



SHRINERS HOSPITALS FOR CHILDREN

Combined Financial Statements

December 31, 2021 and 2020

(With Independent Auditors' Report Thereon)

SHRINERS HOSPITALS FOR CHILDREN

Table of Contents

	Page(s)
Independent Auditors' Report	1-2
Combined Statements of Financial Position	3
Combined Statements of Operations and Changes in Net Assets	4-5
Combined Statements of Cash Flows	6
Notes to Combined Financial Statements	7-39



KPMG LLP
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Independent Auditors' Report

The Board of Directors
Shriners Hospitals for Children:

Opinion

We have audited the combined financial statements of Shriners Hospitals for Children (the Organization), which comprise the combined statements of financial position as of December 31, 2021 and 2020, and the related combined statements of operations and 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 financial position of the Organization as of December 31, 2021 and 2020, and the results of its operations 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). 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 the Organization 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 the Organization's ability to continue as a going concern for one year after the date that the combined financial statements are 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 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, 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 the Organization's 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 the Organization's 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.

KPMG LLP

Tampa, Florida
April 20, 2022

SHRINERS HOSPITALS FOR CHILDREN

Combined Statements of Financial Position

December 31, 2021 and 2020

(In thousands)

Assets	2021	2020
Cash and cash equivalents	\$ 47,788	17,295
Cash and cash equivalents held as collateral under securities lending transactions	859,006	727,723
Patient accounts receivable	27,804	27,363
Receivables, net	17,380	12,806
Accrued interest and dividends	25,504	20,327
Inventories and deferred charges	41,885	38,333
Patient transportation funds held by Shrine temples	82,080	76,396
Investments:		
Marketable securities	9,348,674	8,499,363
Charitable gift annuities	48,671	43,474
Beneficial interest in trusts	662,538	617,907
Real estate and mineral interests	299,877	272,808
Miscellaneous investments	30,848	35,952
Estates in process	231,845	250,704
Land, buildings, and equipment, net of accumulated depreciation	<u>766,208</u>	<u>841,056</u>
Total assets	\$ <u>12,490,108</u>	<u>11,481,507</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 143,882	140,235
Pension and postretirement benefits	132,902	213,202
Liabilities under securities lending transactions	859,006	727,723
Other liabilities	<u>44,605</u>	<u>41,558</u>
Total liabilities	<u>1,180,395</u>	<u>1,122,718</u>
Net assets:		
Without donor restrictions (net of cumulative foreign currency translation adjustment of \$9,623 and \$9,646, respectively)	9,837,964	8,935,449
With donor restrictions	<u>1,471,749</u>	<u>1,423,340</u>
Total net assets	<u>11,309,713</u>	<u>10,358,789</u>
Total liabilities and net assets	\$ <u>12,490,108</u>	<u>11,481,507</u>

See accompanying notes to combined financial statements.

SHRINERS HOSPITALS FOR CHILDREN

Combined Statement of Operations and Changes in Net Assets

Year ended December 31, 2021

(In thousands)

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Operating revenues and other support:			
Net patient service revenue	\$ 177,689	—	177,689
Investment income:			
Interest	66,257	—	66,257
Dividends	95,180	—	95,180
Net realized gain from investments	819,050	9,463	828,513
Other investment income	39,124	—	39,124
Investment management fees	(20,449)	—	(20,449)
Amounts released from restrictions used for operations	93,925	(93,925)	—
Bequests	105,383	86,492	191,875
Donations	221,464	267	221,731
Fund raising and special events	88,880	—	88,880
Hospital assessments	871	—	871
Reimbursements from Canadian Provinces	16,918	—	16,918
Other governmental revenue	11,251	—	11,251
Other	(1,740)	—	(1,740)
Total revenues and other support	<u>1,713,803</u>	<u>2,297</u>	<u>1,716,100</u>
Operating expenses:			
Hospitals	702,462	—	702,462
Research	27,417	—	27,417
Revenue cycle	17,271	—	17,271
Information systems	41,950	—	41,950
Headquarters, administrative, and board related	118,220	—	118,220
Donor relations, fund raising and special events	103,029	—	103,029
Total operating expenses	<u>1,010,349</u>	<u>—</u>	<u>1,010,349</u>
Increase in net assets from operating activities	<u>703,454</u>	<u>2,297</u>	<u>705,751</u>
Nonoperating gains, net:			
Net unrealized gains on investments	144,456	40,428	184,884
Life memberships	71	—	71
Change in patient transportation funds held by Shrine temples	—	5,684	5,684
Pension-related changes other than service costs	68,254	—	68,254
Other, net	(13,697)	—	(13,697)
Foreign currency translation adjustments	(23)	—	(23)
Total nonoperating gains, net	<u>199,061</u>	<u>46,112</u>	<u>245,173</u>
Increase in net assets	902,515	48,409	950,924
Net assets, beginning of year	<u>8,935,449</u>	<u>1,423,340</u>	<u>10,358,789</u>
Net assets, end of year	\$ <u>9,837,964</u>	<u>1,471,749</u>	<u>11,309,713</u>

See accompanying notes to combined financial statements.

SHRINERS HOSPITALS FOR CHILDREN

Combined Statement of Operations and Changes in Net Assets

Year ended December 31, 2020

(In thousands)

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Operating revenues and other support:			
Net patient service revenue	\$ 152,467	—	152,467
Investment income:			
Interest	74,850	—	74,850
Dividends	83,803	—	83,803
Net realized gain from investments	113,058	2,441	115,499
Other investment income	34,761	—	34,761
Investment management fees	(19,186)	—	(19,186)
Amounts released from restrictions used for operations	87,175	(87,175)	—
Bequests	115,480	79,144	194,624
Donations	203,453	1,453	204,906
Fund raising and special events	70,430	—	70,430
Hospital assessments	907	—	907
Reimbursements from Canadian Provinces	18,765	—	18,765
Other governmental revenue	11,254	—	11,254
Other	2,009	—	2,009
	<u>949,226</u>	<u>(4,137)</u>	<u>945,089</u>
Total revenues and other support			
Operating expenses:			
Hospitals	698,681	—	698,681
Research	27,664	—	27,664
Revenue cycle	15,613	—	15,613
Information systems	37,531	—	37,531
Headquarters, administrative, and board related	86,708	—	86,708
Donor relations, fund raising and special events	86,281	—	86,281
	<u>952,478</u>	<u>—</u>	<u>952,478</u>
Total operating expenses			
Decrease in net assets from operating activities	<u>(3,252)</u>	<u>(4,137)</u>	<u>(7,389)</u>
Nonoperating gains, net:			
Net unrealized gains on investments	692,616	45,718	738,334
Life memberships	72	—	72
Change in patient transportation funds held by Shrine temples	—	5,919	5,919
Pension-related changes other than service costs	17,262	—	17,262
Other, net	(11,489)	—	(11,489)
Foreign currency translation adjustments	295	—	295
	<u>698,756</u>	<u>51,637</u>	<u>750,393</u>
Total nonoperating gains, net			
Increase in net assets	695,504	47,500	743,004
Net assets, beginning of year	<u>8,239,945</u>	<u>1,375,840</u>	<u>9,615,785</u>
Net assets, end of year	<u>\$ 8,935,449</u>	<u>1,423,340</u>	<u>10,358,789</u>

See accompanying notes to combined financial statements.

SHRINERS HOSPITALS FOR CHILDREN

Combined Statements of Cash Flows

Years ended December 31, 2021 and 2020

(In thousands)

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Increase in net assets	\$ 950,924	743,004
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:		
Depreciation	82,068	61,945
Loss on disposal of property and equipment	9,000	4,218
Realized and unrealized gains on investments	(1,013,396)	(853,833)
Gifts, bequests, and life memberships designated by the board or restricted by donor for long-term investment	(191,946)	(194,696)
Change in value of patient transportation funds held by Shrine temples	(5,684)	(5,919)
Pension related changes other than service costs	68,254	17,262
Changes in beneficial interest in trusts	(44,631)	(43,510)
Changes in estates in process	18,859	(916)
Changes in operating assets and liabilities:		
Patient accounts receivable	(441)	1,104
Net receivables	(4,574)	(358)
Accrued interest and dividends	(5,177)	1,532
Inventories and deferred charges	(3,552)	1,700
Accounts payable and accrued expenses	3,647	(12,063)
Pension and postretirement benefits	(148,554)	(46,186)
Net cash used in operating activities	<u>(285,203)</u>	<u>(326,716)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(16,220)	(42,904)
Proceeds from sale of investments	3,758,510	2,605,925
Purchases of investments	(3,621,587)	(2,454,563)
Net cash provided by investing activities	<u>120,703</u>	<u>108,458</u>
Cash flows from financing activities:		
Gifts and bequests	191,875	194,624
Life memberships	71	72
Borrowings from line of credit	—	100,000
Payments on the line of credit	—	(100,000)
Change in other liabilities	3,047	(123)
Net cash provided by financing activities	<u>194,993</u>	<u>194,573</u>
Net increase (decrease) in cash and cash equivalents	30,493	(23,685)
Cash and cash equivalents at beginning of year	<u>17,295</u>	<u>40,980</u>
Cash and cash equivalents at end of year	\$ <u><u>47,788</u></u>	\$ <u><u>17,295</u></u>

See accompanying notes to combined financial statements.

SHRINERS HOSPITALS FOR CHILDREN

Notes to Combined Financial Statements

December 31, 2021 and 2020

(In thousands)

(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 Ambulatory Clinic, 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 and Tijuana Associations 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 by SHC Colorado Corporation as 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, 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.

SHRINERS HOSPITALS FOR CHILDREN

Notes to Combined Financial Statements

December 31, 2021 and 2020

(In thousands)

(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, donor restricted net assets are reclassified to net assets without donor restrictions and reported in the combined statements of operations 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 net assets without donor restrictions.

- Net assets without donor restrictions consist of investments and otherwise unrestricted amounts that are available for use in carrying out the activities of SHC. The majority of net assets without donor restrictions as of December 31, 2021 and 2020 represent board-designated endowment.
- Net assets with donor restrictions 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, charitable remainder trusts, and patient transportation funds as increases in net assets with restrictions as these assets are not available for expenditure until future periods. SHC also reports gifts and bequests from donors who place restrictions on the use of the funds, which mandate that the original principal be invested in perpetuity as net assets with donor restrictions. This includes perpetual lead trusts.

Net assets with donor restrictions consists of the following as of December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Subject to expenditure for a specific purpose:		
Hospitals	\$ 1,285,763	1,242,063
Research	6,809	7,784
Patient Transportation Fund	<u>82,080</u>	<u>76,396</u>
	1,374,652	1,326,243
Subject to the passage of time	<u>97,097</u>	<u>97,097</u>
Total net assets with donor restrictions	\$ <u>1,471,749</u>	<u>1,423,340</u>

(d) Operating Measure

Changes in 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.

SHRINERS HOSPITALS FOR CHILDREN

Notes to Combined Financial Statements

December 31, 2021 and 2020

(In thousands)

(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, 2021 and 2020, SHC held \$859,006 and \$727,723, 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 \$829,548 and \$702,401 at December 31, 2021 and 2020, 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) Investments

The following 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 an 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 net assets as increases or decreases in net assets without donor restrictions 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. 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 net assets with donor restrictions, of both time and purpose.

SHRINERS HOSPITALS FOR CHILDREN

Notes to Combined Financial Statements

December 31, 2021 and 2020

(In thousands)

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 net assets with donor restrictions.

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 net assets and are included in unrealized gains and losses in their respective net asset classification.

Included in other liabilities in the accompanying combined statements of financial position are annuity liabilities of \$22,626 and deferred income of \$18,428 at December 31, 2021. Included in other liabilities in the accompanying combined statements of financial position are annuity liabilities of \$21,317 and deferred income of \$16,596 at December 31, 2020.

(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 net assets with donor restrictions, as these assets will not be available for expenditures until future periods (typically one to five years), or these assets are restricted in perpetuity. As funds from an estate (other than restricted in perpetuity) are collected, net assets are released from net assets with donor restrictions, and reported in the combined statements of operations and 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.

SHRINERS HOSPITALS FOR CHILDREN

Notes to Combined Financial Statements

December 31, 2021 and 2020

(In thousands)

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 2021 and 2020.

(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 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

SHC's revenues are derived from contracts with patients in which the performance obligation is to provide health care services to the patients and are reported at the amount expected to be received in exchange for providing patient care. These amounts are due from patients, third-party payors (including managed care payors and government programs) and others, and they include variable consideration for retroactive adjustments due to settlement of audits, reviews and investigations. Generally, SHC bills patients and third-party payors several days after services are performed or shortly after discharge. SHC identified performance obligations based on the nature of services provided and recognizes the revenue as the performance obligations are satisfied. Inpatient acute care services satisfied over time, generally from admission to time of discharge, are recognized based on actual charges incurred in relation to the total expected (or actual) charges, which depicts the transfer of health care services over the duration of the performance obligation. Revenue for performance obligations satisfied at a point in time, which is generally relating to patients receiving outpatient services, is recognized when services are provided and SHC does not believe the patient requires additional services.

SHRINERS HOSPITALS FOR CHILDREN

Notes to Combined Financial Statements

December 31, 2021 and 2020

(In thousands)

The transaction price is determined based on gross charges for services provided, reduced by contractual adjustments to third-party payors, discounts provided to uninsured patients, and implicit price concessions. The payment arrangements with third-party payors for the services SHC provides typically specify payments to SHC at amounts different from the established rates. Payment arrangements include prospectively determined rates per discharged, reimbursed costs, discounted charges, and per diem payments. Generally, patients covered by third-party payors are responsible for related deductibles and coinsurance, which is referred to as the patient portion.

SHC determines the estimates of contractual adjustments and discounts based on contractual agreements, SHC's Patient Discount Policy, as well as historical experience and other collection indicators. Consistent with SHC's mission, care is provided to patients regardless of their ability to pay. Therefore, SHC has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between the amounts billed to the patients and the amounts SHC expects to collect based on its collection history with those patients and current market conditions. SHC estimates contractual adjustments, discounts and implicit price concessions utilizing a portfolio approach as a practical expedient to account for patient contracts with similar characteristics as a collective group rather than individually. The financial statements effects of using this practical expedient are not materially different from an individual contract approach.

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.

Revenue from the Medicaid program accounted for approximately 49% and 48% for the years ended December 31, 2021 and 2020, respectively. Revenue from the Medicare program accounted for less than one percent of SHC's net patient service revenue. Patient service revenue (net of contractual adjustments and implicit price concessions) recognized for the years ended December 31, 2021 and 2020 from the major payor sources is as follows:

	<u>2021</u>	<u>2020</u>
Medicaid	\$ 89,611	72,911
Commercial payers	88,078	79,556
Total all payors	<u>\$ 177,689</u>	<u>152,467</u>

SHRINERS HOSPITALS FOR CHILDREN

Notes to Combined Financial Statements

December 31, 2021 and 2020

(In thousands)

Net patient accounts receivable included approximately \$17,489 or 63% and \$11,480 or 42% from the Medicaid programs as of December 31, 2021 and 2020, 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.

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, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Traditional charity care	\$ 702,462	698,681
Direct offsetting revenue	<u>(205,875)</u>	<u>(182,486)</u>
Net traditional charity care	<u>\$ 496,587</u>	<u>516,195</u>

(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 \$11,251 and \$10,880 of disproportionate share distributions in other governmental revenue within the accompanying combined statements of operations and changes in net assets for the years ended December 31, 2021 and 2020, respectively.

SHRINERS HOSPITALS FOR CHILDREN

Notes to Combined Financial Statements

December 31, 2021 and 2020

(In thousands)

(r) Adoption of New Accounting Standards

In August 2018, the FASB issued Accounting Standards Update (ASU) 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20): Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans*, which modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. Disclosure requirements removed as a result of Subtopic 715-20 include: the amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year; the amount and timing of plan assets expected to be returned to the employer; and for nonpublic entities, the reconciliation of the opening balances to the closing balances of plan assets measured on a recurring basis in Level 3 of the fair value hierarchy. However, nonpublic entities will be required to disclose separately the amounts of transfers into and out of Level 3 of the fair value hierarchy and purchases of Level 3 plan assets.

ASU 2018-14 was effective for SHC for its annual period ending December 31, 2021. The adoption of ASU 2018-14 did not have a material effect on its combined financial statements.

(2) Novel Coronavirus (COVID-19)

The current COVID-19 pandemic has had numerous and varied medical, economic, and social impacts, any and all of which have and may again adversely affect SHC's business and financial results. In many states where SHC has locations, executive orders were issued prohibiting certain medically unnecessary, non-urgent or non-emergent procedures and surgeries as a result of the COVID-19 pandemic. These restrictions have all been lifted, however, there is a possibility that additional restrictions on elective procedures may be reintroduced to the extent that COVID-19 patients threaten system capacity. Disruptions could also include temporary closures of SHC's facilities or the facilities of suppliers and their contract manufacturers. The effects of COVID-19 could further and severely affect SHC's ability to conduct normal business operations and, as a result, the future operating results of SHC could have a material adverse effect.

In March 2020, the Coronavirus Aid, Relief and Economic Security Act (CARES Act) was signed into law providing, among other provisions, financial relief to hospitals and healthcare providers during the COVID-19 pandemic. The CARES Act Provider Relief Fund provides funding from the U.S. Department of Health and Human Services (HHS) to support healthcare-related expenses or lost revenue attributable to the COVID-19 pandemic.

As of December 31, 2021, SHC received approximately \$4,196 in Provider Relief Funding related to the CARES Act. The funds received under the CARES Act Provider Relief fund represent payments that do not need to be repaid as long as SHC complies with certain terms and conditions imposed by HHS, including reporting and compliance requirements. Such payments are accounted for as grants and are recognized as revenue once there is reasonable assurance that the applicable terms and conditions required to retain the funds will be met. As of December 31, 2021, SHC recognized total receipts as revenue within donations on the combined statements of operations and changes in net assets as all terms and conditions have been met.

SHRINERS HOSPITALS FOR CHILDREN

Notes to Combined Financial Statements

December 31, 2021 and 2020

(In thousands)

The CARES Act also permits employers to defer the payment of the employer's portion of social security taxes incurred between March 27, 2020 and December 31, 2020, with half of the deferred payments required to be paid by December 31, 2021 and the other half to be paid by December 31, 2022. As of December 31, 2021, SHC has approximately \$13.5 million in deferred payroll tax payments recorded in accounts payable and accrued expenses on the combined statement of financial position.

(3) Investments

Marketable securities at December 31, 2021 consist of:

	<u>Cost</u>	<u>Fair value</u>
Short-term investments	\$ 145,690	145,690
Common and preferred stocks	3,324,766	5,034,979
U.S. government securities	1,211,452	1,304,200
Corporate bonds	533,980	578,501
Other fixed income	617,045	679,868
Commodities fund	740,278	901,030
Fund of funds	595,000	704,406
	<u>\$ 7,168,211</u>	<u>9,348,674</u>

Marketable securities at December 31, 2020 consist of:

	<u>Cost</u>	<u>Fair value</u>
Short-term investments	\$ 159,808	149,834
Common and preferred stocks	3,201,556	4,843,828
U.S. government securities	968,339	1,049,028
Corporate bonds	540,919	596,271
Other fixed income	596,189	673,935
Commodities fund	432,783	561,885
Fund of funds	540,111	624,582
	<u>\$ 6,439,705</u>	<u>8,499,363</u>

SHRINERS HOSPITALS FOR CHILDREN

Notes to Combined Financial Statements

December 31, 2021 and 2020

(In thousands)

Investment income and total return on all investments comprise the following components for the years ended December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Interest	\$ 66,257	74,850
Dividends	95,180	83,803
Trust income	23,027	23,040
Rents and royalties	15,040	9,604
Other income	1,057	2,117
Less investment management fees	<u>(20,449)</u>	<u>(19,186)</u>
Total income from investments	180,112	174,228
Net realized gains from investments	828,513	115,499
Net unrealized gains (losses) from investments	<u>184,884</u>	<u>738,334</u>
Total return on investments	\$ <u>1,193,509</u>	<u>1,028,061</u>

(4) Land, Buildings, and Equipment

Land, buildings, and equipment at December 31, 2021 and 2020 consists of:

	<u>2021</u>	<u>2020</u>	<u>Estimated useful lives</u>
Land	\$ 43,587	44,328	—
Land improvements	9,231	8,768	5–20 years
Buildings	1,070,209	1,091,534	40–50 years
Equipment	<u>502,770</u>	<u>456,026</u>	4–25 years
	1,625,797	1,600,656	
Less accumulated depreciation	<u>(914,688)</u>	<u>(883,350)</u>	
	711,109	717,306	
Construction in progress	<u>55,099</u>	<u>123,750</u>	
Land, buildings, and equipment, net	\$ <u>766,208</u>	<u>841,056</u>	

Depreciation expense amounted to \$82,068 and \$61,945 for the years ended December 31, 2021 and 2020, respectively.

SHRINERS HOSPITALS FOR CHILDREN

Notes to Combined Financial Statements

December 31, 2021 and 2020

(In thousands)

On November 19, 2021, SHC executed an asset sales agreement related to its hospital building located in Cincinnati, OH for \$28,293. The gain recognized upon sale of the hospital was \$12,424 and reported as a net realized gain from investments within the operating revenues and other support in the investment income section of the combined statement of operations and changes in net assets.

The hospital building located in Houston, Texas is classified as held for sale, as the existing hospital operations have been relocated to the Galveston facility. Upon relocation, the existing Houston building was transferred from buildings, building improvements, and fixed equipment to real estate and mineral interests at its remaining net book value.

On Jan 10, 2020, SHC executed an asset sales agreement related to its hospital building located in Minneapolis, MN for \$21,500. As this building was sold immediately upon moving locations, the gain recognized upon sale of the hospital of \$12,950 and has been reported as a net realized gain from investments within the operating revenues and other support in the investment income section of the combined statement of operations and changes in net assets.

On October 20, 2020, SHC executed an asset sales agreement related to its hospital building located in Lexington, KY for \$10,000. In 2017, SHC moved their operations to the new location and this hospital building was held for sale and recorded in real estate and mineral interested on the accompanying combined statements of financial position. The gain recognized upon sale of the hospital was \$1,156 and has been reported as a net realized gain from investments within the operating revenues and other support in the investments section of the combined statement of operations and changes in net assets.

(5) Construction and Other Major Capital Projects

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

<u>Project</u>	<u>Total appropriation</u>	<u>Unexpended at December 31, 2021</u>
Construction in process	\$ 15,347	10,876
IS Projects	2,416	66
Other equipment	43,393	34,597
	<u>\$ 61,156</u>	<u>45,539</u>

SHRINERS HOSPITALS FOR CHILDREN

Notes to Combined Financial Statements

December 31, 2021 and 2020

(In thousands)

<u>Project</u>	<u>Total appropriation</u>	<u>Unexpended at December 31, 2020</u>
Construction In Process	\$ 33,929	5,528
IS Projects	4,265	1,468
Other equipment	15,333	7,235
	\$ <u>53,527</u>	<u>14,231</u>

(6) Line of Credit

In 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. In 2016, the line-of-credit agreement was renewed at a limit of \$100 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, 2021 and 2020.

(7) 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, 2021 and 2020, an amount of \$534 and \$182, respectively, was due from Shriners International and is included in receivables, net in the accompanying combined statements of financial position.

(8) 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.

SHRINERS HOSPITALS FOR CHILDREN

Notes to Combined Financial Statements

December 31, 2021 and 2020

(In thousands)

Fund-raising and special events revenues and costs for the years ended December 31, 2021 and 2020 consist of the following:

	<u>2021</u>	<u>2020</u>
Revenues from Shrine temple sponsored events	\$ 4,051	3,334
Direct mail revenue	80,233	64,113
Other revenue	<u>4,596</u>	<u>2,983</u>
	<u>\$ 88,880</u>	<u>70,430</u>
Fund-raising costs paid directly by Shrine temples in connection with fund-raising events	\$ 266	259
Direct mail expense	42,216	32,440
Other costs	<u>9,100</u>	<u>7,570</u>
	<u>\$ 51,582</u>	<u>40,269</u>

Revenues from Shrine temple sponsored events are reported net of direct costs of \$1,636 and \$1,253 for 2021 and 2020, respectively.

In addition to the fund-raising and special events expenses above, SHC incurred \$51,447 and \$46,012 of donor relation expense for the years ended December 31, 2021 and 2020, respectively. Such expenses are incurred to enhance donor relationships. Donations and bequests from such donors amounted to \$413,606 and \$399,530 for the years ended December 31, 2021 and 2020, 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 2021 tournament. The 2021 and 2020 event yielded \$4,386 and \$1,570, respectively, in revenues. Expenses incurred on this event in 2021 and 2020 were \$8,256 and \$6,501, respectively, creating a cost of the project of \$3,870 and \$4,931, respectively.

(9) 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, 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 net assets.

SHRINERS HOSPITALS FOR CHILDREN

Notes to Combined Financial Statements

December 31, 2021 and 2020

(In thousands)

The activities of the patient transportation funds reflected for the years ended December 31, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Balance, beginning of year	\$ 76,396	70,477
Temple revenues restricted for patient transportation	11,501	13,898
Patient transportation costs	<u>(5,817)</u>	<u>(7,979)</u>
Change in patient transportation funds	<u>5,684</u>	<u>5,919</u>
Balance, end of year	<u>\$ 82,080</u>	<u>76,396</u>

(10) 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.

SHRINERS HOSPITALS FOR CHILDREN

Notes to Combined Financial Statements

December 31, 2021 and 2020

(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, 2021 and 2020:

	December 31, 2021	Fair value measurements at reporting date using		
		Level 1	Level 2	Level 3
Assets:				
Investments:				
Short-term investments	\$ 145,690	145,690	—	—
Common and preferred stocks	5,034,979	4,523,525	511,454	—
U.S. government securities	1,304,200	1,304,200	—	—
Corporate bonds	409,836	—	409,836	—
Other fixed income securities	283,319	11,673	271,401	245
Commodities fund	268,593	—	268,593	—
Charitable gift annuities	48,671	—	48,671	—
Beneficial interests in trusts	662,538	—	662,538	—
Real estate and mineral interests	299,877	—	—	299,877
Miscellaneous investments	30,848	—	30,848	—
	<u>8,488,551</u>	<u>5,985,088</u>	<u>2,203,341</u>	<u>300,122</u>
Recorded at net asset value	<u>1,902,057</u>			
Total	\$ <u>10,390,608</u>			
Collateral under securities lending transactions	\$ 859,006	859,006	—	—
Liabilities:				
Annuity liabilities	\$ 22,626	—	22,626	—
Liabilities under securities lending transactions	859,006	859,006	—	—

SHRINERS HOSPITALS FOR CHILDREN

Notes to Combined Financial Statements

December 31, 2021 and 2020

(In thousands)

	<u>December 31, 2020</u>	<u>Fair value measurements at reporting date using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
Investments:				
Short-term investments	\$ 149,834	149,834	—	—
Common and preferred stocks	4,843,827	3,095,442	1,748,385	—
U.S. government securities	1,049,028	1,049,028	—	—
Corporate bonds	400,834	—	400,834	—
Other fixed income securities	264,881	12,094	252,542	245
Commodities fund	294,464	—	294,464	—
Charitable gift annuities	43,474	—	43,474	—
Beneficial interests in trusts	617,907	—	617,907	—
Real estate and mineral interests	272,808	—	—	272,808
Miscellaneous investments	35,952	—	35,952	—
	<u>7,973,009</u>	<u>4,306,398</u>	<u>3,393,558</u>	<u>273,053</u>
Recorded at net asset value	\$ <u>1,496,495</u>			
Total	\$ <u>9,469,504</u>			
Collateral under securities lending transactions	\$ 727,723	727,723	—	—
Liabilities:				
Annuity liabilities	\$ 21,317	—	21,317	—
Liabilities under securities lending transactions	727,723	727,723	—	—

SHC's Level 1 assets and liabilities include investments in cash, cash equivalents, common and preferred stocks, U.S. government securities and other fixed income 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.

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

SHRINERS HOSPITALS FOR CHILDREN

Notes to Combined Financial Statements

December 31, 2021 and 2020

(In thousands)

The tables below summarize the changes in Level 3 assets for the years ended December 31, 2021 and 2020:

	Fair value measurements using significant unobservable inputs (Level 3)		
	Other fixed income investments	Other investments	Total
2021:			
Beginning balance	\$ 245	272,808	273,053
Total gains (losses) (realized/unrealized) included in increase in net assets without donor restrictions	—	29,074	29,074
Purchases	—	21,175	21,175
Sales	—	(23,180)	(23,180)
Transfers into/out of Level 3	—	—	—
Ending balance	<u>\$ 245</u>	<u>299,877</u>	<u>300,122</u>
2020:			
Beginning balance	\$ 735	288,715	289,450
Total gains (losses) (realized/unrealized) included in increase in net assets without donor restrictions	—	(22,696)	(22,696)
Purchases	—	23,749	23,749
Sales	(490)	(16,960)	(17,450)
Transfers into/out of Level 3	—	—	—
Ending balance	<u>\$ 245</u>	<u>272,808</u>	<u>273,053</u>

SHRINERS HOSPITALS FOR CHILDREN

Notes to Combined Financial Statements

December 31, 2021 and 2020

(In thousands)

The fair values of the following investments have been estimated using the net asset value per share of the investments as of December 31, 2021 and 2020.

	Fair value		
	December 31,	Redemption	Redemption
	2021	frequency	notice period
WTC CTF Opportunistic Fixed Income (a)	\$ 396,550	Monthly	30 days
Pyramis Fixed Income Funds (a)	168,665	Monthly	15 days
Windjammer Senior Equity Fund (b)	22,747	N/A	N/A
Schroders Emg Mkts Equity Alpha (p)	96,932	Monthly	60 days
Aetos Capital Hedge Funds (d)	287,946	Quarterly	90 days
HarbourVest Doverstreet IX (e)	39,212	N/A	N/A
CVI Credit Value Fund IV (f)	71,892	N/A	N/A
Comvest Capital IV (g)	21,762	N/A	N/A
Private Advisors Small Co Funds (h)	68,383	N/A	N/A
Securis Opportunities Fund (i)	69,012	Semi Annually	180 days
Magnitude International (j)	121,040	N/A	N/A
CF Pinehurst Institutional (k)	129,475	Quarterly	100 Days
Brookfield Capital Partners V (l)	26,332	N/A	N/A
Apollo Investment Fund IX, (m)	15,056	N/A	N/A
HarbourVest Co-Investment V (n)	37,154	N/A	N/A
CarVal Credit Value Fund V (f)	11,068	N/A	N/A
Cloverlay II (o)	16,955	N/A	N/A
Fidelity Slct Emg Mkts (q)	142,232	Monthly	5 days
Macquarie Emg Mkts Small Cap (r)	127,592	Monthly	15 days
HarbourVest X (n)	23,269	N/A	N/A
Comvest Credit V (g)	8,783	N/A	N/A
Total	\$ <u>1,902,057</u>		

SHRINERS HOSPITALS FOR CHILDREN

Notes to Combined Financial Statements

December 31, 2021 and 2020

(In thousands)

	Fair value	Redemption	Redemption
	December 31,	frequency	notice period
	2020		
WTC CTF Opportunistic Fixed Income (a)	\$ 409,055	Monthly	30 days
Pyramis Fixed Income Funds (a)	195,437	Monthly	15 days
Windjammer Senior Equity Fund (b)	9,393	N/A	N/A
State Street Fund REIT (c)	51,848	Monthly	15 days
Aetos Capital Hedge Funds (d)	270,894	Quarterly	90 days
HarbourVest Doverstreet IX (e)	38,489	N/A	N/A
CVI Credit Value Fund IV (f)	78,736	N/A	N/A
Comvest Capital IV (g)	26,352	N/A	N/A
Private Advisors Small Co Funds (h)	38,995	N/A	N/A
Securis Opportunities Fund (i)	73,169	Semi Annually	180 days
Magnitude International (j)	110,594	N/A	N/A
CF Pinehurst Institutional (k)	118,076	Quarterly	100 Days
Brookfield Capital Partners V (l)	13,228	N/A	N/A
Apollo Investment Fund IX, (m)	6,667	N/A	N/A
HarbourVest Co-Investment V (n)	23,877	N/A	N/A
CarVal Credit Value Fund V (f)	5,000	N/A	N/A
Cloverlay II (o)	9,971	N/A	N/A
HarbourVest X (n)	10,278	N/A	N/A
Comvest Credit V (g)	6,436	N/A	N/A
Total	\$ 1,496,495		

- (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 fund is organized for the purpose of investing in making middle market buyout investments primarily in the U.S. and Canada.
- (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 Hedge Fund Research, Inc. (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.

SHRINERS HOSPITALS FOR CHILDREN

Notes to Combined Financial Statements

December 31, 2021 and 2020

(In thousands)

- (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.
- (j) The fund is a fund of hedge funds that will invest primarily in relative value, quantitative, equity volatility, fixed income arbitrage, commodities and trading strategies.
- (k) The fund is a fund of hedge funds that will invest in a diversified set of concentrated managers who hold a portfolio of best ideas in their niche area of focus.
- (l) The fund is organized for the purpose of investing in real asset related businesses.
- (m) The fund is organized for the purpose of investing in a diversified portfolio of companies with a focus on three primary areas: Opportunistic Buyouts, Distressed/Credit, and Corporate Carve-out opportunities.
- (n) The fund is organized for the purpose of investing in a diversified global portfolio of direct co-investments in buyout, growth equity, and other private market transactions.
- (o) The fund focuses on investing in opportunistic assets that are non-traditional assets from traditional private equity investments in tangible and intangible assets in spaces underserved by traditional private equity funds and investors.
- (p) The fund leverages a quantitative model to point deep research towards more attractive countries and then a large global network conducts on the ground, bottom-up, fundamental research to select the most attractive stocks, countries, and sectors.
- (q) The fund strategy combines the broad based coverage research and opportunistic research models to exploit inefficiencies at the stock level that occur around the globe.
- (r) The fund strategy is an emerging market cap growth focused on identifying positive fundamental change that leads to improved earnings.

SHRINERS HOSPITALS FOR CHILDREN

Notes to Combined Financial Statements

December 31, 2021 and 2020

(In thousands)

(11) 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 March 31, 2009.

The actuarially computed net periodic pension cost for the Pension Plans and the Postretirement Plan for the years ended December 31, 2021 and 2020 included the following components:

	2021	
	<u>Pension plans</u>	<u>Postretirement plan</u>
Service cost – benefits earned during the period	\$ 21,854	586
Interest cost on projected benefit obligation	25,266	598
Expected return on plan assets	(35,269)	—
Net amortized and deferral of unrecognized gains and losses	<u>22,849</u>	<u>—</u>
Net periodic pension cost	<u>\$ 34,700</u>	<u>1,184</u>
	2020	
	<u>Pension plans</u>	<u>Postretirement plan</u>
Service cost – benefits earned during the period	\$ 20,288	502
Interest cost on projected benefit obligation	27,782	638
Expected return on plan assets	(33,921)	—
Net amortized and deferral of unrecognized gains and losses	<u>19,436</u>	<u>—</u>
Net periodic pension cost	<u>\$ 33,585</u>	<u>1,140</u>

SHRINERS HOSPITALS FOR CHILDREN

Notes to Combined Financial Statements

December 31, 2021 and 2020

(In thousands)

	2020	
	Pension plans	Postretirement plan
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 629,221	—
Actual return on plan assets	130,972	—
Employer contributions	30,144	300
Benefits paid	<u>(32,689)</u>	<u>(300)</u>
Fair value of plan assets at end of year	<u>757,648</u>	<u>—</u>
Funded status at end of year	<u>\$ (192,984)</u>	<u>(20,218)</u>

The accumulated benefit obligation for the Pension Plans was \$826,520 and \$851,505 at December 31, 2021 and 2020, 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, 2021 and 2020 were as follows:

	2021	
	Pension plans	Postretirement plan
Discount rate	2.98 %	3.11 %
Rate of compensation increase	3.50	N/A

	2020	
	Pension plans	Postretirement plan
Discount rate	2.69 %	2.91 %
Rate of compensation increase	3.50	N/A

SHRINERS HOSPITALS FOR CHILDREN

Notes to Combined Financial Statements

December 31, 2021 and 2020

(In thousands)

Weighted average assumptions used to determine the net periodic benefit costs of the Pension Plans and the Postretirement Plan at December 31, 2021 and 2020 were as follows:

	2021	
	Pension plans	Postretirement plan
Discount rate	2.69 %	2.91 %
Expected long-term rate of return on plan assets	5.40	N/A
Rate of compensation increase	3.50	N/A

	2020	
	Pension plans	Postretirement plan
Discount rate	3.25 %	3.50 %
Expected long-term rate of return on plan assets	5.80	N/A
Rate of compensation increase	3.50	N/A

The plan experienced a decrease in the discount rate and a decrease in the lump sum interest rate, which was offset by a gain from updating the mortality assumption. Historically, the discount rate has been set based on a combination of the Willis Towers Watson Rate: Link 10th – 90th and 40th – 90th weighted discount rates rounded to the nearest 25bps. In 2021, Shriners’ methodology has been refined to equal the Willis Towers Watson RATE: Link 40th – 90th yield curve result on the measurement date. This approach was adopted to more precisely represent observed market yields

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.

SHRINERS HOSPITALS FOR CHILDREN

Notes to Combined Financial Statements

December 31, 2021 and 2020

(In thousands)

The following are deferred pension costs, which have not yet been recognized in periodic pension expense but instead are accrued in net assets without donor restrictions as of December 31, 2021 and 2020. 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.

	<u>Pension plans</u>	<u>Postretirement plan</u>
	Amounts recognized in net assets without donor restrictions at December 31, 2021	Amounts recognized in net assets without donor restrictions at December 31, 2021
Actuarial loss	\$ 66,763	1,073
Prior service cost	2,952	—
Total	<u>\$ 69,715</u>	<u>1,073</u>

	<u>Pension plans</u>	<u>Postretirement plan</u>
	Amounts recognized in net assets without donor restrictions at December 31, 2020	Amounts recognized in net assets without donor restrictions at December 31, 2020
Actuarial loss	\$ 151,788	2,249
Prior service cost	3,766	—
Total	<u>\$ 155,554</u>	<u>2,249</u>

SHRINERS HOSPITALS FOR CHILDREN

Notes to Combined Financial Statements

December 31, 2021 and 2020

(In thousands)

(a) Plan Assets

The weighted average allocation of the Pension Plans' assets at December 31, 2021 and 2020 was as follows:

Asset category	2021	2020
Short-term investments	1 %	1 %
Common stock	10	10
U.S. government securities	28	22
Common collective trusts	42	49
Mutual funds	19	18
Total assets	100 %	100 %

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

The table below summarizes the Pension Plans' significant financial assets measured at fair value on a recurring basis as of December 31, 2021 and 2020:

	December 31, 2021	Fair value measurements at reporting date using	
		Level 1	Level 2
Assets:			
Short-term investments	\$ 3,874	3,874	—
Common stock	83,286	83,286	—
U.S. government securities	225,071	225,071	—
Common collective trusts	337,896	—	337,896
Mutual funds	157,228	—	157,228
Total	\$ 807,355	312,231	495,124

SHRINERS HOSPITALS FOR CHILDREN

Notes to Combined Financial Statements

December 31, 2021 and 2020

(In thousands)

	December 31, 2020	Fair value measurements at reporting date using	
		Level 1	Level 2
Assets:			
Short-term investments	\$ 7,680	7,680	—
Common stock	76,931	76,931	—
U.S. government securities	168,386	168,386	—
Common collective trusts	368,020	—	368,020
Mutual funds	136,631	2,386	134,245
Total	\$ 757,648	255,383	502,265

SHC's Level 1 assets include investments in short-term investments, common stock, U.S. government securities, and mutual funds and are valued at quoted market prices.

SHC's Level 2 assets include investments in common collective trusts with fair values modeled by external pricing vendors.

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.

(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 \$27,663 and \$552, respectively, in 2021.

(c) Benefit Payments

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

Fiscal year(s):	Pension plans	Postretirement plan
2022	\$ 36,528	596
2023	38,398	614
2024	40,967	632
2025	46,295	652
2026	48,300	675
2027–2031	261,250	3,798

SHRINERS HOSPITALS FOR CHILDREN

Notes to Combined Financial Statements

December 31, 2021 and 2020

(In thousands)

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 \$12,540 and \$12,300 in 2021 and 2020, respectively.

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

(12) 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, 2021 and 2020. 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 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.

(13) Endowment Funds

FASB ASC Subtopic 958-205, *Not-for-Profit Entities – Presentation of Financial Statements*, as amended, 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 net assets with donor restrictions (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 also added to the endowment as net

SHRINERS HOSPITALS FOR CHILDREN

Notes to Combined Financial Statements

December 31, 2021 and 2020

(In thousands)

assets with donor restrictions. Upon the passage of time or completion of purpose, these funds are released to net assets without restrictions. 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.

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, 2021 and 2020, is as follows:

	Without donor restrictions	With donor restrictions	Total endowment assets
2021:			
Board-designated endowment funds	\$ 9,745,582	—	9,745,582
Donor-restricted endowment funds	—	650,026	650,026
	\$ 9,745,582	650,026	10,395,608
2020:			
Board-designated endowment funds	\$ 8,864,356	—	8,864,356
Donor-restricted endowment funds	—	605,148	605,148
	\$ 8,864,356	605,148	9,469,504

SHRINERS HOSPITALS FOR CHILDREN

Notes to Combined Financial Statements

December 31, 2021 and 2020

(In thousands)

Changes in endowment assets for the years ended December 31, 2021 and 2020 are as follows:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total endowment net assets</u>
2021:			
Balance, beginning of year	\$ 8,864,356	605,148	9,469,504
Investment income	180,112	—	180,112
Net appreciation	971,242	49,891	1,021,133
Reclassifications	5,013	(5,013)	—
Withdrawals	<u>(280,141)</u>	<u>—</u>	<u>(280,141)</u>
Balance, end of year	\$ <u>9,740,582</u>	<u>650,026</u>	<u>10,390,608</u>
	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total endowment net assets</u>
2020:			
Balance, beginning of year	\$ 8,147,085	564,808	8,711,893
Investment income	174,228	—	174,228
Net appreciation	840,883	48,159	889,042
Reclassifications	7,819	(7,819)	—
Withdrawals	<u>(305,659)</u>	<u>—</u>	<u>(305,659)</u>
Balance, end of year	\$ <u>8,864,356</u>	<u>605,148</u>	<u>9,469,504</u>

(14) Functional Expenses

SHC's expenses are primarily related to providing the highest quality care to children with neuromusculoskeletal conditions, burn injuries, and other special healthcare needs within a compassionate, family centered and collaborative care environment. SHC receives approximately half of its resources from the general public, approximately 25% from investment earnings, and the remainder from healthcare payors and other means. SHC's accounting policies conform to U.S. generally accepted accounting principles applicable to not-for-profit organizations, as well as requirements for healthcare organizations.

SHRINERS HOSPITALS FOR CHILDREN

Notes to Combined Financial Statements

December 31, 2021 and 2020

(In thousands)

Expenses related to providing these services for the years ended December 31, 2021 and 2020 are reflected in the table below (in thousands).

	Year Ended December 31, 2021				Total
	Hospital Expense	Research Expense	Management and General Expense	Fundraising Expense	
Advertising & Promotion	\$ 3,340	—	254	—	3,594
Benefits	72,424	735	17,727	1	90,887
Contributions	—	—	—	—	—
Depreciation	50,553	—	31,515	—	82,068
Dues and registrations	2,086	35	323	12	2,456
Food supplies	734	12	—	—	746
Insurance	7,971	—	350	—	8,321
Medical supplies	87,522	2,722	—	—	90,244
Miscellaneous	3,295	120	3,829	85	7,329
Occupancy	31,171	524	4,055	—	35,750
Office expense	2,859	420	23,831	32	27,142
Other fees for service	85,166	13,742	42,334	86,115	227,357
Patient costs	1,426	83	815	—	2,324
Payroll taxes	21,108	384	3,476	—	24,968
Postage	1,085	17	209	3,862	5,173
PGA Event	—	—	—	8,256	8,256
Salaries	330,022	8,505	47,691	4,529	390,747
Travel	1,700	118	1,032	137	2,987
	\$ 702,462	27,417	177,441	103,029	1,010,349
Total operating expenses	\$ 702,462	27,417	177,441	103,029	1,010,349

SHRINERS HOSPITALS FOR CHILDREN

Notes to Combined Financial Statements

December 31, 2021 and 2020

(In thousands)

	Year Ended December 31, 2020				
	Hospital Expense	Research Expense	Management and General Expense	Fundraising Expense	Total
Advertising & Promotion	\$ 2,982	5	222	—	3,209
Benefits	70,288	876	12,432	1	83,597
Contributions	—	—	—	—	—
Depreciation	50,331	—	11,614	—	61,945
Dues and registrations	2,014	47	187	11	2,259
Food supplies	713	18	—	—	731
Insurance	8,761	—	378	—	9,139
Medical supplies	82,065	2,713	—	—	84,778
Miscellaneous	2,505	173	3,155	115	5,948
Occupancy	30,306	488	3,794	4	34,592
Office expense	2,453	222	21,114	35	23,824
Other fees for service	79,970	14,366	42,423	72,481	209,240
Patient costs	1,631	2	484	—	2,117
Payroll taxes	21,639	145	2,966	—	24,750
Postage	967	10	246	3,382	4,605
PGA Event	—	—	—	6,501	6,501
Salaries	340,568	8,507	40,228	3,683	392,986
Travel	1,488	92	609	68	2,257
	<u>698,681</u>	<u>27,664</u>	<u>139,852</u>	<u>86,281</u>	<u>952,478</u>
Total operating expenses	\$ <u>698,681</u>	<u>27,664</u>	<u>139,852</u>	<u>86,281</u>	<u>952,478</u>

The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of SHC. These expenses require allocation on a reasonable basis that is consistently applied. Management and general expenses are those supporting activities that are not directly identifiable with one or more program or fundraising activity. SHC reviews all departments and allocates each department to either program services (hospital and research), management and general, or fundraising based on departmental function.

SHRINERS HOSPITALS FOR CHILDREN

Notes to Combined Financial Statements

December 31, 2021 and 2020

(In thousands)

(15) Liquidity and Availability

SHC has financial assets that could be available within one year of the balance sheets date to meet cash needs for general expenditures. These financial assets consist of cash, accounts receivable, short-term investments and certain non-current investments. While not classified as a current asset, SHC has non-current investments that are available to meet any current needs that may arise. None of the financial assets quantified in the table below are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheets date. The accounts receivable are expected to be collected within one year. SHC structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. As more fully described in Note 6, SHC also has a committed line of credit in the amount of \$150 million, which it could draw upon in the event of an unanticipated liquidity need. The available liquidity for the years ended December 31, 2021 and 2020 are as follows (in thousands):

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 47,788	17,295
Receivables	70,688	60,496
Short-term investments	145,690	149,834
Non-current investments available within one year	<u>9,207,986</u>	<u>8,349,529</u>
Total	<u>\$ 9,472,152</u>	<u>8,577,154</u>

(16) Subsequent Events

SHC has evaluated events and transactions occurring subsequent to December 31, 2021 and 2020 as of April 20, 2022, which is the date the combined financial statements were available to be issued.

Subsequent to December 31, 2021, SHC moved from their historic site in Cincinnati, to Dayton, Ohio. SHC has a hospital in a hospital model with Dayton Children's and will continue to provide the same burn services previously done in Cincinnati. The building in Cincinnati is held for sale in 2021. Management believes that no other material events have occurred since December 31, 2021 that requires recognition or disclosure in the consolidated financial statements.