SHRINERS HOSPITALS FOR CHILDREN

Combined Financial Statements

December 31, 2017 and 2016

(With Independent Auditors' Report Thereon)

SHRINERS HOSPITALS FOR CHILDREN

Table of Contents

KPMG LLP
Suite 1700
100 North Tampa Street
Tampa, FL 33602-5145

Independent Auditors' Report

The Board of Directors
Shriners Hospitals for Children:

We have audited the accompanying combined financial statements of Shriners Hospitals for Children, which comprise the combined statements of financial position as of December 31, 2017 and 2016, and the related combined statements of operations and changes in unrestricted net assets, changes in net assets, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

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

Opinion

In our opinion, the combined financial statements referred to above present fairly in all material respects, the financial position of Shriners Hospitals for Children as of December 31, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

April 5, 2018

SHRINERS HOSPITALS FOR CHILDREN

Combined Statements of Financial Position

December 31, 2017 and 2016

(In thousands)

Assets		2017	2016
Cash and cash equivalents	$	29,978	27,348
Cash and cash equivalents held as collateral under securities lending transactions		563,087	260,212
Patient accounts receivable, net of allowance for doubtful accounts of approximately $92,568 in 2017 and $101,734 in 2016		37,639	29,964
Receivables, net		11,319	3,160
Accrued interest and dividends		21,736	19,030
Inventories and deferred charges		30,376	32,772
Patient transportation funds held by Shrine temples		66,834	62,821
Long-term investments:			
Marketable securities		7,614,958	6,972,038
Charitable gift annuities		42,494	39,090
Beneficial interest in trusts		572,103	530,349
Real estate and mineral interests		303,773	292,235
Miscellaneous investments		23,099	19,886
Estates in process		223,846	241,176
Land, buildings, and equipment, net of accumulated depreciation		924,100	923,610
Total assets	$	10,465,342	9,453,691
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	156,200	153,458
Pension benefits		212,469	203,914
Liabilities under securities lending transactions		563,087	260,212
Other liabilities		40,273	36,393
Total liabilities		972,029	653,977
Net assets (net of cumulative foreign currency translation adjustment of $9,416 in 2017 and $8,421 in 2016):			
Unrestricted		8,073,866	7,425,173
Temporarily restricted		264,416	272,588
Permanently restricted		1,155,031	1,101,953
Total net assets		9,493,313	8,799,714
Total liabilities and net assets	$	10,465,342	9,453,691

See accompanying notes to combined financial statements.

SHRINERS HOSPITALS FOR CHILDREN

Combined Statements of Operations and Changes in Unrestricted Net Assets

Years ended December 31, 2017 and 2016

(In thousands)

		2017	2016
Operating revenues and other support:			
Patient service revenue (net of contractual adjustments)	$	203,866	182,082
Provision for Shriners assist		(52,793)	(40,753)
Net patient service revenue less provision for Shriners assist		151,073	141,329
Investment income:			
Interest		80,912	68,492
Dividends		92,788	103,360
Other investment income		28,900	31,837
Investment management fees		(17,470)	(17,155)
Amounts released from restrictions used for operations		165,376	167,141
Donations		125,105	98,591
Fund raising and special events		50,387	42,701
Hospital assessments		1,116	1,129
Reimbursements from Canadian Provinces		7,469	5,343
Other governmental revenue		33,727	11,955
Other		6,726	9,534
Total revenues and other support		726,109	664,257
Operating expenses:			
Hospitals		689,866	643,768
Research		33,831	33,231
Revenue cycle		15,108	14,060
Information systems		36,448	35,276
Headquarters, administrative, and board related		67,687	62,222
Donor relations, fund raising and special events		60,843	47,806
Total operating expenses		903,783	836,363
Decrease in net assets from operating activities		(177,674)	(172,106)
Nonoperating gains (losses), net:			
Gains (losses) on investments:			
Net realized gain (loss) from investments		169,804	(29,635)
Net unrealized gains on investments		662,340	387,958
Total gains on investments, net		832,144	358,323
Life memberships		49	84
Change in patient transportation funds held by Shrine temples		4,013	5,836
Pension-related changes other than net periodic pension costs		(11,903)	(33,667)
Other, net		1,069	(15,659)
Foreign currency translation adjustments		995	(311)
Total nonoperating gains, net		826,367	314,606
Increase in unrestricted net assets	$	648,693	142,500

SHRINERS HOSPITALS FOR CHILDREN

Combined Statements of Changes in Net Assets

Years ended December 31, 2017 and 2016

(In thousands)

		2017	2016
Unrestricted net assets:			
Decrease in net assets from operating activities	$	(177,674)	(172,106)
Nonoperating gains (losses), net:			
Gains (losses) on investments:			
Net realized gains (losses) from investments		169,804	(29,635)
Net unrealized gains on investments		662,340	387,958
Total gains on investments, net		832,144	358,323
Life memberships		49	84
Change in patient transportation funds held by Shrine temples		4,013	5,836
Pension related changes other than net periodic pension costs		(11,903)	(33,667)
Other, net		1,069	(15,659)
Foreign currency translation adjustments		995	(311)
Total nonoperating gains, net		826,367	314,606
Increase in unrestricted net assets		648,693	142,500
Temporarily restricted net assets:			
Bequests		150,725	126,328
Donations		3,247	6,695
Other, net		(898)	(1,095)
Net realized gains from investment		1,874	492
Net unrealized gains from investments		2,256	11,500
Net assets released from restrictions used for operations		(165,376)	(167,141)
Decrease in temporarily restricted net assets		(8,172)	(23,221)
Permanently restricted net assets:			
Bequests		8,539	9,543
Donations		911	2,080
Other investment (expense) income		40	(8,591)
Net realized gain from investment		550	173
Net unrealized gains (losses) from investments		43,038	(2,920)
Increase in permanently restricted net assets		53,078	285
Increase in net assets		693,599	119,564
Net assets, beginning of year		8,799,714	8,680,150
Net assets, end of year	$	9,493,313	8,799,714

See accompanying notes to combined financial statements.

SHRINERS HOSPITALS FOR CHILDREN

Combined Statements of Cash Flows

Years ended December 31, 2017 and 2016

(In thousands)

		2017	2016
Cash flows from operating activities:			
Increase in net assets	$	693,599	119,564
Adjustments to reconcile increase in net assets to net cash used in operating activities:			
Depreciation		50,623	49,056
Loss on disposal of property and equipment		284	821
Realized and unrealized gains on investments		(832,144)	(358,323)
Gifts and bequests designated by the board or restricted by donor for long-term investment		(160,224)	(138,035)
Change in value of patient transportation funds held by Shrine temples		(4,013)	(5,836)
Provision for Shriners assist		52,793	40,753
Pension related changes other than net period pension costs		(11,903)	(33,667)
Changes in beneficial interest in trusts		(41,754)	(2,161)
Changes in estates in process		17,330	28,521
Changes in operating assets and liabilities:			
Net patient accounts receivable		(60,468)	(35,594)
Net receivables		(8,159)	1,810
Accrued interest and dividends		(2,706)	586
Inventories and deferred charges		2,396	(2,515)
Accounts payable and accrued expenses		2,742	20,373
Pension benefits		20,458	65,903
Net cash used in operating activities		(281,146)	(248,744)
Cash flows from investing activities:			
Purchases of property and equipment		(67,603)	(106,887)
Proceeds from sale of investments		1,840,766	2,293,800
Investment purchases		(1,653,491)	(2,021,184)
Net cash provided by investing activities		119,672	165,729
Cash flows from financing activities:			
Gifts and bequests designated for board endowment		150,725	126,328
Gifts and bequests permanently restricted by donors		9,450	11,623
Life memberships		49	84
Borrowings from line of credit		95,000	110,000
Payments on the line of credit		(95,000)	(150,000)
Change in other liabilities		3,880	(1,793)
Net cash provided by financing activities		164,104	96,242
Net increase in cash and cash equivalents		2,630	13,227
Cash and cash equivalents at beginning of year		27,348	14,121
Cash and cash equivalents at end of year	$	29,978	27,348
Supplemental disclosure of cash flow information:			
Transfer of buildings to real estate and mineral interests		16,206	—

See accompanying notes to combined financial statements.

(1) Summary of Significant Accounting Policies

(a) Combined Organizations

Shriners Hospitals for Children (herein SHC) provides quality, specialized medical care, in the areas of orthopedics, severe burns, and spinal cord injuries, through a network of 22 facilities located throughout the United States, Canada, and Mexico. Medical care is provided regardless of the patient or family's ability to pay. SHC also funds intensive programs in pediatric orthopedic and burns research. SHC relies principally on gifts and investment earnings to support their operations and research programs.

The combined financial statements of SHC include the following organizations:

- Shriners Hospitals for Children, a Colorado Corporation
- Shriners Hospitals for Children, a Canadian Corporation
- Shriners Hospitals for Children (Quebec) Inc.
- The Shriners' Hospital for Children, a Massachusetts Corporation
- Shriners Hospitals for Children, a Mexican Association
- Shriners Hospitals for Children Pediatric Orthotic and Prosthetic LLCs (POPS)

Shriners Hospitals for Children, a Colorado Corporation and The Shriners' Hospital for Children, a Massachusetts Corporation, have been recognized as exempt from U.S. federal income tax on related income under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3) of the Internal Revenue Code. The Canadian and Quebec Corporations and the Mexican Association are also exempt from income tax on related income in accordance with the laws of their respective countries. Shriners Hospitals for Children POPS are wholly owned limited liability companies that provide orthotic and prosthetic services and related functions.

(b) Use of Estimates

The preparation of the combined financial statements in accordance with generally accepted accounting principles requires management of SHC to make a number of estimates and assumptions that affect the reported amounts in the combined financial statements and accompanying notes to the combined financial statements. Actual results could differ from those estimates.

Significant estimates have been made by management with regard to patient accounts receivable, net of allowance for doubtful accounts, estates in process, and beneficial interest in trusts. These estimates are subject to significant fluctuation due to changes in payment trends and changes that occur in the valuation of assets associated with these estates and trusts and the timing of information received from trustees and executors of these estates and trusts. Actual results could differ materially from these estimates, making it reasonably possible that a material change in these estimates could occur in the near term.

(Continued)

(c) Basis of Presentation

The combined financial statements are presented on the accrual basis of accounting. Contributions received and unconditional promises to give are measured at their fair values and are reported as increases in net assets. SHC reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the combined statements of operations and changes in unrestricted net assets, and changes in net assets as amounts released from restrictions used for operations. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support:

- Unrestricted net assets consist of investments and otherwise unrestricted amounts that are available for use in carrying out the activities of SHC. The majority of unrestricted net assets as of December 31, 2017 and 2016 represent board-designated endowment.
- Temporarily restricted net assets represent those amounts, which are not available until future periods or are donor restricted for specific purposes. SHC reports estates in process, charitable lead trusts, and charitable remainder trusts, as increases in temporarily restricted net assets as these assets are not available for expenditure until future periods.
- Permanently restricted net assets result from gifts and bequests from donors who place restrictions on the use of the funds, which mandate that the original principal be invested in perpetuity. Permanently restricted net assets also include perpetual lead trusts.

(d) Operating Measure

Changes in unrestricted net assets from operating activities represent the revenues, gains, and other support designated to operate SHC, less expenses and other costs associated with SHC operating and research activities and costs to generate operating revenues.

(e) Liquidity

Assets are presented in the accompanying combined statements of financial position according to their nearness of conversion to cash, and liabilities according to the nearness of their maturity and resulting use of cash.

(f) Cash and Cash Equivalents

SHC considers all highly liquid investments made from operating cash accounts and with a maturity of three months or less when purchased to be cash equivalents.

(g) Securities Loaned

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 860, *Transfers and Servicing*, requires SHC to recognize cash received as collateral for assets transferred to brokers in security lending transactions along with the obligation to return the cash. SHC generally receives collateral in the form of cash in an amount in excess of the fair value of securities loaned. SHC monitors the fair value of securities loaned on a monthly basis with additional collateral obtained as necessary. At December 31, 2017 and 2016, SHC held $563,087 and $260,212, respectively, of cash and marketable securities as collateral deposits. The collateral is included as both an asset and a liability in SHC's combined statements of financial position. The securities on loan had a fair value of $546,941 and $253,385 at December 31, 2017 and 2016, respectively, and are included in marketable securities in the accompanying combined statements of financial position.

(h) Inventories

Inventories of supplies are stated at the lower of cost (first-in, first-out method) or market.

(i) Long-Term Investments

The following long-term investments comprise SHC's endowment: marketable securities, charitable gift annuities, beneficial interest in trusts, real estate and mineral interests and miscellaneous investments. It is SHC's Board of Directors (the Board) policy to maintain a long-term investment portfolio to support the operating and research activities of SHC.

Marketable securities are measured at fair value based on quoted market prices at the reporting date for these or similar investments. Investments in real estate and mineral interests, and miscellaneous investments are reported at fair value at the date of contribution and subsequently measured at fair value based on various sources of information depending on the asset type. Investment income (including realized and unrealized gains and losses on investments, interest, and dividends) is included in the combined statements of operations and changes in unrestricted net assets as increases or decreases in unrestricted net assets unless the income is restricted by donor or law.

SHC has a beneficial interest in a variety of trust agreements. Many of these trusts are charitable lead trusts where SHC receives distributions from the trust, which in most cases are administered by a third party. Perpetual lead trusts are recorded at the fair value of their underlying assets and are classified as permanently restricted net assets. All other charitable lead trusts are recorded at the present value of the estimated future distributions expected to be received by SHC, and are classified as temporarily restricted net assets.

Charitable remainder trusts and pooled income funds represent trust agreements where SHC maintains custody of the related assets and makes specified distributions to a designated beneficiary or beneficiaries over the term of the trust. Assets under both types of trusts are recorded at fair value. Annuity liabilities associated with charitable remainder trusts are determined based on the present value of the estimated future payments to be paid to the designated beneficiaries, based upon actuarial estimate. Deferred income is recognized on gifts to pooled income funds representing the discounted value of the assets for the estimated time period until the donor's death. The difference between the recorded assets and the annuity liabilities or deferred income associated with pooled income funds is classified as temporarily restricted net assets.

Subsequent adjustments to the carrying value of the respective assets and related liabilities or deferred income are recognized in the combined statements of operations and changes in unrestricted net assets, and combined statements of changes in net assets and are included in unrealized gains and losses in their respective net asset category.

Included in other liabilities in the accompanying combined statements of financial position are annuity liabilities of $18,528 and $19,333 and deferred income of $18,349 and $17,060 at December 31, 2017 and 2016, respectively.

(j) Estates in Process

SHC recognizes a receivable and revenue for its interest in estates in process based on the inventories of estate assets and conditions contained in the respective wills. Amounts expected to be received in future years are discounted to provide estimates in current year dollars. SHC records estates in process (when the court declares the related will valid) as either temporarily restricted net assets, as these assets will not be available for expenditures until future periods (typically one to five years), or as permanently restricted net assets. As funds from an estate (other than permanently restricted) are collected, temporarily restricted net assets are released from restriction, and reported in the combined statements of operations and changes in unrestricted net assets and in the combined statements of changes in net assets as amounts released from restrictions used for operations.

(k) Land, Buildings, and Equipment

Land, land improvements, buildings, and equipment are stated at cost, if purchased, or at estimated fair value at date of receipt if acquired by gift. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets.

(l) Impairment or Disposal of Long-Lived Assets

SHC accounts for long-lived assets in accordance with the provisions of FASB ASC Section 360-10-35, *Property, Plant, and Equipment – Subsequent Measurement*, which requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

SHC reviews whether events and circumstances have occurred to indicate if the remaining estimated useful life of long-lived assets may warrant revision or that the remaining balance of an asset may not be recoverable. If such an event occurs, an assessment of possible impairment is based on whether the carrying amount of the asset exceeds the expected total undiscounted cash flows expected to result from the use of the assets and their eventual disposition. No impairments were recorded in 2017 or 2016.

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(m) Foreign Currency Translation

Revenues and expenses of the Canadian and Quebec corporations and the Mexican Association are translated using average exchange rates during the year, while monetary assets and liabilities are translated into U.S. dollars using current exchange rates at the end of the year.

Nonmonetary asset (land, buildings, and equipment) and liability items and related revenues, expenses, gains, and losses are remeasured using historical exchange rates. Resulting translation adjustments are accumulated in the combined statements of financial position caption “Cumulative foreign currency translation adjustment,” as a component of unrestricted net assets.

(n) Contributed Services

No amounts have been reflected in the combined financial statements for contributed services. SHC’s programs pay for most services requiring specific expertise. However, many individuals (Shriners and non-Shriners) volunteer their time at SHC and perform a variety of tasks that assist SHC with specific programs and various committee assignments.

(o) Net Patient Service Revenue

Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors, and others for services. SHC has agreements with third-party payors that provide for payments to SHC at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, and discounted charges.

Revenue from the Medicaid program accounted for approximately 39% and 56% for the years ended December 31, 2017 and 2016, respectively. Revenue from the Medicare program accounted for less than one percent of SHC’s net patient service revenue. The composition of patient service revenue (net of contractual adjustments) but before the provision for Shriners assist recognized from these major payor sources is as follows (in thousands):

	2017	2016
Medicaid	$ 79,997	101,210
Commercial payers	123,869	80,872
Total all payors	$ 203,866	182,082

SHC analyzes its past collection history and identifies trends by each of its major payor sources of patient service revenue to estimate the appropriate allowance for doubtful accounts and provision for Shriners assist. Management regularly reviews data about the major payor sources of patient service revenue in evaluating the adequacy of the allowance for doubtful accounts.

SHC analyzes contractual amounts due from third-party payors and provides an allowance for doubtful accounts and a provision for Shriners assist. For uninsured and Shriners assist patients, which includes those patients without insurance coverage and patients with deductibles and copayment balances for which third-party coverage exists for a portion of the bill, SHC records a significant provision for Shriners assist for patients that are unable to pay for any portion of the bill. Account balances are charged off against the allowance for Shriners assist. SHC has not experienced significant changes in write-off trends and has not changed its uninsured or charity care policies for the years ended December 31, 2017 and 2016.

Laws and regulations governing the Medicaid and Medicare programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates associated with these programs will change by a material amount in the near term. As a result, provisions for third-party payor settlements and adjustments are estimated in the period the related services are provided and adjusted in future periods as additional information becomes available and as final settlements are determined or as years are no longer subject to audits, reviews and investigations.

Net patient accounts receivable included approximately $16,784 and $13,339 or 55% and 45% from the Medicaid programs as of December 31, 2017 and 2016, respectively. Net patient accounts receivable also included less than one percent from Medicare programs. The credit risk for other concentrations of receivables is limited due to the large number of insurance companies and other payors that provide payments for services.

(p) Charity Care

SHC, through its overall charitable policies, provides funding for cash requirements of the hospitals not met through normal operations. In addition, SHC provides care to patients who meet certain criteria under the charity care policies established by SHC without charge to its patients or families. Partial payments to which SHC is entitled from patients, third-party payors, Medicaid and others that meet SHC’s charity care criteria are reported as net patient service revenue.

(In thousands)

SHC provides necessary medical care regardless of the patient's ability to pay for services under its charity care policy. In addition, regulatory changes that may have the potential to alter charity classifications are monitored and incorporated into the policy, as necessary. SHC maintains records to identify and monitor the level of charity care. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. The following measures the level of charity care and other community benefits, as defined, at estimated costs for the years ended December 31, 2017 and 2016:

		2017	2016
Traditional charity care	$	690,419	643,768
Direct offsetting revenue		(189,790)	(147,717)
Net traditional charity care	$	500,629	496,051
As a percentage of total expense		55%	59%

(q) Disproportionate Share Distributions

In some states in which SHC's hospitals operate the state program for healthcare administration distributes low-income pool and disproportionate share payments to SHC based on its indigent care service level. SHC's policy is to recognize these distributions as revenue when the amounts are due and collection is reasonably assured. The receipt of any additional distributions is contingent upon the continued support provided by the respective state's legislature. SHC recognized $31,466 and $14,812 of disproportionate share distributions in other governmental revenue within the accompanying combined statements of operations and changes in unrestricted net assets for the year ended December 31, 2017 and 2016, respectively.

(r) Electronic Health Records Incentive Payments

The American Recovery and Reinvestment Act of 2009 provides for incentive payments under the Medicare and Medicaid programs for certain hospitals and professionals that adopt and use electronic health records (EHR) in a meaningful way. Meaningful use is demonstrated by meeting established criteria that focus on capturing and using electronic health information to improve healthcare quality, efficiency, and patient safety.

SHC records incentive payments when it is reasonably assured that it has met the meaningful use requirements. SHC recognized $7,301 and $1,900 of incentive payments in other governmental revenue within the accompanying combined statements of operations and changes in unrestricted net assets for the years ended December 31, 2017 and 2016, respectively. Incentive payment revenue is subject to change as the result of audits of compliance with meaningful use criteria and Medicare cost reports, with changes recorded in the period they occur.

(s) Going Concern

In accordance with FASB Accounting Standards Update No. 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern,* management has assessed SHC's ability to

(Continued)

(In thousands)

continue as a going concern for one year after the date that the financial statements are issued and determined that no further disclosure is required.

(2) Long-Term Investments

Marketable securities at December 31, 2017 and 2016 consist of:

	2017		2016	
	Cost	Fair value	Cost	Fair value
Short-term investments	$ 125,840	125,840	173,158	173,158
Common and preferred stocks	3,406,876	4,449,782	3,364,008	3,894,247
U.S. government securities	894,606	905,576	860,308	859,890
Corporate bonds	486,915	510,566	494,014	509,014
Other fixed income	898,730	927,462	1,026,236	1,008,921
Commodities fund	261,767	316,526	166,964	163,825
Fund of funds	339,031	379,206	339,031	362,983
	$ 6,413,765	7,614,958	6,423,719	6,972,038

Investment income and total return on all long-term investments comprise the following components for the years ended December 31, 2017 and 2016:

	2017	2016
Interest	$ 80,912	68,492
Dividends	92,788	103,360
Trust income	20,820	21,394
Rents and royalties	7,586	8,520
Other income	494	1,923
Less investment management fees	(17,470)	(17,155)
Total income from investments	185,130	186,534
Net realized gains (losses) from investments	169,804	(29,635)
Net unrealized gains from investments	662,340	387,958
Total return on investments	$ 1,017,274	544,857

(Continued)

(In thousands)

(3) Land, Buildings, and Equipment

Land, buildings, and equipment at December 31, 2017 and 2016 consist of:

		2017	2016	Estimated useful lives
Land	$	41,660	29,507	—
Land improvements		11,212	12,226	5–20 years
Buildings		1,134,238	1,077,219	40–50 years
Equipment		427,267	414,684	4–25 years
		1,614,377	1,533,636	
Less accumulated depreciation		(789,740)	(799,679)	
		824,637	733,957	
Projects in process		300	180	
Construction in progress		99,163	189,473	
Land, buildings, and equipment, net	$	924,100	923,610	

Depreciation expense amounted to $50,623 and $49,056 for the years ended December 31, 2017 and 2016, respectively.

During 2017, the hospital buildings located in Lexington, Kentucky and Los Angeles, California were classified as held for sale, as the existing hospital operations had been relocated to newly developed facilities. The existing Lexington and Los Angeles buildings were transferred from land, buildings, and equipment to real estate and mineral interests at their respective remaining net book values of $8,633 and $9,328, respectively.

On November 6, 2017, SHC executed an asset sales agreement related to its hospital building located in Los Angeles, California for $24,050. The gain recognized upon sale of the hospital of $13,960 has been reported as a net realized gain from investments within the nonoperating gains and losses on investments section of the combined statements of operations and changes in unrestricted net assets.

As of December 31, 2017, the hospital building located in Lexington, Kentucky was still classified as held for sale within real estate and mineral interests within the combined statements of financial position.

(In thousands)

(4) Construction and Other Major Capital Projects

Construction and other major capital projects committed to by the Board are as follows:

Project	Total appropriation	(Over) or under expended at December 31, 2017
Canada	$ 122,000	17,884
Los Angeles	71,560	(1,361)
Lexington	54,000	789
St. Louis	48,000	3,135
Other	13,626	12,287
Approved equipment expenditures:		
Information systems projects	12,505	7,876
Other equipment	23,004	4,382
	$ 344,695	44,992

(5) Line of Credit

During 2011, SHC entered into an unsecured line-of-credit agreement, for up to $150 million, with a financial institution for the purpose of aiding in operations and cash management. During December 2017, the line-of-credit agreement was renewed at a limit of $150 million, with an option to increase the limit to $250 million, upon need. On the date of a principal draw, SHC may elect to incur interest at one of two interest rate options. No amount was outstanding at December 31, 2017 or 2016.

(6) Transactions with Shriners International

SHC was founded by Shriners International. The International Headquarters building and equipment is owned by SHC. A portion of the building is occupied by Shriners International, which is allocated a share of the operating costs and depreciation of the building and equipment. The allocation of the costs is based upon the portion of the building occupied by Shriners International in relation to the total occupied space in the building.

SHC and Shriners International also share other costs based on the estimated fair value received by each organization. Additionally, hospital assessments, donations, and other charitable receipts from Shrine temples are collected and remitted to SHC by Shriners International.

At December 31, 2017 and 2016, amounts of $2,262 and $313, respectively, were due from Shriners International and are included in receivables, net in the accompanying combined statements of financial position.

(Continued)

(In thousands)

(7) Donor Relations, Fund-Raising Activities, and Special Events

SHC is financially supported through each Shriner’s annual hospital assessment, income from investments, gifts and bequests from the general public and from Shriners, and certain fund-raising activities conducted by Shriners. Shrine temples and Shriners raise funds for both fraternal and charitable purposes. Shrine fund-raising activities consist of paper sale donations, football games, golf tournaments, and other miscellaneous activities. The name “Shriners Hospitals for Children” may be used in connection with a fund-raising activity by a Shrine temple or Shriner only with the written consent of Shriners International and SHC when the proceeds are to benefit SHC. Some of these funds are retained by individual Shrine temples for the support of their respective hospital patient transportation fund.

SHC also engages in other fund-raising activities to generate donations and to develop their donor base. These activities are conducted through an agreement with an unrelated third party.

Fund-raising and special events revenues and costs for the years ended December 31, 2017 and 2016 consist of the following:

		2017	2016
Revenues from Shrine temple sponsored events	$	6,720	6,277
Direct mail revenue		36,319	29,334
Other revenue		7,348	7,090
	$	50,387	42,701
Fund-raising costs paid directly by Shrine temples in connection with fund-raising events	$	449	486
Direct mail expense		16,538	12,290
Other costs		13,394	12,590
	$	30,381	25,366

Revenues from Shrine temple sponsored events are reported net of direct costs of $3,294 and $2,898 for 2017 and 2016, respectively.

In addition to the fund-raising and special events expenses above, SHC incurred $30,462 and $22,440 of donor relation expense for the years ended December 31, 2017 and 2016, respectively. Such expenses are incurred to enhance donor relationships. Donations and bequests from such donors amounted to $288,527 and $243,237 for the years ended December 31, 2017 and 2016, respectively. Such development activities of SHC are overseen by the donor relations committee.

During the year ended December 31, 2008, SHC became the Host Organization and Title Sponsor of a PGA Tour golf tournament. Beginning in 2013, this tournament became part of the Fed-Ex tour. The term of this agreement commenced with the 2008 event and will conclude after the 2017 tournament. The 2017 event yielded $6,158 in revenues. Expenses incurred on this event in 2017 were $11,797, creating a cost

(Continued)

(In thousands)

of the project of $5,639. The 2016 event yielded $5,873 in revenues. Expenses incurred on this event in 2016 were $11,260, creating a cost of the project of $5,387.

(8) Patient Transportation Funds Held by Shrine Temples

Shrine temples pay for substantially all of the costs of transporting patients to individual Shriners Hospitals from their temple hospital transportation funds. These costs are supported by funds authorized to be retained from fund-raising events held for the benefit of SHC (note 7), as well as local donations from Shriners and the general public. The activities of the Shrine temple patient transportation funds are reflected as a nonoperating change in patient transportation funds held by Shrine temples in the accompanying combined statements of operations and changes in unrestricted net assets.

The activities of the patient transportation funds reflected for the years ended December 31, 2017 and 2016 are as follows:

		2017	2016
Balance, beginning of year	$	62,821	56,985
Temple revenues restricted for patient transportation		17,493	18,106
Patient transportation costs		(13,480)	(12,270)
Change in patient transportation funds		4,013	5,836
Balance, end of year	$	66,834	62,821

(9) Fair Value Measurements

FASB ASC Topic 820, *Fair Value Measurement*, defines fair value as the exit price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. FASB ASC Topic 820 requires 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 or liability (e.g., quoted prices for identical assets or liabilities in inactive markets, quoted prices for similar assets or liabilities 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.

(In thousands)

The tables below summarize SHC's significant financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2017 and 2016:

			Fair value measurements at reporting date using		
		December 31, 2017	**Level 1**	**Level 2**	**Level 3**
Assets:					
Long-term investments:					
Short-term investments	$	125,840	125,840	—	—
Common and preferred stocks		4,345,913	2,320,640	2,024,723	550
U.S. government securities		905,576	905,576	—	—
Corporate bonds		353,514	—	353,514	—
Other fixed income securities		482,116	—	481,871	245
Commodities fund		218,905	—	218,905	—
Charitable gift annuities		42,494	—	42,494	—
Beneficial interests in trusts		572,103	—	572,103	—
Real estate and mineral interests		303,773	—	—	303,773
Miscellaneous investments		23,099	—	23,099	—
		7,373,333	3,352,056	3,716,709	304,568
Recorded at net asset value		1,183,094			
Total		8,556,427			
Collateral under securities lending transactions	$	563,087	563,087	—	—
Liabilities:					
Annuity liabilities	$	18,528	—	18,528	—
Liabilities under securities lending transactions		563,087	563,087	—	—

(In thousands)

	December 31, 2016	Fair value measurements at reporting date using Level 1	Level 2	Level 3
Assets:				
Long-term investments:				
Short-term investments	$ 173,158	173,158	—	—
Common and preferred stocks	3,801,907	1,783,691	2,017,666	550
U.S. government securities	859,890	859,890	—	—
Corporate bonds	338,083	—	338,083	—
Other fixed income securities	571,835	—	568,217	3,618
Commodities fund	162,526	—	162,526	—
Charitable gift annuities	39,090	—	39,090	—
Beneficial interests in trusts	530,349	—	530,349	—
Real estate and mineral interests	292,235	—		292,235
Miscellaneous investments	19,886	—	19,886	—
	$ 6,788,959	2,816,739	3,675,817	296,403
Recorded at net asset value	1,064,637			
Total	7,853,596			
Collateral under securities lending transactions	$ 260,212	260,212	—	—
Liabilities:				
Annuity liabilities	$ 19,333	—	19,333	—
Liabilities under securities lending transactions	260,212	260,212	—	—

SHC’s Level 1 assets and liabilities include investments in cash, cash equivalents, common and preferred stocks, and U.S. government securities and are valued at quoted market prices.

SHC’s Level 2 assets include investments in foreign common and preferred stock, corporate debt securities, other fixed income securities, commodities fund, charitable gift annuities, beneficial interest in trusts, and miscellaneous investments with fair values modeled by external pricing vendors. Liabilities include annuity liabilities.

(Continued)

(In thousands)

SHC's Level 3 assets include foreign and domestic common and preferred stocks, real estate and mineral interests, and investments in foreign and domestic corporate bonds.

The tables below summarize the changes in Level 3 assets for the years ended December 31, 2017 and 2016:

		Fair value measurements using significant unobservable inputs (Level 3)		
		Common and preferred stock and fixed income investments	**Other investments**	**Total**
2017:				
Beginning balance	$	4,168	292,235	296,403
Total gains (realized/unrealized) included in increase in unrestricted net assets		—	15,412	15,412
Transfer of land, buildings, and equipment		—	17,961	17,961
Purchases		—	2,215	2,215
Sales		—	(24,050)	(24,050)
Transfers into/out of Level 3		(3,373)	—	(3,373)
Ending balance	$	795	303,773	304,568

		Fair value measurements using significant unobservable inputs (Level 3)		
		Common and preferred stock and fixed income investments	**Other investments**	**Total**
2016:				
Beginning balance	$	5,355	293,064	298,419
Total (losses) gains (realized/unrealized) included in increase in unrestricted net assets		(613)	5,463	4,850
Purchases		835	2,409	3,244
Sales		(1,409)	—	(1,409)
Transfers into/out of Level 3		—	(8,701)	(8,701)
Ending balance	$	4,168	292,235	296,403

(In thousands)

Realized and unrealized gains included in changes in net assets in Level 3 securities for the years ended December 31, 2017 and 2016 are reported in investment income as follows:

		2017	2016
Total gains (losses) included in increase in unrestricted net assets	$	15,412	4,850
Change in unrealized gains (losses) relating to assets still held at reporting date		1,452	5,463

SHC's accounting policy is to recognize transfers between levels of the fair value hierarchy on the date the event or change in circumstances that caused the transfer. There were no transfers between Level 1 and Level 2 securities during the year.

There were $17,961 of transfers into Level 3 of real estate and mineral interests from land, buildings, and equipment for assets that have been retired, of which $8,633 are held for sale for the year ended December 31, 2017. Investments transferred out of Level 3 and into Level 2 were $3,373 and $8,701 for the years ended December 31, 2017 and 2016, respectively.

The fair values of the following investments have been estimated using the net asset value per share of the investments as of December 31, 2017 and 2016.

		December 31, 2017	December 31, 2016	Redemption frequency	Redemption notice period
WTC CTF Opportunistic Fixed Income (a)	$	445,347	437,085	Monthly	30 days
Capital Guardian Absolute Income (b)		103,869	92,340	Monthly	5 days
State Street Fund REIT (c)		53,821	51,887	Monthly	15 days
AQR Delta Fund (d)		163,984	159,877	Monthly	30 days
Aetos Capital Hedge Funds (d)		161,400	151,219	Monthly	30 days
Pyramis Fixed Income Funds (a)		157,052	170,930	Monthly	30 days
HarbourVest Doverstreet IX (e)		10,513	1,299	N/A	N/A
CVI Credit Value Fund IV (f)		3,750	—	N/A	N/A
Comvest Capital IV (g)		3,019	—	N/A	N/A
Private Advisors Small Co (h)		5,339	—	N/A	N/A
Securis Opportunities Fund (i)		75,000	—	Semi Annually	90 days
Total	$	1,183,094	1,064,637		

(a) The fund's investment objective is an unconstrained, nonbenchmark-oriented investment approach. Bloomberg Barclays Capital U.S. Aggregate Bond Index will be used as the primary reference benchmark.

(b) The investment objective of the fund is to seek a level of income that exceeds the average yield on U.S. stocks generally, to grow such income annually, and to distribute an increasing amount of income per unit of the fund.

(c) The State Street Fund REIT seeks an investment return that approximates the performance of the Dow Jones U.S. select REIT index over the long term. In seeking to accomplish this objective the strategy may invest directly or indirectly in securities and other instruments, including other pooled vehicles of the Trustee.

(d) The fund's investment objective is to provide a return that exceeds the HFRI fund of funds composite.

(e) Dover Street IX intends to provide investors access to a diversified portfolio of global secondary investments in buyout, growth equity, venture capital, and other private equity assets.

(f) The fund is organized for the purpose of investing in distressed and special opportunity debt investments.

(g) The objective of the partnership is to acquire and actively manage a portfolio of investments primarily consisting of direct commercial loans and other structured financings.

(h) The fund is organized for the purpose of investing in private equity funds and coinvestments focused on growth equity, buyout, and turnaround strategies.

(i) The fund invests substantially all of its assets in Securis Opportunities Master Fund, whose investment strategy is predominately to own insurance risks, diversified by type of risk and by geography.

(10) Retirement Plans and Other Postretirement Benefits

The employees of the U.S. hospitals are included in the Shriners Hospitals for Children Employees' Retirement Plan and the Shriners Hospitals for Children Supplemental Retirement Plan (collectively, the Pension Plans). Benefits are based on years of service and the employees' compensation during the highest five consecutive years of employment. Contributions are made to the Pension Plans in accordance with ERISA requirements. In addition, SHC sponsors a postretirement life insurance plan (the Postretirement Plan). In March 2009, the Board voted to freeze entry of new participants into the Pension Plans effective May 1, 2009.

(In thousands)

The actuarially computed net periodic pension cost for the Pension Plans and the Postretirement Plan for the years ended December 31, 2017 and 2016 included the following components:

		Pension plans		Postretirement plan	
		2017	2016	2017	2016
Service cost – benefits earned during the period	$	18,283	18,332	333	312
Interest cost on projected benefit obligation		29,292	28,460	589	568
Expected return on plan assets		(34,632)	(33,185)	—	—
Net amortized and deferral of unrecognized gains and losses		12,636	10,358	—	—
Net periodic pension cost	$	25,579	23,965	922	880

The following table sets forth the Pension Plans' and the Postretirement Plan's funded status and amounts recognized in the combined statements of financial position as of December 31, 2017 and 2016, respectively, (using a measurement date of December 31):

		Pension plans		Postretirement plan	
		2017	2016	2017	2016
Change in benefit obligation:					
Benefit obligation at beginning of year	$	688,687	625,485	13,720	12,494
Service cost		18,283	18,332	333	312
Interest cost		29,291	28,460	589	568
Actuarial (gain) loss		58,711	30,818	1,689	646
Benefits paid		(25,599)	(21,464)	(217)	(300)
Plan change		—	7,056	—	—
Benefit obligation at end of year		769,373	688,687	16,114	13,720

(In thousands)

		Pension plans		Postretirement plan	
		2017	2016	2017	2016
Change in plan assets:					
Fair value of plan assets at beginning of year	$	498,493	466,302	—	—
Actual return on plan assets		87,319	42,193	—	—
Employer contributions		12,805	11,462	217	300
Benefits paid		(25,599)	(21,464)	(217)	(300)
Fair value of plan assets at end of year		573,018	498,493	—	—
Funded status at end of year	$	(196,355)	(190,194)	(16,114)	(13,720)

The accumulated benefit obligation for the Pension Plans was $688,101 and $625,609 at December 31, 2017 and 2016, respectively. The accumulated benefit obligation differs from the benefit obligation above in that it includes no assumption about future compensation levels. It represents the actuarial present value of future payments to plan participants using current and past compensation levels.

Weighted average assumptions used to determine projected benefit obligations at December 31, 2017 and 2016 were as follows:

	Pension plans		Postretirement plan	
	2017	2016	2017	2016
Discount rate	3.77%	4.25%	3.75%	4.25%
Rate of compensation increase	3.48	3.00	N/A	N/A

Weighted average assumptions used to determine the net periodic benefit costs of the Pension Plans and the Postretirement Plan are:

	Pension plans		Postretirement plan	
	2017	2016	2017	2016
Discount rate	4.26%	4.50%	4.25%	4.50%
Expected long-term rate of return on plan assets	7.00	7.00	N/A	N/A
Rate of compensation increase	3.00	3.00	N/A	N/A

The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

(In thousands)

The following are deferred pension costs, which have not yet been recognized in periodic pension expense but instead are accrued in unrestricted net assets as of December 31, 2017. 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 investment experience. Unrecognized prior service cost is the impact of changes in plan benefits applied retrospectively to employee service previously rendered. Deferred pension costs are amortized into annual pension expense over the average remaining assumed service period for active employees.

		Pension plans		Postretirement plan	
		Amounts in unrestricted net assets to be recognized during the next fiscal year	Amounts recognized in unrestricted net assets at December 31, 2017	Amounts in unrestricted net assets to be recognized during the next fiscal year	Amounts recognized in unrestricted net assets at December 31, 2017
Actuarial loss	$	16,121	172,124	—	619
Prior service cost		815	6,212	—	—
Total	$	16,936	178,336	—	619

(a) Plan Assets

The weighted average allocation of the Pension Plans' assets at December 31, 2017 and 2016 was as follows:

Asset category	2017	2016
Short-term investments	1%	2%
Common and preferred stock	51	52
Corporate and miscellaneous bonds	19	17
Mutual funds	29	29
Total assets	100%	100%

SHC's investment policies and strategies for pension benefits do not use target allocations for the individual asset categories. The Hospitals' investment goals are to maximize returns subject to specific risk management policies.

(In thousands)

The table below summarizes the Pension Plans' significant financial assets measured at fair value on a recurring basis as of December 31, 2017:

	December 31, 2017	Fair value measurements at reporting date using	
		Level 1	Level 2
Assets:			
Short-term investments	$ 5,730	5,730	—
Common and preferred stocks	292,239	—	292,239
Corporate and miscellaneous bonds	108,873	—	108,873
Mutual funds	166,176	—	166,176
Total	$ 573,018	5,730	567,288

The table below summarizes the Pension Plans' significant financial assets measured at fair value on a recurring basis as of December 31, 2016:

	December 31, 2016	Fair value measurements at reporting date using	
		Level 1	Level 2
Assets:			
Short-term investments	$ 9,213	9,213	—
Common and preferred stocks	257,237	—	257,237
Corporate and miscellaneous bonds	86,659	—	86,659
Mutual funds	145,384	—	145,384
Total	$ 498,493	9,213	489,280

(b) Contributions

Annual contributions are determined based upon calculations prepared by the plans' actuary. Expected contributions to the Pension Plans and the Postretirement Plan are $12,808 and $433, respectively, in 2017.

(In thousands)

(c) Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid out of the plans:

	Pension plans	Postretirement plan
Fiscal year(s):		
2018	28,762	434
2019	32,299	457
2020	31,871	481
2021	34,005	507
2022	39,075	533
2023–2027	212,376	3,119

SHC also has a retirement savings plan for all eligible employees. Under this plan, SHC matches 50% of the first 6% of voluntary contributions made from eligible compensation by employees. Matching contributions by SHC to the retirement savings plan were $9,602 and $8,746 in 2017 and 2016, respectively.

Canadian and Mexican hospital employees are included in government retirement programs of their respective countries.

(11) Estimated Malpractice Costs and Other Contingencies

SHC is self-insured for claims attributed to malpractice and workers' compensation from providing professional and patient care services. Claims alleging malpractice have been asserted against SHC and are currently in various stages of litigation. Additional claims may be asserted against SHC arising from services provided to patients through December 31, 2017. Liabilities for malpractice and workers' compensation claims are established based on specific identification and historical experience using actuarial methodologies. It is the opinion of management that estimated malpractice and workers' compensation claims accrued should be adequate to provide for potential losses resulting from both reported claims and claims incurred but not reported. Such amounts are not material and are recorded in accounts payable and accrued expenses on the accompanying combined statements of financial position.

SHC is also a party to various other claims and legal actions arising in the ordinary course of business. Management does not believe that the ultimate outcome of such claims and legal actions will have a material adverse effect on the financial position or activities of SHC.

(Continued)

(12) Endowment Funds

FASB ASC Subtopic 958-205, *Not-for-Profit Entities – Presentation of Financial Statements*, provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). FASB ASC Subtopic 958-205 also requires enhanced disclosures about an organization's endowment funds, whether or not the organization is subject to an enacted version of UPMIFA. These disclosures shall enable users of the combined financial statements to understand the net asset classification, net asset composition, changes in net asset composition, spending policy, and related investment policy of its endowment funds (both donor restricted and board designated). SHC follows the requirements of FASB ASC Subtopic 958-205.

SHC's endowment consists of marketable securities, charitable gift annuities, beneficial interest in trusts, real estate and mineral interests, and miscellaneous investments. The endowment consists of both donor-restricted funds, as well as funds designated by the Board of Trustees to function as endowments.

The Board has interpreted the wishes of donors and Colorado and Massachusetts state law as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, SHC classifies as permanently restricted net assets (a) the original value of gifts donated, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the endowment. Gifts given with a restriction of time or purpose are added to the endowment as temporarily restricted funds. Upon the passage of time or completion of purpose, these funds are released as unrestricted. Funds designated by the Board as endowment funds are included as unrestricted endowment funds.

Investment Return Objectives, Risk Parameters, and Strategies. SHC has adopted investment and spending policies, approved by the Investment Committee, for endowment assets that attempt to provide a predictable stream of funding to support the hospital system, while also maintaining the purchasing power of those endowment assets over the long term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income, as well as capital appreciation, which exceeds the budgeted annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix, which includes equity and fixed-income securities that is intended to result in a rate of return that has sufficient liquidity to provide a high level of cash distribution, while growing the funds, if possible. Therefore, SHC expects its endowment assets, over time, to produce an average rate of return of approximately 7.25% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

(Continued)

(In thousands)

Spending Policy. The Board does not have a formal endowment spending policy. Generally, all investment return (excluding capital appreciation) is utilized in funding SHC's programs. In making this funding decision, the Board considers the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, some of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. The Board's goal is for its endowment funds to grow annually to maintain the purchasing power of the endowment assets, as well as, to provide additional real growth through new gifts and investment return.

Endowment asset composition by type of fund, as of December 31, 2017 and 2016, is as follows:

		Unrestricted	Temporarily restricted	Permanently restricted	Total endowment assets
2017:					
Board-designated endowment funds	$	7,984,154	—	—	7,984,154
Donor-restricted endowment funds		—	105,013	467,260	572,273
	$	7,984,154	105,013	467,260	8,556,427

		Unrestricted	Temporarily restricted	Permanently restricted	Total endowment assets
2016:					
Board-designated endowment funds	$	7,323,080	—	—	7,323,080
Donor-restricted endowment funds		—	107,257	423,261	530,518
	$	7,323,080	107,257	423,261	7,853,598

(Continued)

(In thousands)

Changes in endowment assets for the years ended December 31, 2017 and 2016 are as follows:

		Unrestricted	Temporarily restricted	Permanently restricted	Total endowment net assets
2017:					
Balance, beginning of year	$	7,323,080	107,257	423,261	7,853,598
Donations and bequests		—	203	—	203
Investment income		185,130	—	40	185,170
Net appreciation		832,144	4,130	43,959	880,233
Reclassifications		6,577	(6,577)	—	—
Withdrawals		(362,777)	—	—	(362,777)
Balance, end of year	$	7,984,154	105,013	467,260	8,556,427
2016:					
Balance, beginning of year	$	7,237,540	118,142	410,048	7,765,730
Donations and bequests		—	237	—	237
Investment income		186,534	—	72	186,606
Net appreciation		358,323	11,992	13,141	383,456
Reclassifications		23,114	(23,114)	—	—
Withdrawals		(482,431)	—	—	(482,431)
Balance, end of year	$	7,323,080	107,257	423,261	7,853,598

(13) Subsequent Events

On February 6, 2018, SHC executed an asset sales agreement related to its hospital building located in St. Louis, Missouri for $16,550. The hospital was classified as held for sale as of December 31, 2017 and reported as real estate and mineral interests within the combined statements of financial position.

SHC has evaluated events and transactions occurring subsequent to December 31, 2017 as of April 5, 2018, which is the date the combined financial statements were available to be issued. Management believes that no additional material events have occurred since December 31, 2017 that require recognition or disclosure in the combined financial statements.