275,930,475</b>	<b>(35,250,869)</b>	<b>1,058,398,333</b>
<b>Net assets:</b>								
Without donor restrictions	370,087,642	678,867,486	36,355,158	204,249	1,846,808	163,106,360	—	1,250,467,703
With donor restrictions	280,649,461	4,521,705	19,603,668	—	137,193	4,624,425	—	309,536,452
<b>Total net assets</b>	<b>650,737,103</b>	<b>683,389,191</b>	<b>55,958,826</b>	<b>204,249</b>	<b>1,984,001</b>	<b>167,730,785</b>	<b>—</b>	<b>1,560,004,155</b>
<b>Total liabilities and net assets</b>	<b>\$ 1,286,124,941</b>	<b>741,899,780</b>	<b>178,054,379</b>	<b>480,220</b>	<b>3,432,777</b>	<b>443,661,260</b>	<b>(35,250,869)</b>	<b>2,618,402,488</b>

See accompanying independent auditors' report.

**THE NEMOURS FOUNDATION AND SUBSIDIARIES**

Combining Schedule 2 – Revenue and Expense Information

Year ended December 31, 2022

	<b>The Nemours Foundation</b>	<b>Nemours Children's Hospital, Delaware</b>	<b>Nemours Children's Clinics</b>	<b>Nemours Senior Care</b>	<b>Nemours Value Based Services Organization</b>	<b>Nemours Children's Hospital, Florida</b>	<b>Eliminations</b>	<b>Total</b>
Revenues and other support:								
Net patient service revenue	\$ 33,160,185	694,004,920	478,255,061	748,829	115,366	268,731,383	—	1,475,015,744
Distribution from Alfred I. duPont Charitable Trust	281,888,789	—	—	—	—	—	—	281,888,789
Net assets released from restrictions used for operations	7,594,873	680,041	2,083,291	—	34,004	920,286	—	11,312,495
Contributions from The Nemours Foundation	—	—	134,871,555	4,410,072	5,241,933	5,932,406	(150,455,966)	—
Investment return, net	(14,191,615)	—	—	—	—	—	—	(14,191,615)
Contracted services revenue	7,777,579	5,563,329	46,564,021	—	1,829,746	1,512,997	—	63,247,672
Grant and contribution revenue	12,056,782	845,647	1,892,864	—	—	463,690	—	15,258,983
Other income	16,995,429	13,469,307	13,670,098	114,711	6,216,110	2,722,091	(3,460,228)	49,727,518
<b>Total revenues and other support</b>	<b>345,282,022</b>	<b>714,563,244</b>	<b>677,336,890</b>	<b>5,273,612</b>	<b>13,437,159</b>	<b>280,282,853</b>	<b>(153,916,194)</b>	<b>1,882,259,586</b>
Operating expenses:								
Salaries and benefits	91,408,017	316,561,395	530,755,908	2,713,689	10,595,144	130,582,754	—	1,082,616,907
Professional fees	3,183,520	19,515,866	18,388,075	1,208,187	2,187,927	9,153,414	(2,915,068)	50,721,921
Supplies	10,487,475	97,033,281	31,424,689	493,710	656,934	44,355,006	—	184,451,095
Repairs and maintenance	3,897,882	15,582,746	9,314,937	71,074	195,152	8,775,165	—	37,836,956
Purchased services	7,557,847	43,100,850	10,620,892	86,853	169,073	29,053,529	—	90,589,044
Depreciation and amortization	6,555,575	51,398,769	15,131,649	144,274	117,254	22,039,545	—	95,387,066
Rent and lease expense	6,114,170	4,731,853	11,972,073	279,778	20,541	1,574,745	(545,160)	24,148,000
Utilities and telephone	796,351	10,380,367	3,974,713	31,430	56,859	4,722,070	—	19,961,790
Insurance	2,534,652	3,500,477	37,165,578	59,307	31,751	12,556,583	—	55,848,348
Interest	215,069	1,039,724	1,238,454	10,761	21,726	6,392,351	—	8,918,085
Advertising	231,879	6,559,277	1,134,552	3,475	7,267	4,085,023	—	12,021,473
Other	9,645,270	4,636,323	5,248,090	5,406	177,103	22,757,928	—	42,470,120
Distributions to Nemours Children's Clinics	134,871,555	—	—	—	—	—	(134,871,555)	—
Distributions to Nemours Value Based Services Organization	5,241,933	—	—	—	—	—	(5,241,933)	—
Distributions to Nemours SeniorCare	4,410,072	—	—	—	—	—	(4,410,072)	—
Distributions to NCH-FL	5,932,406	—	—	—	—	—	(5,932,406)	—
<b>Total operating expenses</b>	<b>293,083,673</b>	<b>574,040,928</b>	<b>676,369,610</b>	<b>5,107,944</b>	<b>14,236,731</b>	<b>296,048,113</b>	<b>(153,916,194)</b>	<b>1,704,970,805</b>
Operating (loss) income	52,198,349	140,522,316	967,280	165,668	(799,572)	(15,765,260)	—	177,288,781
Nonoperating gains, net:								
Other components of net periodic pension benefit	2,224,368	2,949,452	4,572,881	35,530	58,288	193,687	—	10,034,206
(Deficit) excess of revenues and gains over expenses	54,422,717	143,471,768	5,540,161	201,198	(741,284)	(15,571,573)	—	187,322,987
Net assets released from restrictions used for capital purchases	—	532,816	892,542	—	—	459,053	—	1,884,411
Pension-related changes other than net periodic pension cost	153,688,670	—	—	—	—	—	—	153,688,670
Distributions from (to) The Nemours Foundation for capital	59,210,509	(92,254,975)	15,431,357	—	(132,301)	17,745,410	—	—
<b>Change in net assets without donor restrictions</b>	<b>\$ 267,321,896</b>	<b>51,749,609</b>	<b>21,864,060</b>	<b>201,198</b>	<b>(873,585)</b>	<b>2,632,890</b>	<b>—</b>	<b>342,896,068</b>

See accompanying independent auditors' report.

**THE NEMOURS FOUNDATION AND SUBSIDIARIES**

Combining Schedule 2 – Revenue and Expense Information

Year ended December 31, 2021

	<b>The Nemours Foundation</b>	<b>Nemours Children's Hospital, Delaware</b>	<b>Nemours Children's Clinics</b>	<b>Nemours Senior Care</b>	<b>Nemours Value Based Services Organization</b>	<b>Nemours Children's Hospital, Florida</b>	<b>Eliminations</b>	<b>Total</b>
Revenues and other support:								
Net patient service revenue	\$ 31,526,469	630,087,987	455,952,350	592,440	—	247,257,535	—	1,365,416,781
Distribution from Alfred I. duPont Charitable Trust	245,073,702	—	—	—	—	—	—	245,073,702
Net assets released from restrictions used for operations	7,165,536	462,425	2,152,095	—	—	650,862	—	10,430,918
Contributions from The Nemours Foundation	—	—	89,363,448	4,300,431	1,925,168	13,921,521	(109,510,568)	—
Investment return, net	8,128,168	—	—	—	—	—	—	8,128,168
Contracted services revenue	5,676,969	5,910,677	42,641,500	—	3,872,811	497,616	—	58,599,573
Grant and contribution revenue	9,285,217	763,075	1,211,980	—	—	3,708,182	—	14,968,454
Other income	15,355,093	6,555,991	7,385,716	6,084	5,003,416	5,288,365	(2,898,088)	36,696,577
<b>Total revenues and other support</b>	<b>322,211,154</b>	<b>643,780,155</b>	<b>598,707,089</b>	<b>4,898,955</b>	<b>10,801,395</b>	<b>271,324,081</b>	<b>(112,408,656)</b>	<b>1,739,314,173</b>
Operating expenses:								
Salaries and benefits	81,731,135	280,494,157	498,040,744	2,707,662	8,736,020	117,054,696	—	988,764,414
Professional fees	2,718,116	18,718,723	17,046,934	1,012,484	1,020,292	4,288,300	(2,352,928)	42,451,921
Supplies	12,147,498	84,315,434	26,827,446	404,769	410,961	41,779,301	—	165,885,409
Repairs and maintenance	4,478,754	16,632,632	9,650,654	107,400	187,575	5,958,441	—	37,015,456
Purchased services	8,681,850	29,109,019	9,655,969	102,692	81,750	19,866,824	—	67,498,104
Depreciation and amortization	6,665,601	51,829,714	15,827,082	143,339	134,801	22,500,064	—	97,100,601
Rent and lease expense	6,016,311	3,870,585	12,145,026	282,374	183,771	2,071,125	(545,160)	24,024,032
Utilities and telephone	910,439	9,877,165	3,799,380	35,366	48,675	4,131,086	—	18,802,111
Insurance	1,234,521	3,973,637	17,370,198	69,699	57,162	2,497,235	—	25,202,452
Interest	182,963	683,647	909,011	8,303	18,257	5,503,429	—	7,305,610
Advertising	385,774	5,275,761	863,817	3,383	7,686	3,271,255	—	9,807,676
Other	5,686,820	5,084,179	4,126,016	17,214	53,022	25,094,704	—	40,061,955
Distributions to Nemours Children's Clinics	89,363,448	—	—	—	—	—	(89,363,448)	—
Distributions to Nemours Value Based Services Organization	1,925,168	—	—	—	—	—	(1,925,168)	—
Distributions to Nemours SeniorCare	4,300,431	—	—	—	—	—	(4,300,431)	—
Distributions to NCH-FL	13,921,521	—	—	—	—	—	(13,921,521)	—
<b>Total operating expenses</b>	<b>240,350,350</b>	<b>509,864,653</b>	<b>616,262,277</b>	<b>4,894,685</b>	<b>10,939,972</b>	<b>254,016,460</b>	<b>(112,408,656)</b>	<b>1,523,919,741</b>
<b>Operating (loss) income</b>	<b>81,860,804</b>	<b>133,915,502</b>	<b>(17,555,188)</b>	<b>4,270</b>	<b>(138,577)</b>	<b>17,307,621</b>	<b>—</b>	<b>215,394,432</b>
Nonoperating gains, net:								
Other components of net periodic pension benefit	1,877,754	2,489,851	3,860,308	29,994	49,205	163,505	—	8,470,617
<b>(Deficit) excess of revenues and gains over expenses</b>	<b>83,738,558</b>	<b>136,405,353</b>	<b>(13,694,880)</b>	<b>34,264</b>	<b>(89,372)</b>	<b>17,471,126</b>	<b>—</b>	<b>223,865,049</b>
Net assets released from restrictions used for capital purchases	(2,629)	901,771	1,712,861	—	—	257,267	—	2,869,270
Pension-related changes other than net periodic pension cost	27,085,420	—	—	—	—	—	—	27,085,420
Distributions from (to) The Nemours Foundation for capital	93,026,794	(118,309,434)	10,850,742	—	269,964	14,161,934	—	—
<b>Change in net assets without donor restrictions</b>	<b>\$ 203,848,143</b>	<b>18,997,690</b>	<b>(1,131,277)</b>	<b>34,264</b>	<b>180,592</b>	<b>31,890,327</b>	<b>—</b>	<b>253,819,739</b>

See accompanying independent auditors' report.

# **UNIFORM GUIDANCE**

Reports and Schedules



KPMG LLP  
Suite 500  
501 Riverside Avenue  
Jacksonville, FL 32202

## **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 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, 2022, and the related combined statements of operations and changes in the net assets without donor restrictions, 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 May 12, 2023.

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

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

### **Report on 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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  
May 12, 2023



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**

*Opinion on Each Major Federal Program*

We have audited The Nemours Foundation and Subsidiaries' (Nemours) compliance with the types of compliance requirements identified as subject to audit 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, 2022. Nemours' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, Nemours complied, in all material respects, with the 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, 2022.

*Basis for Opinion on Each Major Federal Program*

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Nemours and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Nemours' compliance with the compliance requirements referred to above.

*Responsibilities of Management for Compliance*

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to Nemours' federal programs.

*Auditors' Responsibilities for the Audit of Compliance*

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Nemours' compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The



risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Nemours' compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Nemours' compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Nemours' internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 Nemours' internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

#### *Other Matters*

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2022-001. Our opinion on each major federal program is not modified with respect to these matters.

*Government Auditing Standards* requires the auditor to perform limited procedures on Nemours' response to the noncompliance finding identified in our compliance audit described in the accompanying schedule of findings and questioned costs. Nemours is also responsible for preparing a corrective action plan to address each audit finding included in our auditors' report. Nemours' response and corrective action plan was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response or the corrective action plan.

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify a certain deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a



combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2022-001 to be a material weakness.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

*Government Auditing Standards* requires the auditor to perform limited procedures on Nemours' response to the internal control over compliance finding identified in our audit described in the accompanying schedule of findings and questioned costs. Nemours is also responsible for preparing a corrective action plan to address the audit finding included in our auditors' report. Nemours' response and corrective action plan were not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response or the corrective action plan.

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, 2022, and have issued our report thereon dated May 12, 2023, which contained an unmodified opinion on those combined financial statements. Our audit was performed 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 GAAS. 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  
August 23, 2023

THE NEMOURS FOUNDATION AND SUBSIDIARIES

Schedule of Expenditures of Federal Awards

Year ended December 31, 2022

Federal grantor/contract name/program or cluster title	AL number	Contract number	Pass-through entity	Passed through to subrecipients	Federal expenditures
Research and development awards:					
U.S. Department of Health and Human Services:					
Direct financial assistance:					
Health Resources and Services Administration/Maternal and Child Health Bureau	93.110	5 H17MC31602-04		\$ —	2,222
Health Resources and Services Administration/Maternal and Child Health Bureau	93.110	6 H17MC31602-05-01		—	11,785
AL No. 93.110 subtotal				—	14,007
Agency for Healthcare Research and Quality	93.266	5R18HSO27399-03		—	166,547
Agency for Healthcare Research and Quality	93.266	5R18HSO27399-02		—	12,732
AL No. 93.266 subtotal				—	179,279
National Institutes of Health/National Institute of Biology Image/Bioengineer	93.286	1R21EB032025-01		—	158,790
National Institutes of Health/Office of the Director	93.310	5UG1OD024958-04		46,159	355,234
National Institutes of Health/Office of the Director	93.310	5UG1OD024958-05		—	121,140
AL No. 93.310 subtotal				46,159	476,374
National Institutes of Health/National Cancer Institute	93.393	1R01CA258668-01A1		91,780	208,279
National Institutes of Health/National Cancer Institute	93.396	1R01CA263216-01A1		—	82,698
National Institutes of Health/National Cancer Institute	93.399	5UG1CA189958-08		(4,654)	369,365
National Institutes of Health/National Cancer Institute	93.399	5UG1CA189958-09		—	205,276
AL No. 93.399 subtotal				(4,654)	574,641
Health Resources and Services Administration/Bureau of Health Workforce	93.732	5M01HP31317-04-00		—	6
Health Resources and Services Administration/Bureau of Health Workforce	93.732	2 M01HP31317-05		—	106,572
Health Resources and Services Administration/Health and Resources Services	93.732	5 M01HP31317-06-00		—	146,760
AL No. 93.732 subtotal				—	253,338
National Institutes of Health/National Heart, Lung, and Blood Institute	93.838	5R01HL136945		404,622	577,053
National Institutes of Health/National Heart, Lung, and Blood Institute	93.838	5R01HL136945-05		—	132,039
National Institutes of Health/National Heart, Lung, and Blood Institute	93.838	1K08HL151760-01		—	95,455
National Institutes of Health/National Heart, Lung, and Blood Institute	93.838	1R21HL163847-01		42,487	104,074
AL No. 93.838 subtotal				447,109	908,621
National Institutes of Health/National Institute of Diabetes and Digestive and Kidney Disease	93.847	1K23DK125666-01		—	127,516
National Institutes of Health/National Institute of Diabetes and Digestive and Kidney Disease	93.847	1DP3KD113235-01		(1,014)	22,499
National Institutes of Health/National Institute of Diabetes and Digestive and Kidney Disease	93.847	7R01DK118514-02		543,500	649,694
National Institutes of Health/National Institute of Diabetes and Digestive and Kidney Disease	93.847	1R01DK127493-01		190,302	463,456
National Institutes of Health/National Institute of Diabetes and Digestive and Kidney Disease	93.847	R01DK128862		106,653	237,298
AL No. 93.847 subtotal				839,441	1,500,463
National Institutes of Health/National Institute of Neurological Disorders and Stroke	93.853	1R21NS117112-01		—	80,694
National Institutes of Health/National Institute of Neurological Disorders and Stroke	93.853	7K22NS104230-05		—	141,060
AL No. 93.853 subtotal				—	221,754
National Institutes of Health/National Institute of Allergy and Infectious Disease	93.855	1R21AI149243		—	175,099
National Institutes of Health/National Institute of General Medical Sciences	93.859	1P20GM144270-01		—	1,008,618
National Institutes of Health/National Institute of General Medical Sciences	93.859	2P20GM109021		—	760,217
National Institutes of Health/National Institute of General Medical Sciences	93.859	2P20GM109021-06		54,379	1,003,857
National Institutes of Health/National Institute of General Medical Sciences	93.859	5P30GM114736-03		—	(2,241)
National Institutes of Health/National Institute of General Medical Sciences	93.859	5P30GM114736-05		—	(613)
AL No. 93.859 subtotal				54,379	2,769,838
National Institutes of Health/Eunice Kennedy Shriver National Institute of Child Health and Human Development	93.865	1R01HD102967-01A1		315,624	400,012
National Institutes of Health/Eunice Kennedy Shriver National Institute of Child Health and Human Development	93.865	1R01HD102545		11,815	674,748
National Institutes of Health/Eunice Kennedy Shriver National Institute of Child Health and Human Development	93.865	5K23HD083439-02		—	22,661
National Institutes of Health/Eunice Kennedy Shriver National Institute of Child Health and Human Development	93.865	1K23HD104931-01A1		—	89,347
National Institutes of Health/Eunice Kennedy Shriver National Institute of Child Health and Human Development	93.865	7R01HD100985-04		—	15,620
AL No. 93.865 subtotal				327,439	1,202,388
Total direct financial assistance				1,801,653	8,725,569

**THE NEMOURS FOUNDATION AND SUBSIDIARIES**

Schedule of Expenditures of Federal Awards

Year ended December 31, 2022

Federal grantor/contract name/program or cluster title	AL number	Contract number	Pass-through entity	Passed through to subrecipients	Federal expenditures
Pass-through assistance:					
Centers for Disease Control and Prevention/National Center on Birth Defects and Developmental Disabilities	93.080	ATHN2020CDC-IVS-02	Hemophilia of Georgia, Inc.	\$ —	20,030
Centers for Disease Control and Prevention/National Center on Birth Defects and Developmental Disabilities	93.080	ATHN2020CDC-IVS-03	Hemophilia of Georgia, Inc.	—	5,200
Centers for Disease Control and Prevention/National Center on Birth Defects and Developmental Disabilities	93.080	GRT-00000783-0922	Children's Hospital of Philadelphia	—	1,659
Centers for Disease Control and Prevention/National Center on Birth Defects and Developmental Disabilities	93.080	ATHN-22-23-009	Lehigh Valley Hospital, Inc.	—	753
AL No. 93.080 subtotal				—	27,642
Centers for Disease Control and Prevention/National Center for Immunization and Respiratory Food and Drug Administration/Food and Drug Administration Research	93.103	CON-80003734(GR116869)	Yale University	—	18,321
Health Resources and Services Administration/Maternal and Child Health Bureau	93.110	5H30MC24046-10	Hemophilia of Georgia, Inc.	—	10,708
Health Resources and Services Administration/Maternal and Child Health Bureau	93.110	2H30MC24046-11-00	Hemophilia of Georgia, Inc.	—	7,789
Health Resources and Services Administration/Maternal and Child Health Bureau	93.110	3209610521	Children's Hospital of Philadelphia	—	7,318
Health Resources and Services Administration/Maternal and Child Health Bureau	93.110	GRT-0002064	Children's Hospital of Philadelphia	—	1,994
Health Resources and Services Administration/Maternal and Child Health Bureau	93.110	UDR0000023	University of Delaware	—	19,338
AL No. 93.110 subtotal				—	47,147
National Institutes of Health/National Institute of Environmental Health Sciences	93.113	112176-5111488	President and Fellows of Harvard College on behalf of Harvard T.H. Chan School of Public Health	—	30,451
National Institutes of Health/National Institute of Dental and Craniofacial Research	93.121	5113296	The University of North Carolina Chapel Hill	—	138,336
Centers for Disease Control and Prevention/Office of Grants Services	93.136	1 NH28CE003283-01-00	Camden Coalition of Healthcare	—	12,500
National Institutes of Health/National Human Genome Research Institute	93.172	SUB00002445	The University of Florida	—	18,662
National Institutes of Health/National Human Genome Research Institute	93.172	U01HG007269	The University of Florida	—	294,530
AL No. 93.172 subtotal				—	313,192
National Institutes of Health/National Institute on Deafness and Other Communication Disorders	93.173	55475	The University of Delaware	—	42,384
National Institutes of Health/National Institute on Deafness and Other Communication Disorders	93.173	RDC020693A	Synfonica LLC	—	10,070
AL No. 93.173 subtotal				—	52,434
Agency for Healthcare Research and Quality	93.225	3201350921	Children's Hospital of Philadelphia	—	(7,913)
National Institutes of Health/Agency for Healthcare Research and Quality	93.225	3201350922	Children's Hospital of Philadelphia	—	110,819
National Institutes of Health/Agency for Healthcare Research and Quality	93.225	3201350923	Children's Hospital of Philadelphia	—	75,377
AL No. 93.225 subtotal				—	178,283
Substance Abuse and Mental Health Services Administration	93.243	3201450922	Children's Hospital of Philadelphia	—	167,231
Substance Abuse and Mental Health Services Administration	93.243	3201450923	Children's Hospital of Philadelphia	—	44,338
Substance Abuse and Mental Health Services Administration	93.243	3014062007	Children's Hospital of Philadelphia	—	4,700
AL No. 93.243 subtotal				—	216,269
National Institutes of Health/Office of the Director	93.310	604528	Christiana Care Health Services	—	13,801
National Institutes of Health/Office of the Director	93.310	54487	University of Arkansas Medical Services	—	20,857
National Institutes of Health/Office of the Director	93.310	54005-UAT	University of Arkansas Medical Services	—	2,319
National Institutes of Health/Eunice Kennedy Shriver National Institute of Child Health and Human Development	93.310	1R61HD105591-01	Johns Hopkins University	—	3,053
National Institutes of Health/Eunice Kennedy Shriver National Institute of Child Health and Human Development	93.310	54005-COVID	University of Arkansas Medical Services	—	4,785
AL No. 93.310 subtotal				—	44,815
National Institutes of Health/National Cancer Institute	93.393	6610100234	The Hospital for Sick Children	—	10,875
National Institutes of Health/National Cancer Institute	93.393	R01CA251112-01	The Hospital for Sick Children	—	13,100
AL No. 93.393 subtotal				—	23,975
National Institutes of Health/National Cancer Institute	93.394	WU-17-276;WU17-276-MOD-2	University of Washington	—	(1,182)
National Institutes of Health/National Cancer Institute	93.395	AR03190	Public Health Institute	—	1,288
National Institutes of Health/National Cancer Institute	93.395	AR10371	Public Health Institute	—	1,260
National Institutes of Health/National Cancer Institute	93.395	8952_NF (CR)	Trustees of Indiana University	—	489
National Institutes of Health/National Cancer Institute	93.395	NA	Saint Louis University	—	2,797
National Institutes of Health/National Cancer Institute	93.395	FP00023693_SUB80_01	Children's Hospital of Philadelphia	—	22,550
National Institutes of Health/National Cancer Institute	93.395	FP00023693_SUB93_01	Children's Hospital of Philadelphia	—	7,000
National Institutes of Health/National Cancer Institute	93.395	FP00021944_A1 SUB70	Children's Hospital of Philadelphia	—	2,000
National Institutes of Health/National Cancer Institute	93.395	FP00023693_SUB81_01	Children's Hospital of Philadelphia	—	12,650
AL No. 93.395 subtotal				—	50,034

**THE NEMOURS FOUNDATION AND SUBSIDIARIES**

Schedule of Expenditures of Federal Awards

Year ended December 31, 2022

Federal grantor/contract name/program or cluster title	AL number	Contract number	Pass-through entity	Passed through to subrecipients	Federal expenditures
Centers for Disease Control and Prevention/Office for State, Tribal, Local and Territorial Support Centers for Disease Control and Prevention/Office for State, Tribal, Local and Territorial Support	93.421	PI-CD33-PCOR	Task Force for Global Health	\$ —	28,400
	93.421	5308	The Task Force for Global Health, Inc.	—	7,100
AL No. 93.421 subtotal				—	35,500
National Institutes of Health/National Heart, Lung, and Blood Institute	93.837	3201630222	Children's Hospital of Philadelphia	—	550
National Institutes of Health/National Heart, Lung, and Blood Institute	93.837	59745	University of Delaware	—	37,715
AL No. 93.837 subtotal				—	38,265
National Institutes of Health/National Heart, Lung, and Blood Institute	93.838	ALA-ACRC MATCH	American Lung Association	—	(6,955)
National Institutes of Health/National Heart, Lung, and Blood Institute	93.838	PED-03-21	Arkansas Children's Research Institute	—	366,642
National Institutes of Health/National Heart, Lung, and Blood Institute	93.838	EHR-02-21	Children's Hospital of Philadelphia	—	241,345
National Institutes of Health/National Heart, Lung, and Blood Institute	93.838	200559703	John Hopkins University	—	7,095
AL No. 93.838 subtotal				—	608,127
National Institutes of Health/National Heart, Lung, and Blood Institute	93.839	000524452-SC017	The University of Alabama	—	15,749
National Institutes of Health/National Institute of Arthritis and Musculoskeletal and Skin Diseases	93.846	GRT-00001510	Children's Hospital of Philadelphia	—	1,000
National Institutes of Health/National Institute of Diabetes and Digestive and Kidney Disease	93.847	3301820719	Children's Hospital of Philadelphia	—	242
National Institutes of Health/National Institute of Diabetes and Digestive and Kidney Disease	93.847	UC4UDK108220	Jaeb Center for Health Research, Inc.	—	10,000
National Institutes of Health/National Institute of Diabetes and Digestive and Kidney Disease	93.847	3200950821	Children's Hospital of Philadelphia	—	16,650
National Institutes of Health/National Institute of Diabetes and Digestive and Kidney Disease	93.847	3201430820	Children's Hospital of Philadelphia	—	2,384
National Institutes of Health/National Institute of Diabetes and Digestive and Kidney Disease	93.847	VUMC85806	Vanderbilt University Medical Center	—	40,384
AL No. 93.847 subtotal				—	69,660
National Institutes of Health/National Institute of Neurological Disorders and Stroke	93.853	S001187-02	The University of Iowa	—	(1,989)
National Institutes of Health/National Institute of Neurological Disorders and Stroke	93.853	S01187-03	The University of Iowa	—	16,738
National Institutes of Health/National Institute of Neurological Disorders and Stroke	93.853	S01187-04	The University of Iowa	—	8,045
National Institutes of Health/National Institute of Neurological Disorders and Stroke	93.853	OS0000340	The University of Miami	—	(503)
National Institutes of Health/National Institute of Neurological Disorders and Stroke	93.853	5U24NS107376-03	The University of Miami	—	2,626
AL No. 93.853 subtotal				—	24,917
National Institute of Allergy/Infectious Disease	93.855	GENFD0002041540	Boston Children's Hospital	—	10,681
National Institute of Allergy/Infectious Disease	93.855	GENFD0002205631	Boston Children's Hospital	—	5,625
AL No. 93.855 subtotal				—	16,306
National Institutes of Health/National Institute of General Medical Sciences	93.859	59301	The University of Delaware	—	309,373
National Institutes of Health/National Institute of General Medical Sciences	93.859	12-303G-NEM	West Virginia University	—	221,024
National Institutes of Health/National Institute of General Medical Sciences	93.859	UDR0000177	University of Delaware	—	287,737
National Institutes of Health/National Institute of General Medical Sciences	93.859	UDR0000199	University of Delaware	—	49,180
National Institutes of Health/National Institute of General Medical Sciences	93.859	UDR0000211	University of Delaware	—	419,859
National Institutes of Health/National Institute of General Medical Sciences	93.859	59216	The University of Delaware	—	(506)
National Institutes of Health/National Institute of General Medical Sciences	93.859	59449	The University of Delaware	—	92,814
National Institutes of Health/National Institute of General Medical Sciences	93.859	59459	The University of Delaware	—	572,334
AL No. 93.859 subtotal				—	1,951,815
National Institutes of Health/Eunice Kennedy Shriver National Institute of Child Health and Human Development	93.865	R44HD102242-01	Baebies, Inc.	—	(20,909)
National Institutes of Health/Eunice Kennedy Shriver National Institute of Child Health and Human Development	93.865	4R44HD102242-02	Baebies, Inc.	—	36,148
National Institutes of Health/Eunice Kennedy Shriver National Institute of Child Health and Human Development	93.865	4R44HD102242-03	Baebies, Inc.	—	6,183
National Institutes of Health/Eunice Kennedy Shriver National Institute of Child Health and Human Development	93.865	232379	Duke University	—	13,300
National Institutes of Health/Eunice Kennedy Shriver National Institute of Child Health and Human Development	93.865	243797	Duke University	—	300
National Institutes of Health/Eunice Kennedy Shriver National Institute of Child Health and Human Development	93.865	257758	Duke University	—	73,651
National Institutes of Health/Eunice Kennedy Shriver National Institute of Child Health and Human Development	93.865	07-830-5100	John's Hopkins University	—	10,615
National Institutes of Health/Eunice Kennedy Shriver National Institute of Child Health and Human Development	93.865	1U24HD106537-01	John's Hopkins University	—	3,157
National Institutes of Health/Eunice Kennedy Shriver National Institute of Child Health and Human Development	93.865	60055120 AIDHC	Northwestern University	—	4,200
National Institutes of Health/Eunice Kennedy Shriver National Institute of Child Health and Human Development	93.865	61969036-126775	Stanford University	—	162,686
National Institutes of Health/Eunice Kennedy Shriver National Institute of Child Health and Human Development	93.865	080-05000-S46101	Thomas Jefferson University	—	44,369
National Institutes of Health/Eunice Kennedy Shriver National Institute of Child Health and Human Development	93.865	51460	University of Arkansas Medical Sciences	—	5,948

**THE NEMOURS FOUNDATION AND SUBSIDIARIES**

Schedule of Expenditures of Federal Awards

Year ended December 31, 2022

Federal grantor/contract name/program or cluster title	AL number	Contract number	Pass-through entity	Passed through to subrecipients	Federal expenditures
National Institutes of Health/Eunice Kennedy Shriver National Institute of Child Health and Human Development	93.865	FY22.1167.004	University of Colorado	\$ —	2,500
National Institutes of Health/Eunice Kennedy Shriver National Institute of Child Health and Human Development	93.865	FY22.928.001 AMD4	University of Colorado	—	66,702
National Institutes of Health/Eunice Kennedy Shriver National Institute of Child Health and Human Development	93.865	R1305787	The Research Foundation SUNY – University at Buffalo	—	39,055
AL No. 93.865 subtotal				—	447,905
National Institutes of Health/National Eye Institute	93.867	U10EY11751	Jaeb Center for Health Research, Inc.	—	111
National Institutes of Health/National Eye Institute	93.867	UG1EY011751	Jaeb Center for Health Research, Inc.	—	9,011
AL No. 93.867 subtotal				—	9,122
Centers for Disease Control and Prevention/Office of Financial Resources	93.945	U01DP006369-02-00	Improve Care Now, Inc.	—	450
Total pass-through assistance				—	4,371,033
Total U.S. Department of Health and Human Services				1,801,653	13,096,602
U.S. Department of Defense:					
Direct financial assistance:					
Office of the Assistant Secretary of Defense	12.420	W81XWH2210981		—	17,421
Pass-through assistance:					
Office of the Assistant Secretary of Defense	12.420	GENFD0002054102	Boston Children's Hospital	—	10,886
Office of the Assistant Secretary of Defense	12.420	GENFD0002272789	Boston Children's Hospital	—	2,694
Total pass-through assistance				—	13,580
Total U.S. Department of Defense				—	31,001
U.S. Department of Education:					
Institute of Education Science	84.305	R305H190067		20,231	30,040
National Science Foundation:					
Computer and Information Science and Engineering/Division of Information and Intelligent Systems	47.070	1816726		—	9,596
Total research and development awards				1,821,884	13,167,239
Other Awards:					
U.S. Department of Health and Human Services:					
Direct financial assistance:					
Maternal and Child Health Federal Consolidated Programs	93.110	1 U7EMC42155-01-00		—	15,532
Strengthening Public Health Systems and Services through National Partnerships to improve and Protect the Nation's Health	93.421	CDC-RFA-OT18-1802		1,430,222	2,645,454
Community Project Funding/Congressional Directives	93.493	1 CE1HS46364-01-00		—	77,685
Maternal and Child Health Services Block Grant to States	93.994	CMCAE		—	33,033
Total direct financial assistance				1,430,222	2,771,704
Pass-through assistance:					
Affordable Care Act Personal Responsibility Education Program	93.092	0621-039	State of Alaska	—	20,000
Coordinated Services and Access to Research for Women, Infants, Children and Youth	93.153	QA221	Florida Department of Health	—	22,174
Epidemiology and Laboratory Capacity for Infectious Diseases	93.323	23-121	Delaware Department of Health and Social Services, Division of Public Health	—	39,988
Epidemiology and Laboratory Capacity for Infectious Diseases	93.323	22-459	Delaware Department of Health and Social Services, Division of Public Health	—	121,707
AL No. 93.323 subtotal				—	161,695
National Bioterrorism Preparedness Program	93.889	20-029	Delaware Department of Health and Social Services, Division of Public Health	—	94,607
Maternal and Child Health Services Block Grant to States	93.994	COQVZ	Florida Department of Health	—	175,772
Maternal and Child Health Services Block Grant to States	93.994	B04MC32533-01-00	Florida Department of Health	—	175,659
AL No. 93.994 subtotal				—	351,431
Total pass-through assistance				—	649,907
Total U.S. Department of Health and Human Services				1,430,222	3,421,611
U.S. Department of Agriculture:					
Pass-through assistance:					
State Administrative Matching Grants for Supplemental Nutrition Assistance Program	10.561	PANCE05	JSI Research and Training Institute, Inc.	—	57,514
State Administrative Matching Grants for Supplemental Nutrition Assistance Program	10.561	PANCE25	JSI Research and Training Institute, Inc.	—	16,167
AL No. 10.561 subtotal				—	73,681

**THE NEMOURS FOUNDATION AND SUBSIDIARIES**

Schedule of Expenditures of Federal Awards

Year ended December 31, 2022

Federal grantor/contract name/program or cluster title	AL number	Contract number	Pass-through entity	Passed through to subrecipients	Federal expenditures
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	23-241	Delaware Department of Health and Social Services, Division of Public Health	\$ —	30,718
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	22-176	Delaware Department of Health and Social Services, Division of Public Health	—	56,537
AL No. 10.557 subtotal				—	87,255
Total U.S. Department of Agriculture				—	160,936
U.S. Department of Justice:					
Pass through assistance:					
Crime Victim Assistance	16.575	2021-VF-PASSTHRU-2639	Delaware Criminal Justice Council	—	15,962
Crime Victim Assistance	16.575	2021 VF-PASSTHRU 19-2639	Delaware Criminal Justice Council	—	17,075
Crime Victim Assistance	16.575	2022-VF-PASSTHRU-2940	Delaware Criminal Justice Council	—	135,113
Total U.S. Department of Justice				—	168,150
U.S. Department of Education:					
Pass through assistance:					
Education, Research, Development and Dissemination	84.305	60,071,710	Ohio State University	—	(4,864)
Education, Research, Development and Dissemination	84.305	SPC-1000003959/GR115805	Ohio State University	—	40,271
Total U.S. Department of Education				—	35,407
Federal Communications Commission:					
Direct assistance:					
COVID-19 Telehealth Program	32.006	GRA0013884		—	293,171
Total other awards				1,430,222	4,079,275
Total expenditures of federal awards				\$ 3,252,106	17,246,514

See accompanying notes to schedule of expenditures of federal awards.

## THE NEMOURS FOUNDATION AND SUBSIDIARIES

### Notes to Schedule of Expenditures of Federal Awards

December 31, 2022

#### **(1) General**

The accompanying schedule of expenditures of federal awards (the Schedule) presents the activity of all federal programs administered by The Nemours Foundation and Subsidiaries (Nemours). Awards received directly from federal agencies, as well as those passed through other nonfederal agencies, are included on the Schedule. The information is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. 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 administered by Nemours are accounted for within Nemours' operating funds. The accompanying Schedule has been prepared on the same basis of accrual accounting as the combined financial statements.

#### **(3) Relationships to Financial Statements**

Federal awards are reported in Nemours' combined financial statements as grant and contribution 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; therefore, Nemours did not elect to charge the de minimus rate of 10% for determining indirect cost amounts.

## THE NEMOURS FOUNDATION AND SUBSIDIARIES

### Schedule of Findings and Questioned Costs

Year ended December 31, 2022

#### (1) Summary of Auditors' Results

- a. Type of report issued on whether the financial statements were prepared in accordance with generally accepted accounting principles: **Unmodified**
- b. Internal control deficiencies over financial reporting disclosed by the audit of the financial statements:
  - Material weaknesses: **No**
  - Significant deficiencies: **None reported**
- c. Noncompliance material to the financial statements: **No**
- d. Internal control deficiencies over major programs disclosed by the audit:
  - Material weaknesses: **Yes, finding 2022-001**
  - Significant deficiencies: **None reported**
- e. Type of report issued on compliance for major programs: **Unmodified**
- f. Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): **Yes, see finding 2022-001**
- g. Major programs:
  - Research and Development Cluster – various AL numbers
  - U.S. Department of Health and Human Services – Strengthening Public Health Systems and Services through National Partnerships to Improve and Protect the Nation's Health – AL No. 93.421
- h. Dollar threshold used to distinguish between Type A and Type B programs: **\$750,000**
- i. Auditee qualified as a low risk auditee: **Yes**

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

None

#### (3) Findings and Questioned Costs Relating to Federal Awards

##### **Finding 2022-001 – Allowable Costs**

*Federal Program*

Research and Development Cluster

*Pass-through Entities*

University of Delaware

**THE NEMOURS FOUNDATION AND SUBSIDIARIES**

Schedule of Findings and Questioned Costs

Year ended December 31, 2022

*Federal Agency*

U.S. Department of Health and Human Services

*Federal Award Number and Award Year*

<u>AL No.</u>	<u>Federal award #</u>	<u>Federal award years</u>
93.732	2 M01HP31317-05	9/1/21 – 6/30/22
93.859	59449	7/1/21 – 6/30/22

*Criteria*

In accordance with the documentation standards of 2 CFR section 200.430(i), costs of compensation for personal services are allowable to the extent the total compensation for individual employees: a) is reasonable for the services rendered and conforms to the established written policy of the non-federal entity consistently applied to both federal and non-federal activities; b) follows an appointment made in accordance with the non-federal entity's rules or written policies and meets the requirements of federal statute, where applicable; and c) is determined and supported as provided in 2 CFR section 200.430(i), including that charges to federal awards for salaries and wages must be based on records that accurately reflect the work performed.

Per 2 CFR 200.303, a non-Federal entity must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal Award.

*Condition and Context*

We identified four of 60 payroll expenditure samples where the amount recorded and submitted as an allowable expenditure under the grant exceeded the amount that should have been recorded based on the records and inputs detailing the work performed by the employees on the related programs. The value of the errors was \$5,783 and the value of the sample items tested was \$66,269.

*Possible Cause and Effect*

As a result of the implementation of a new payroll system in 2022, payroll expenditures of employees working on these programs were allocated via a manual process to the applicable cost centers (activity codes) based on documented time and effort allocation rates. Allocation rates were updated throughout the year as employee effort changed via multiple forms of communication including the submission of support tickets and email follow ups. Due to the manual nature of this process, increased risk of differences between recorded allocations and actual work performed arose requiring subsequent adjustment. While the Foundation recorded correcting entries and cost transfers in some instances to subsequently update certain issues that arose, there is a missing control to ensure all such entries were made completely and accurately. The effect is that potentially unallowable costs are submitted to the granting agencies as certain corrections were not made accurately and completely.

*Questioned Costs*

Known questioned costs of \$5,783.

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*Statistically Valid Sample*

The sample was not intended to be, and was not, a statistically valid sample.

*Repeat of Prior Finding*

No

*Recommendations*

The Foundation should standardize, centralize, and potentially automate the process by which updates to effort allocation percentages of employees working on federally funded programs are communicated and recorded. Additionally, a periodic review of these rates by the employees to which they relate, or their direct supervisors, should be implemented to detect any issues or changes that need to be made. Lastly, a process to follow up on and review the completeness and accuracy of correcting entries and cost transfers to validate all required entries are recorded appropriately should be implemented.

*View of Responsible Official*

Management agrees with the noted finding.

Finding No.	Names of Responsible Officials	Description of Corrective Action	Anticipated Completion Date
<p>2022-001 Allowable Costs</p>	<p>Mario Carranza, VP, Research Administration, and Melissa Baker, Director, Office of Sponsored Projects</p>	<p>Nemours will create a standard operating procedure (SOP) that outlines a centralized process for effort allocation review and editing. The SOP will incorporate procedures to ensure accuracy and validation of all correcting entries.</p> <p>Meetings with each Nemours principal investigator (PI) will occur at least quarterly to review study financial information. An effort certification report will be reviewed by the PI for accuracy and sign off.</p> <p>Nemours policy 11.1.4, <i>Cost Transfers for Funded Activities</i>, will be reviewed and updated.</p>	<p>Corrective action will be complete by October 31, 2023.</p>



The Nemours Foundation  
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## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED DECEMBER 31, 2022

Finding Reference	Finding	Status of Finding	Comments	Contact Person
2021-001	<b>Financial Statement Findings Reported in Accordance with Government Auditing Standards:</b> An audit misstatement was identified related to the untimely transfer of construction in progress to property and equipment and the related impact on depreciation expense.	Corrected	N/A	Abby Rice, Assistant Vice President, Accounting