



SHRINERS HOSPITALS FOR CHILDREN

Combined Financial Statements

December 31, 2011 and 2010

(With Independent Auditors' Report Thereon)

SHRINERS HOSPITALS FOR CHILDREN

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KPMG LLP
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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 statements of financial position of Shriners Hospitals for Children as of December 31, 2011 and 2010, and the related combined statements of operations, changes in net assets, and cash flows for the years then ended. These combined financial statements are the responsibility of the management of Shriners Hospitals for Children. 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 financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Shriners Hospitals for Children's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

April 4, 2012
Certified Public Accountants

SHRINERS HOSPITALS FOR CHILDREN

Combined Statements of Financial Position

December 31, 2011 and 2010

(In thousands)

Assets	2011	2010
Cash and cash equivalents	\$ 8,918	13,335
Cash and cash equivalents held as collateral under securities lending transactions	552,783	595,150
Receivables, net	6,291	6,415
Accrued interest and dividends	23,077	24,638
Patient transportation funds held by Shrine temples	48,942	47,413
Inventories and deferred charges	25,356	28,753
Long-term investments:		
Marketable securities	6,408,042	6,638,250
Charitable gift annuities	28,160	26,694
Beneficial interest in trusts	461,074	491,007
Real estate and mineral interests	192,331	168,883
Miscellaneous investments	21,357	18,805
Estates in process	283,107	289,394
Land, buildings, and equipment, net of accumulated depreciation	772,566	781,724
Total assets	\$ 8,832,004	9,130,461
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 99,700	89,135
Line of credit payable	130,000	—
Pension benefits	147,322	153,464
Liabilities under securities lending transactions	552,783	595,150
Other liabilities	36,707	36,009
Total liabilities	966,512	873,758
Net assets (net of cumulative foreign currency translation adjustment of \$9,344 in 2011 and \$9,913 in 2010):		
Unrestricted:		
Operations	5,776,995	6,127,213
Land, buildings, and equipment	772,566	781,724
Total unrestricted	6,549,561	6,908,937
Temporarily restricted	308,388	377,404
Permanently restricted	1,007,543	970,362
Total net assets	7,865,492	8,256,703
Total liabilities and net assets	\$ 8,832,004	9,130,461

See accompanying notes to combined financial statements.

SHRINERS HOSPITALS FOR CHILDREN

Combined Statements of Operations

Years ended December 31, 2011 and 2010

(In thousands)

	2011	2010
Operating revenues and other support:		
Investment income:		
Interest	\$ 100,937	87,379
Dividends	93,830	74,671
Other investment income	34,272	33,736
Investment management fees	(10,062)	(13,518)
Bequests released from restrictions used for operations	176,979	176,050
Donations	37,908	35,777
Fund raising and special events	28,918	19,829
Hospital assessments	1,346	1,492
Reimbursements from Canadian Provinces	6,086	6,100
Net patient service revenue	69,990	4,622
Other	(1,554)	5,570
	538,650	431,708
Operating expenses:		
Hospitals	585,250	555,303
Research	28,545	28,294
Revenue cycle	9,932	5,787
Information systems	22,672	15,858
Headquarters, administrative, and board related	35,425	32,128
Fund raising and special events	21,320	19,392
	703,144	656,762
Total operating expenses	703,144	656,762
Decrease in net assets from operating activities	(164,494)	(225,054)
Nonoperating gains (losses):		
Gain (loss) on investments:		
Net realized gain from investments	516,776	162,527
Net unrealized (losses) gains on investments	(705,378)	414,948
	(188,602)	577,475
Total (losses) gains on investments	(188,602)	577,475
Life memberships	182	297
Change in patient transportation funds held by Shrine temples	1,529	3,934
Pension-related changes other than net periodic pension costs	(11,308)	(5,915)
Other, net	3,886	17,106
Foreign currency translation adjustments	(569)	374
	(194,882)	593,271
Total nonoperating (losses) gains	(194,882)	593,271
(Decrease) increase in unrestricted net assets	\$ (359,376)	368,217

See accompanying notes to combined financial statements.

SHRINERS HOSPITALS FOR CHILDREN

Combined Statements of Changes in Net Assets

Years ended December 31, 2011 and 2010

(In thousands)

	<u>2011</u>	<u>2010</u>
Unrestricted net assets:		
Decrease in net assets from operating activities	\$ (164,494)	(225,054)
Nonoperating gains (losses):		
(Losses) gain on investments:		
Net realized gains from investments	516,776	162,527
Net unrealized (losses) gains on investments	(705,378)	414,948
Total (losses) gains on investments	(188,602)	577,475
Life memberships	182	297
Change in patient transportation funds held by Shrine temples	1,529	3,934
Pension related changes other than net periodic pension costs	(11,308)	(5,915)
Other, net	3,886	17,106
Foreign currency translation adjustments	(569)	374
Total nonoperating (losses) gains	(194,882)	593,271
(Decrease) increase in unrestricted net assets	(359,376)	368,217
Temporarily restricted net assets:		
Bequests	167,144	166,489
Donations	1,759	1,833
Other, net	(452)	(1,546)
Net realized loss from investment	(677)	(48)
Net unrealized (losses) gains from investments	(14,911)	6,407
Reclassification of donor intent	(44,900)	—
Net assets released from restrictions used for operations	(176,979)	(176,050)
Decrease in temporarily restricted net assets	(69,016)	(2,915)
Permanently restricted net assets:		
Bequests	1,660	7,286
Donations	2,820	967
Other investment income	1	2
Other, net	6	(9)
Net realized gain (loss) from investment	317	(222)
Net unrealized (losses) gains from investments	(12,523)	16,978
Reclassification of donor intent	44,900	—
Increase in permanently restricted net assets	37,181	25,002
(Decrease) increase in net assets	(391,211)	390,304
Net assets, beginning of year	8,256,703	7,866,399
Net assets, end of year	\$ <u>7,865,492</u>	<u>8,256,703</u>

See accompanying notes to combined financial statements.

SHRINERS HOSPITALS FOR CHILDREN

Combined Statements of Cash Flows

Years ended December 31, 2011 and 2010

(In thousands)

	2011	2010
Cash flows from operating activities:		
Change in net assets	\$ (391,211)	390,304
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	49,966	46,500
Loss on disposal of property and equipment	969	2,132
Realized and unrealized losses (gains) on investments	216,396	(600,590)
Gifts and bequests designated by the board or restricted by donor for long-term investment	(168,986)	(174,072)
Pension related changes other than net period pension costs	11,308	5,915
Changes in operating assets and liabilities:		
Receivables, net	124	2,652
Accrued interest and dividends	1,561	135
Patient transportation funds held by Shrine temples	(1,529)	(3,934)
Inventories and deferred charges	3,397	(17,816)
Beneficial interest in trusts	29,933	(25,172)
Estates in process	6,287	10,174
Accounts payable and accrued expenses	10,565	(427)
Pension benefits	(17,450)	(57)
Net cash used in operating activities	(248,670)	(364,256)
Cash flows from investing activities:		
Additions to property and equipment	(41,777)	(63,496)
Proceeds from sale of investments	5,588,698	5,243,419
Investment purchases	(5,602,352)	(4,983,703)
Net cash (used in) provided by investing activities	(55,431)	196,220
Cash flows from financing activities:		
Gifts and bequests designated for board endowment	167,144	166,489
Gifts and bequests permanently restricted by donors	1,660	7,286
Life memberships	182	297
Borrowings from line of credit	130,000	—
Change in other liabilities	698	(531)
Net cash provided by financing activities	299,684	173,541
Net (decrease) increase in cash and cash equivalents	(4,417)	5,505
Cash and cash equivalents at beginning of year	13,335	7,830
Cash and cash equivalents at end of year	\$ 8,918	13,335

See accompanying notes to combined financial statements.

SHRINERS HOSPITALS FOR CHILDREN

Notes to Combined Financial Statements

December 31, 2011 and 2010

(In thousands)

(1) Summary of Significant Accounting Policies

(a) Combined Organizations

Shriners Hospitals for Children (herein SHC) provide quality, specialized medical care, in the areas of orthopaedics, severe burns, and spinal cord injuries, through a network of 22 hospitals 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 orthopaedic 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

Additionally, the combined financial statements include the activities of Promotora Mexicana de Servicios Medicos S.A. de C.V., a Mexican Corporation, which was organized to facilitate the construction of the Mexico City hospital. All significant accounts and transactions between SHC have been eliminated in combination.

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 and Corporation are also exempt from income tax on related income in accordance with the laws of their respective countries.

(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 regards to estates in process and beneficial interests in trusts. These estimates are subject to significant fluctuation due to 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.

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Notes to Combined Financial Statements

December 31, 2011 and 2010

(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, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the combined statements of operations and changes in net assets as net assets released from restrictions. 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, 2011 and 2010 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 represents 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) 860, *Transferring 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

SHRINERS HOSPITALS FOR CHILDREN

Notes to Combined Financial Statements

December 31, 2011 and 2010

(In thousands)

securities loaned. SHC monitors the fair value of securities loaned on a monthly basis with additional collateral obtained as necessary. At December 31, 2011 and 2010, SHC held \$552,783 and \$595,150, 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 \$539,600 and \$581,558 at December 31, 2011 and 2010, 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 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 (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 gains and losses on investments, interest, and dividends) is included in the combined statements of operations 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 the trust 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 make 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. 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 combined statements

SHRINERS HOSPITALS FOR CHILDREN

Notes to Combined Financial Statements

December 31, 2011 and 2010

(In thousands)

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 \$21,980 and \$23,440 and deferred income of \$13,258 and \$12,569 at December 31, 2011 and 2010, respectively.

(j) *Estates in Process*

SHC recognizes a receivable and revenue for their 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 reclassified to unrestricted net assets, and reported in the combined statements of operations and combined statements of changes in net assets as net assets released from restrictions.

(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 Topic 360-10-35, 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. There are no such impairment losses recorded as of December 31, 2011 or 2010.

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 2011 and 2010.

(m) *Foreign Currency Translation*

Revenues and expenses of the Canadian and Quebec corporations and the Mexican Association and Corporation 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.

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Notes to Combined Financial Statements

December 31, 2011 and 2010

(In thousands)

Nonmonetary asset and liability items (land, buildings, and equipment) 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,” a separate 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

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

(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.

(2) Long-Term Investments

Marketable securities at December 31, 2011 and 2010 consist of:

	2011		2010	
	Cost	Fair value	Cost	Fair value
Short-term investments	\$ 174,464	174,464	152,511	152,511
Common and preferred stocks	4,272,042	4,238,068	3,760,680	4,411,073
U.S. government securities	788,189	841,060	1,497,302	1,548,833
Corporate bonds	574,925	596,146	392,926	413,457
Other fixed income	597,462	558,304	108,576	112,376
	\$ 6,407,082	6,408,042	5,911,995	6,638,250

SHRINERS HOSPITALS FOR CHILDREN

Notes to Combined Financial Statements

December 31, 2011 and 2010

(In thousands)

Investment income and total return on all long-term investments comprised the following components for the years ended December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Interest	\$ 100,937	87,379
Dividends	93,830	74,671
Trust income	17,958	17,614
Rents and royalties	11,909	10,411
Other income	4,405	5,711
Less investment management fees	<u>(10,062)</u>	<u>(13,518)</u>
Total income from investments	218,977	182,268
Net realized gains from investments	516,416	162,257
Net unrealized gains (losses) from investments	<u>(732,812)</u>	<u>438,333</u>
Total return on investments	<u>\$ 2,581</u>	<u>782,858</u>

(3) Land, Buildings, and Equipment

Land, buildings, and equipment at December 31, 2011 and 2010 consist of:

	<u>2011</u>	<u>2010</u>	<u>Estimated useful lives</u>
Land	\$ 29,743	29,750	—
Land improvements	11,566	11,498	5 – 20 years
Buildings	964,658	890,223	40 – 50 years
Equipment	<u>348,308</u>	<u>346,878</u>	4 – 25 years
	1,354,275	1,278,349	
Less accumulated depreciation	<u>(632,111)</u>	<u>(602,141)</u>	
	722,164	676,208	
Projects in process	30,965	23,659	
Construction in progress	<u>19,437</u>	<u>81,857</u>	
Land, buildings, and equipment, net	<u>\$ 772,566</u>	<u>781,724</u>	

SHRINERS HOSPITALS FOR CHILDREN

Notes to Combined Financial Statements

December 31, 2011 and 2010

(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	Unexpended at December 31, 2011
Canada	\$ 122,000	119,034
Cincinnati	5,000	4,757
Philadelphia	2,510	417
Tampa	2,000	1,956
Los Angeles	7,650	4,766
Lexington	2,039	1,956
Other	3,617	2,960
Approved equipment expenditures:		
PACS imaging	22,417	3,710
Information systems projects	15,748	4,442
Other equipment	19,413	19,413
	<u>\$ 202,394</u>	<u>163,411</u>

(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 purposes to aid in operations and cash management. On the date of a principal draw, SHC may elect to incur interest at one of two interest rate options. At December 31, 2011, \$130,000 was outstanding, and subsequent to year end \$100 million was paid against the outstanding balance. All draws at December 31, 2011, incur interest at LIBOR plus .35 (.91%).

(6) Transactions with the Shriners International

SHC was founded by Shriners International (formerly known as the Imperial Council of the Ancient Arabic Order of the Nobles of the Mystic Shrine for North America).

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.

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Notes to Combined Financial Statements

December 31, 2011 and 2010

(In thousands)

At December 31, 2011 and 2010, amounts of \$1,909 and \$1,043, respectively, were due from Shriners International, and are included in receivables, net in the accompanying combined statements of financial position.

(7) 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.

Through the efforts of the donor relations committee, which oversees the development activities of SHC, gifts, and bequests are solicited and received to support the operations of SHC or are designated by the Board for endowment purposes. Although the costs of these activities are included in fund-raising expenses, the associated revenues are reported as bequests and donations in the accompanying combined statements of operations and combined statements of changes of net assets.

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, 2011 and 2010 consist of the following:

	<u>2011</u>	<u>2010</u>
Revenues from Shrine temple sponsored events	\$ 7,744	7,984
Direct mail revenue	12,934	4,061
Other revenue	8,240	7,784
	<u>\$ 28,918</u>	<u>19,829</u>
Fund-raising costs paid directly by Shrine temples in connection with fund-raising events	\$ 656	616
Donor relations expense	5,359	8,974
Direct mail expense	6,647	2,017
Other costs	8,658	7,785
	<u>\$ 21,320</u>	<u>19,392</u>

Revenues from Shrine temple sponsored events are reported net of direct costs of \$3,060 and \$2,995 for 2011 and 2010, respectively.

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December 31, 2011 and 2010

(In thousands)

During the year ended December 31, 2008, SHC became the Host Organization and Title Sponsor of a PGA Tour golf tournament. The term of this agreement commenced with the 2008 event and will conclude after the 2012 tournament. The 2011 event yielded \$6,541 in revenues. Expenses incurred on this event in 2011 were \$7,931, creating a net loss on the event of \$1,390. The 2010 event yielded revenues of \$6,479. Expenses incurred on this event in 2010 were \$7,784, creating a net loss on the event of \$1,305. These revenues and expenses are included above in other revenue and other costs.

(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.

The activities of the patient transportation funds reflected for the years ended December 31, 2011 and 2010 are as follows:

	2011	2010
Temple revenues restricted for patient transportation	\$ 17,995	16,559
Patient transportation costs	(16,466)	(12,625)
Change in patient transportation funds	\$ 1,529	3,934

(9) Fair Value Measurements

FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, 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, 2011 and 2010

(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, 2011 and 2010:

	December 31, 2011	Fair value measurements at reporting date using		
		Level 1	Level 2	Level 3
Assets:				
Long-term investments:				
Short-term investments	\$ 174,464	174,464	—	—
Common and preferred stocks	4,238,068	1,534,222	2,703,846	—
U.S. government securities	841,060	841,060	—	—
Corporate bonds	596,146	—	596,146	—
Other fixed income	558,304	—	558,304	—
Charitable gift annuities	28,160	—	28,160	—
Beneficial interests in trusts	461,074	—	461,074	—
Real estate and mineral interests	192,331	—	—	192,331
Miscellaneous investments	21,357	—	21,357	—
Total	\$ 7,110,964	2,549,746	4,368,887	192,331
Collateral under securities lending transactions	\$ 552,783	552,783	—	—
Liabilities:				
Annuity liabilities	\$ 21,980	—	21,980	—
Liabilities under securities lending transactions	552,783	552,783	—	—

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December 31, 2011 and 2010

(In thousands)

	December 31, 2010	Fair value measurements at reporting date using		
		Level 1	Level 2	Level 3
Assets:				
Long-term investments:				
Short-term investments	\$ 152,511	152,511	—	—
Common and preferred stocks	4,411,073	2,696,412	1,714,661	—
U.S. government securities	1,548,833	1,548,833	—	—
Corporate bonds	413,457	—	413,457	—
Other fixed income	112,376	—	112,238	138
Charitable gift annuities	26,694	—	26,694	—
Beneficial interests in trusts	491,007	—	491,007	—
Real estate and mineral interests	168,883	—	—	168,883
Miscellaneous investments	18,805	—	18,805	—
Total	\$ 7,343,639	4,397,756	2,776,862	169,021
Collateral under securities lending transactions				
	\$ 595,150	595,150	—	—
Liabilities:				
Annuity liabilities	\$ 23,440	—	23,440	—
Liabilities under securities lending transactions	595,150	595,150	—	—

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, charitable gift annuities, beneficial interest in trusts, and miscellaneous investments with fair values modeled by external pricing vendors. Liabilities include annuity liabilities.

Level 3 assets include real estate and mineral interests.

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Notes to Combined Financial Statements

December 31, 2011 and 2010

(In thousands)

The tables below summarize the changes in Level 3 assets for the years ended December 31, 2011 and 2010:

	Fair value measurements using significant unobservable inputs (Level 3)		
	Fixed income investments	Other investments	Total
	Fixed income investments	Other investments	Total
2011:			
Beginning balance	\$ 138	168,883	169,021
Total gains (realized/unrealized) included in (decrease) increase in unrestricted net assets	23	20,570	20,593
Purchases	—	3,742	3,742
Settlements	—	—	—
Sales	(161)	(864)	(1,025)
Transfers in/out of Level 3	—	—	—
Ending balance	\$ —	192,331	192,331

	Fair value measurements using significant unobservable inputs (Level 3)			
	Fixed income investments	Equity investments	Other investments	Total
	Fixed income investments	Equity investments	Other investments	Total
2010:				
Beginning balance	\$ 4,302	6,766	150,642	161,710
Total gains (losses) (realized/ unrealized) included in (decrease) increase in unrestricted net assts	186	(1,950)	24,999	23,235
Purchases	10,149	3,779	—	13,928
Settlements	(212)	—	—	(212)
Sales	(12,580)	(8,270)	(996)	(21,846)
Transfers in/out of Level 3	(1,707)	(325)	(5,762)	(7,794)
Ending balance	\$ 138	—	168,883	169,021

SHRINERS HOSPITALS FOR CHILDREN

Notes to Combined Financial Statements

December 31, 2011 and 2010

(In thousands)

Realized and unrealized gains included in changes in net assets for the years ended December 31, 2011 and 2010 are reported in investment income as follows:

	December 31	
	2011	2010
Total gains included in increase (decrease) in unrestricted net assets	\$ 20,593	23,235
Change in unrealized gains relating to assets still held at reporting date	20,570	24,999

The fair values of the following investments have been estimated using the net asset value per share of the investments as of December 31, 2011. There are no unfunded commitments on any of these funds.

	December 31, 2011 Fair value	Redemption Frequency	Redemption Notice period
Northern Trust Global Investments			
Collective Daily S&P 500 Equity Index Fund – Lending (a)	\$ 1,115,611	Daily	None
Common Daily EAFE Index - Lending (b)	440,630	Daily	None
WTC CTF Opportunistic Fixed Income (c)	382,437	Monthly	30 days
Capital Guardian Absolute Income (d)	54,168	Monthly	5 days
Total	\$ 1,992,846		

- (a) The primary investment objective of the equity index fund is to match the risk and return characteristics of the S&P 500 Index. Funds that participate in the securities lending program have a twice-per-month redemption restriction, and a total redemption would require the Hospitals to fund its portion of any collateral shortfall.
- (b) The primary objective of the Fund is to approximate the risk and return characteristics of the Morgan Stanley Europe, Australasia, and Far East (MSCI EAFE) Index. This Index is commonly used to represent the non U.S. equity markets. This Fund may participate in securities lending
- (c) The Fund’s investment objective is an unconstrained, nonbenchmark oriented investment approach. Barclays Capital US Aggregate Bond Index will be used as the primary reference benchmark.
- (d) The investment objective of the Fund is to seek a level of income that exceeds the average yield on US stocks generally, to grow such income annually, and to distribute an increasing amount of income per unit of the fund.

SHRINERS HOSPITALS FOR CHILDREN

Notes to Combined Financial Statements

December 31, 2011 and 2010

(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, 2010. There are no unfunded commitments on any of these funds.

	<u>December 31, 2010 Fair value</u>	<u>Redemption Frequency</u>	<u>Redemption Notice period</u>
Northern Trust Global Investments			
Collective Daily S&P 500 Equity			
Index Fund – Lending (a)	\$ 1,127,102	Daily	None
Blackrock Alpha Tilts Fund (b)	<u>527,941</u>	Monthly	2 days
Total	<u><u>\$ 1,655,043</u></u>		

(a) The primary investment objective of the equity index fund is to match the risk and return characteristics of the S&P 500 Index. Funds that participate in the securities lending program have a twice-per-month redemption restriction, and a total redemption would require the Hospitals to fund its portion of any collateral shortfall.

(b) The fund seeks to exceed the S&P 500.

(10) Retirement Plans and Other Postretirement Benefits

The employees of 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).

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Notes to Combined Financial Statements

December 31, 2011 and 2010

(In thousands)

The actuarially computed net periodic pension cost for the Shriner’s Hospital Pension Plans and the Postretirement Plan for the years ended December 31, 2011 and 2010 included the following components:

	Pension Plans		Postretirement Plan	
	2011	2010	2011	2010
Service cost – benefits earned during the period	\$ 18,193	19,002	330	321
Interest cost on projected benefit obligation	22,947	22,384	548	549
Expected return on plan assets	(21,698)	(19,387)	—	—
Net amortized and deferral of unrecognized gains and losses	6,391	4,483	323	301
Net periodic pension cost	<u>\$ 25,833</u>	<u>26,482</u>	<u>1,201</u>	<u>1,171</u>

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, 2011 and 2010, respectively (using a measurement date of December 31):

	Pension Plans		Postretirement Plan	
	2011	2010	2011	2010
Change in benefit obligation:				
Benefit obligation at beginning of year	\$ 406,132	359,992	9,782	8,982
Service cost	18,193	19,002	330	321
Interest cost	22,947	22,384	548	550
Actuarial loss	11,859	17,190	489	179
Benefits paid	(13,730)	(12,436)	(220)	(250)
Benefit obligation at end of year	<u>445,401</u>	<u>406,132</u>	<u>10,929</u>	<u>9,782</u>
Change in plan assets:				
Fair value of plan assets at beginning of year	262,450	221,368	—	—
Actual return on plan assets	16,025	26,057	—	—
Employer contributions	44,263	27,461	220	250
Benefits paid	(13,730)	(12,436)	(220)	(250)
Fair value of plan assets at end of year	<u>309,008</u>	<u>262,450</u>	<u>—</u>	<u>—</u>
Funded status at end of year	<u>\$ (136,393)</u>	<u>(143,682)</u>	<u>(10,929)</u>	<u>(9,782)</u>

SHRINERS HOSPITALS FOR CHILDREN

Notes to Combined Financial Statements

December 31, 2011 and 2010

(In thousands)

The accumulated benefit obligation for the Pension Plans was \$389,734 and \$342,814 at December 31, 2011 and 2010, 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, 2011 and 2010 were as follows:

	Pension Plans		Postretirement Plan	
	2011	2010	2011	2010
Discount rate	5.00%	5.50%	5.00%	5.50%
Rate of compensation increase	3.50	4.00	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	
	2011	2010	2011	2010
Discount rate	5.50%	6.00%	5.50%	6.00%
Expected long-term rate of return on plan assets	7.50	7.50	N/A	N/A
Rate of compensation increase	4.00	4.00	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.

SHRINERS HOSPITALS FOR CHILDREN

Notes to Combined Financial Statements

December 31, 2011 and 2010

(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, 2011. 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 recognized in unrestricted net assets at December 31, 2011	Amounts in unrestricted net assets to be recognized during the next fiscal year	Amounts recognized in unrestricted net assets at December 31, 2011	Amounts in unrestricted net assets to be recognized during the next fiscal year
Actuarial loss (gain)	\$ 6,359	7,790	(11)	—
Prior service cost	32	32	300	5
Transition obligation	—	—	34	34
Total	\$ 6,391	7,822	323	39

(a) Plan Assets

The weighted average allocation of the Pension Plans' assets at December 31, 2011 and 2010 were as follows:

Asset category	2011	2010
Short-term investments	1%	1%
Common and preferred stock	59	44
Corporate and miscellaneous bonds	15	31
Mutual funds	25	24
Total assets	100%	100%

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Notes to Combined Financial Statements

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(In thousands)

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.

The table below summarizes the Pension Plan's significant financial assets measured at fair value on a recurring basis using the net asset value per share of the investments as of December 31, 2011:

	<u>December 31,</u> <u>2011</u>	<u>Fair value measurements at reporting</u> <u>date using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
Northern Trust Global Investments Collective Funds Trust (a)	\$ 3,876	3,876	—	—
Dimensional Fund Advisors (DFA) Emerging Markets Value (b)	13,876	—	13,876	—
Blackrock Global Allocation Fund (c)	14,227	—	14,227	—
Blackrock World Ex-U.S. Alpha Tilts L Fund(d)	27,639	—	27,639	—
Nothern Trust Global Investments Collective Russell 2000 Index Fund – Nonlending (e)	31,337	—	31,337	—
Nothern Trust Global U.S. Treasury Interest Strips (i)	47,180	—	47,180	—
Nothern Trust Global Investments Collective Daily S&P 500 Equity Index Fund – Nonlending (f)	94,136	—	94,136	—
Pacific Investment Management:				
Long Duration Total Return Funds (g)	38,789	—	38,789	—
Series All AST funds (j)	14,263	—	14,263	—
Nothern Trust Global Investments Collective Daily Aggregate Bond Index Fund – Nonlending (h)	23,685	—	23,685	—
Total	\$ 309,008	3,876	305,132	—

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Notes to Combined Financial Statements

December 31, 2011 and 2010

(In thousands)

- (a) This fund is composed of high-grade money market instruments with short maturities. The fund seeks to provide an investment vehicle for cash reserves while offering a competitive rate of return.
- (b) The fund seeks to provide long-term growth of capital by investing primarily in a wide variety of international equity securities issued throughout the world, normally excluding the U.S.
- (c) This fund seeks to exceed the S&P 500.
- (d) This fund seeks to exceed the Morgan Stanley Capital International Europe Australasia Far East Free Index.
- (e) The primary objective of this fund is to approximate the risk and return characterized by the Russell 2000 Index. This index is commonly used to represent the small cap segment of the U.S. equity market. The fund does not participate in securities lending.
- (f) The primary objective of this fund is to approximate the risk and return characteristics of the S&P 500 Index. The Index is commonly used to represent the large-cap segment of the U.S. equity market. This fund does not participate in securities lending.
- (g) This fund seeks to maximize current income and capital appreciation while maintaining exposure consistent with its benchmark. The fund maintains duration within two years of the Barclays Capital Long Term Government/Credit Index.
- (h) The primary objective of this fund is to provide investment results that approximate the overall performance of the Barclay's Capital Aggregate Bond Index.
- (i) This fund seeks to provide a growth of capital by investing in U.S. Treasury Separate Trading of Registered Interest and Principal Securities or STRIPS.
- (j) This fund seeks maximum real return, consistent with preservation of real capital and prudent investment management. While the fund is nondiversified, it invests in diversified underlying holdings.

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Notes to Combined Financial Statements

December 31, 2011 and 2010

(In thousands)

The table below summarizes the Pension Plan's significant financial assets measured at fair value on a recurring basis using the net asset value per share of the investments as of December 31, 2010:

	December 31, 2010	Fair value measurements at reporting date using		
		Level 1	Level 2	Level 3
Assets:				
Northern Trust Global Investments Collective Funds Trust (a)	\$ 1,210	1,210	—	—
Artio International Equity Group Trust Fund (b)	23,408	—	23,408	—
Blackrock Alpha Tilts Fund (c)	27,288	—	27,288	—
Blackrock World Ex-US Alpha Tilts L Fund(d)	12,715	—	12,715	—
Northern Trust Global Investments Collective Russell 2000 Index Fund – Nonlending (e)	31,170	—	31,170	—
Northern Trust Global Investments Collective Daily S&P 500 Equity Index Fund – Nonlending (f)	84,492	—	84,492	—
Northern Trust Global Investments Collective Daily Aggregate Bond Index Fund – Nonlending (g)	82,167	—	82,167	—
Total	<u>\$ 262,450</u>	<u>1,210</u>	<u>261,240</u>	<u>—</u>

- (a) This fund is composed of high-grade money market instruments with short maturities. The fund seeks to provide an investment vehicle for cash reserves while offering a competitive rate of return.
- (b) The fund seeks to provide long term growth of capital by investing primarily in a wide variety of international equity securities issued throughout the world, normally excluding the United States.
- (c) This fund seeks to exceed the S&P 500.
- (d) This fund seeks to exceed the Morgan Stanley Capital International Europe Australasia Far East Free Index.

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(In thousands)

- (e) The primary objective of this fund is to approximate the risk and return characterized by the Russell 2000 Index. This index is commonly used to represent the small cap segment of the U.S. equity market. The fund does not participate in securities lending.
- (f) The primary objective of this fund is to approximate the risk and return characteristics of the S&P 500 Index. The Index is commonly used to represent the large-cap segment of the U.S. equity market. This fund does not participate in securities lending.
- (g) The primary objective of this fund is to approximate the risk and return characteristics of the S&P 500 Index. The Index is commonly used to represent the large-cap segment of the U.S. equity market. This fund may not participate in securities lending.

The Pension Plan's Level 1 assets include short-term investments that are valued at the quoted market prices.

The Pension Plan's Level 2 assets include common and collective trust funds with fair values modeled by external pricing vendors.

(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 \$42,116 and \$304, respectively, in 2012.

(c) Benefit Payments

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

	<u>Pension plans</u>	<u>Postretirement plan</u>
Fiscal year:		
2012	\$ 15,486	304
2013	18,205	321
2014	19,447	342
2015	20,503	367
2016	22,514	394
2017-2021	144,587	2,521

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 \$5,888 and \$4,185 in 2011 and 2010, respectively.

SHRINERS HOSPITALS FOR CHILDREN

Notes to Combined Financial Statements

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(In thousands)

Canadian and Mexican hospital employees are included in government retirement programs.

In March 2009, the Board voted to freeze entry of new participants into the Pension Plans effective May 1, 2009.

(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, 2011. 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.

(12) Endowment Funds

FASB ASC Topic 958-205-45-28 provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). FASB ASC Topic 958-205-45-28 also requires additional disclosures about an organization's endowment funds (both donor-restricted and board-designated endowment funds) whether or not the organization is subject to UPMIFA. Effective July 1, 2011 Florida adopted UPMIFA, however, SHC is not subject to its provisions, as of December 31, 2011 or 2010.

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 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.

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(In thousands)

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 purchase 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, 2011 and 2010, are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total endowment assets</u>
2011:				
Board-designated endowment funds	\$ 6,649,720	—	—	6,649,720
Donor-restricted endowment funds	—	100,591	360,653	461,244
	<u>\$ 6,649,720</u>	<u>100,591</u>	<u>360,653</u>	<u>7,110,964</u>
2010:				
Board-designated endowment funds	\$ 6,852,632	—	—	6,852,632
Donor-restricted endowment funds	—	122,490	368,517	491,007
	<u>\$ 6,852,632</u>	<u>122,490</u>	<u>368,517</u>	<u>7,343,639</u>

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(In thousands)

Changes in endowment assets for the years ended December 31, 2011 and 2010 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total endowment net assets</u>
2011:				
Balance, beginning of year	\$ 6,852,632	122,490	368,517	7,343,639
Donations and bequests	—	1,759	4,341	6,100
Investment income	218,975	—	1	218,976
Net depreciation	(160,808)	(15,588)	(12,206)	(188,602)
Reclassifications	8,070	(8,070)	—	—
Withdrawals	(269,149)	—	—	(269,149)
Balance, end of year	<u>\$ 6,649,720</u>	<u>100,591</u>	<u>360,653</u>	<u>7,110,964</u>
2010:				
Balance, beginning of year	\$ 6,511,758	122,207	343,628	6,977,593
Donations and bequests	—	1,833	8,131	9,964
Investment income	182,268	—	2	182,270
Net appreciation	577,475	6,359	16,756	600,590
Reclassifications	7,909	(7,909)	—	—
Withdrawals	(426,778)	—	—	(426,778)
Balance, end of year	<u>\$ 6,852,632</u>	<u>122,490</u>	<u>368,517</u>	<u>7,343,639</u>

(13) Subsequent Events

SHC has evaluated events subsequent to December 31, 2011 and through April 4, 2012, the date on which the financial statements were available for issuance.