KPMG

SHRINERS HOSPITALS FOR CHILDREN

Combined Financial Statements

December 31, 2022 and 2021

(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:

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, 2022 and 2021, 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, 2022 and 2021, 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.

Emphasis of Matter

As discussed in Note 1(s) to the combined financial statements, in 2022, the Organization adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-02, *Leases* (Topic 842). Our opinion is not modified with respect to this matter.

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 available to be issued.

Auditors' Responsibilities for the Audit of the Combined Financial Statements

Our objectives are to obtain reasonable assurance about whether the combined financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS 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 11, 2023

SHRINERS HOSPITALS FOR CHILDREN

Combined Statements of Financial Position

December 31, 2022 and 2021

(In thousands)

Assets		2022	2021
Cash and cash equivalents	$	28,490	47,788
Cash and cash equivalents held as collateral under securities lending transactions		591,506	859,006
Patient accounts receivable		35,916	27,804
Receivables, net		23,942	17,380
Accrued interest and dividends		25,410	25,504
Inventories and deferred charges		41,166	41,885
Patient transportation funds held by Shrine temples		80,483	82,080
Investments:			
Marketable securities		7,820,107	9,348,674
Charitable gift annuities		48,631	48,671
Beneficial interest in trusts		538,018	662,538
Real estate and mineral interests		345,638	299,877
Miscellaneous investments		29,535	30,848
Estates in process		287,114	231,845
Land, buildings, and equipment, net of accumulated depreciation		735,571	766,208
Total assets	$	10,631,527	12,490,108
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	138,102	143,882
Pension and postretirement benefits		68,558	132,902
Liabilities under securities lending transactions		591,506	859,006
Other liabilities		51,156	44,605
Total liabilities		849,322	1,180,395
Net assets:			
Without donor restrictions (net of cumulative foreign currency translation adjustment of $9,644 and $9,623, respectively)		8,397,329	9,837,964
With donor restrictions		1,384,876	1,471,749
Total net assets		9,782,205	11,309,713
Total liabilities and net assets	$	10,631,527	12,490,108

See accompanying notes to combined financial statements.

SHRINERS HOSPITALS FOR CHILDREN

Combined Statement of Operations and Changes in Net Assets

Year ended December 31, 2022

(In thousands)

	Without donor restrictions	With donor restrictions	Total
Operating revenues and other support:			
Net patient service revenue	$ 174,003	—	174,003
Investment income:			
Interest	77,949	—	77,949
Dividends	94,585	—	94,585
Net realized gain from investments	110,257	886	111,143
Other investment income	52,383	—	52,383
Investment management fees	(18,447)	—	(18,447)
Amounts released from restrictions used for operations	90,698	(90,698)	—
Bequests – cash and financial assets	103,779	131,988	235,767
Bequests – nonfinancial assets	1,938	—	1,938
Donations – cash and financial assets	226,220	574	226,794
Donations - nonfinancial assets	—	—	—
Fund raising and special events	96,439	—	96,439
Hospital assessments	843	—	843
Reimbursements from Canadian Provinces	23,911	—	23,911
Other governmental revenue	15,598	—	15,598
Other	(5,141)	—	(5,141)
Total revenues and other support	1,045,015	42,750	1,087,765
Operating expenses:			
Hospitals	709,810	—	709,810
Research	26,659	—	26,659
Revenue cycle	21,681	—	21,681
Information systems	48,190	—	48,190
Headquarters, administrative, and board related	109,790	—	109,790
Donor relations, fund raising and special events	137,144	—	137,144
Total operating expenses	1,053,274	—	1,053,274
(Decrease) Increase in net assets from operating activities	(8,259)	42,750	34,491
Nonoperating gains (losses), net:			
Net unrealized loss on investments	(1,489,905)	(128,025)	(1,617,930)
Life memberships	79	—	79
Change in patient transportation funds held by Shrine temples	—	(1,597)	(1,597)
Pension-related changes other than service costs	63,715	—	63,715
Other, net	(6,286)	(1)	(6,287)
Foreign currency translation adjustments	21	—	21
Total nonoperating gains (losses), net	(1,432,376)	(129,623)	(1,561,999)
Decrease in net assets	(1,440,635)	(86,873)	(1,527,508)
Net assets, beginning of year	9,837,964	1,471,749	11,309,713
Net assets, end of year	$ 8,397,329	1,384,876	9,782,205

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)

		Without donor restrictions	With donor restrictions	Total
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 – cash and financial assets		104,337	86,492	190,829
Bequests – nonfinancial assets		1,046	—	1,046
Donations – cash and financial assets		219,277	267	219,544
Donations – nonfinancial assets		2,187	—	2,187
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		1,713,803	2,297	1,716,100
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		1,010,349	—	1,010,349
Increase in net assets from operating activities		703,454	2,297	705,751
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		199,061	46,112	245,173
Increase in net assets		902,515	48,409	950,924
Net assets, beginning of year		8,935,449	1,423,340	10,358,789
Net assets, end of year	$	9,837,964	1,471,749	11,309,713

See accompanying notes to combined financial statements.

SHRINERS HOSPITALS FOR CHILDREN

Combined Statements of Cash Flows

Years ended December 31, 2022 and 2021

(In thousands)

		2022	2021
Cash flows from operating activities:			
(Decrease) increase in net assets	$	(1,527,508)	950,924
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:			
Depreciation		53,002	82,068
Loss on disposal of property and equipment		12,133	9,000
Realized and unrealized losses (gains) on investments		1,506,787	(1,013,396)
Gifts, bequests, and life memberships designated by the board or restricted by donor for long-term investment		(237,784)	(191,946)
Change in value of patient transportation funds held by Shrine temples		1,597	(5,684)
Pension related changes other than service costs		63,715	68,254
Changes in beneficial interest in trusts		124,520	(44,631)
Changes in estates in process		(55,269)	18,859
Changes in operating assets and liabilities:			
Patient accounts receivable		(8,112)	(441)
Receivables, net		(6,562)	(4,574)
Accrued interest and dividends		94	(5,177)
Inventories and deferred charges		719	(3,552)
Accounts payable and accrued expenses		(5,780)	3,647
Pension and postretirement benefits		(128,059)	(148,554)
Net cash used in operating activities		(206,507)	(285,203)
Cash flows from investing activities:			
Purchases of property and equipment		(24,242)	(16,220)
Proceeds from sale of investments		2,096,701	3,758,510
Purchases of investments		(2,119,329)	(3,621,587)
Net cash (used in) provided by investing activities		(46,870)	120,703
Cash flows from financing activities:			
Gifts and bequests		237,705	191,875
Life memberships		79	71
Borrowings from line of credit		80,000	—
Payments on the line of credit		(80,000)	—
Change in other liabilities		(3,705)	3,047
Net cash provided by financing activities		234,079	194,993
Net (decrease) increase in cash and cash equivalents		(19,298)	30,493
Cash and cash equivalents at beginning of year		47,788	17,295
Cash and cash equivalents at end of year	$	28,490	47,788
Non-Cash Right of Use (ROU) Asset for Operating Leases		(11,810)	—
Non-Cash Lease Liability for Operating Leases		11,810	—

See accompanying notes to combined financial statements.

(1) Summary of Significant Accounting Policies

(a) Combined Organizations

Shriners Hospitals for Children (herein SHC) provides quality, specialized medical care, in the areas of orthopedics, severe burns, and spinal cord injuries, through a network of 21 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 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.

(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, 2022 and 2021 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, 2022 and 2021:

		2022	2021
Subject to expenditure for a specific purpose:			
Hospitals	$	1,206,382	1,285,763
Research		6,277	6,809
Patient transportation fund		80,483	82,080
		1,293,142	1,374,652
Subject to the passage of time		91,734	97,097
Total net assets with donor restrictions	$	1,384,876	1,471,749

(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.

(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, 2022 and 2021, SHC held $591,506 and $859,006, 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 $572,932 and $829,548 at December 31, 2022 and 2021, 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.

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 $23,739 and deferred income of $16,541 at December 31, 2022. 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.

(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.

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

(Continued)

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 2022 and 2021.

(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.

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.

(In thousands)

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 50% and 49% for the years ended December 31, 2022 and 2021, 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, 2022 and 2021 from the major payor sources is as follows:

		2022	2021
Medicaid	$	87,652	89,611
Commercial payers		86,351	88,078
Total all payors	$	174,003	177,689

Patient accounts receivable included approximately $21,840 or 62% and $17,489 or 63% from the Medicaid programs as of December 31, 2022 and 2021, respectively. Patient accounts receivable also included less than one percent from Medicare programs. The credit risk for other concentrations of receivables is limited due to the large number of insurance companies and other payors that provide payments for services.

(p) Charity Care

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

(In thousands)

SHC provides necessary medical care regardless of the patient's ability to pay for services under its charity care policy. In addition, regulatory changes that may have the potential to alter charity classifications are monitored and incorporated into the policy, as necessary. SHC maintains records to identify and monitor the level of charity care. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. The following measures the level of charity care and other community benefits, as defined, at estimated costs for the years ended December 31, 2022 and 2021:

		2022	2021
Traditional charity care	$	709,810	702,462
Direct offsetting revenue		(213,512)	(205,875)
Net traditional charity care	$	496,298	496,587

(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 $15,598 and $11,251 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, 2022 and 2021, respectively.

(r) Leases

SHC determines whether an arrangement is a lease at the inception of the arrangement based on the terms and conditions in the contract. Operating lease right-of-use (ROU) assets and lease liabilities are not separately disclosed on the combined statements of financial position. In the combined statements of operations and changes in net assets, lease expense for operating lease payments are recognized on a straight-line basis over the lease term. SHC does not have finance lease ROU assets.

ROU assets represent SHC's right to use an underlying asset for the lease term, and lease liabilities represent SHC's obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. Lease agreements may include options to extend or terminate the lease. When it is reasonably certain that SHC will exercise an extension option, the terms of the extension are included in the recognized values of ROU assets and lease liabilities. As most of SHC's leases do not provide the lessor's implicit rate, SHC uses its incremental borrowing rate at the commencement date in determining the present value of lease payments. Leases with an initial term of

12 months or less are not recorded on the combined statements of financial position, and lease expense is recognized in accordance with the terms of the arrangement over the lease term.

SHC is the lessor for leases of space within our facilities to other healthcare organizations, as well as, biological assets. In these circumstances, each of these leases were reviewed and are categorized as operating leases. There are no finance leases whereby SHC is the lessor. SHC has a related party operating lease with Shriners International with month by month lease term. SHC elected the practical expedient to not separate nonlease and associated lease components. The receipts from the operating leases are included within operating activities on the cash flow statement and recognized in other revenues in the combined statement of operations and changes in net assets. There is no impact to the combined statement of financial position.

(s) Adoption of New Accounting Standards

In February 2016, the FASB issued ASU 2016-02, *Leases,* (Topic 842) (ASU 2016-02), which requires lessees to recognize leases on-balance sheet and disclosure key information about leasing arrangements. Topic 842 establishes a ROU model that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases are classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement.

SHC adopted ASU 2016-02 on January 1, 2022, using the prospective approach and did not recast prior periods. SHC elected the practical expedients offered under this standard and did not reassess whether any current or expired contracts are, or contain, leases nor did SHC apply the recognition requirements of this standard to short-term leases. The lease payments for leases with original terms of twelve months or less are recognized in the period in which they are incurred. SHC adopted the practical expedient to not separate lease and non-lease components. The adoption did not have a material effect on the combined statement of financial position, the combined statements of operations, and changes in net assets nor on the combined statements of cash flows. Further, ASU 2016-02 did not significantly affected SHC’s disclosures. As a result of the adoption of ASU 2016-02, SHC did not recognized any change in its accounting related to transactions where SHC is the lessor.

As a result of the adoption of ASU 2016-02, SHC recognized a ROU asset of approximately $10,256 and a corresponding lease liability of $10,256. The ROU asset has been reported as a Land, building, and equipment within the total assets of the combined statement of financial position. The lease liability has been reported as an other liability within the total liabilities of the combined statement of financial position.

During fiscal year 2022, SHC adopted FASB ASU No. 2020-07 (ASU 2020-07), *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This guidance requires non-for-profits to separately report contributions of non-financial assets in the statement of activities and disclose key information about contributions of non-financial assets. SHC’s adoption of ASU 2020-07 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, 2022 and 2021, SHC recognized approximately $0 and $4,196, respectively, 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 all receipts as revenue within donations on the combined statements of operations and changes in net assets as all terms and conditions have been met.

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, 2021, with half of the deferred payments required to be paid by December 31, 2022 and the other half to be paid by December 31, 2022. As of December 31, 2022, SHC has fully paid the deferred payroll tax payments.

(In thousands)

(3) Investments

Marketable securities at December 31, 2022 consist of:

		Cost	Fair value
Short-term investments	$	98,847	98,847
Common and preferred stocks		3,047,457	3,703,867
U.S. government securities		1,270,699	1,179,983
Corporate bonds		512,664	481,202
Other fixed income		658,769	636,014
Commodities fund		855,858	892,855
Fund of funds		739,314	827,339
	$	7,183,608	7,820,107

Marketable securities at December 31, 2021 consist of:

		Cost	Fair value
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
	$	7,168,211	9,348,674

(In thousands)

Investment income and total return on all investments comprise the following components for the years ended December 31, 2022 and 2021:

		2022	2021
Interest	$	77,949	66,257
Dividends		94,585	95,180
Trust income		25,777	23,027
Rents and royalties		21,117	15,040
Other income		5,489	1,057
Less investment management fees		(18,447)	(20,449)
Total income from investments		206,470	180,112
Net realized gains from investments		111,143	828,513
Net unrealized (losses) gains from investments		(1,617,930)	184,884
Total return on investments	$	(1,300,317)	1,193,509

(4) Land, Buildings, and Equipment

Land, buildings, and equipment at December 31, 2022 and 2021 consists of:

		2022	2021	Estimated useful lives
Land	$	43,587	43,587	—
Land improvements		8,218	9,231	5–20 years
Buildings		1,027,467	1,060,060	20–50 years
Leasehold improvements		10,344	10,149	5–10 years
Equipment		490,491	497,910	4–25 years
Right of Use (ROU) assets		10,256	4,860	3–99 years
		1,590,363	1,625,797	
Less accumulated depreciation and amortization		(922,103)	(914,688)	
		668,260	711,109	
Construction in progress		67,311	55,099	
Land, buildings, and equipment, net	$	735,571	766,208	

Depreciation expense amounted to $53,002 and $82,068 for the years ended December 31, 2022 and 2021, respectively.

On September 30, 2022, SHC entered into a "Mutual Termination of Sublease Agreement" (the Agreement) with the University of South Florida Board of Trustees related to its Hospital located in Tampa, Florida. The parties agreed to terminate the lease for Shriners Hospitals-Tampa on October 7, 2022. As of that date SHC surrendered the hospital to the University of South Florida. Shriners is allowed to use the existing space allocated to Pediatric Prosthetic and Orthotic as-is at no cost until the end of first quarter in 2023. The loss recognized on the transfer of the hospital was $10,982 and reported as a net loss on fixed assets within the operating revenues and other support in the other income section of the combined statement of operations and changes in net assets.

The hospital building located in Houston, Texas was classified as held for sale, as the existing hospital operations were relocated to the Galveston facility. Upon relocation, the existing Houston building was transferred from buildings to real estate and mineral interests at its remaining net book value in 2021. On February 11, 2022, SHC entered into an agreement with Texas Medical Center (TMC) to terminate the ground lease for Shriners Hospitals-Houston. As of February 13, 2022 Shriners surrendered the title and interest of the Land and Building to Texas Medical Center who made a one-time charitable contribution of $2,000. The loss recognized upon transfer of the hospital was $9,877 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 as of December 31, 2022.

(5) Construction and Other Major Capital Projects

Construction and other major capital projects committed by the Board as of December 31, 2022 and 2021 were $74,830 and $61,156, respectively. These funds were appropriated for construction and other major capital projects. Amounts unexpended as of December 31, 2022 and 2021, were $64,570 and $45,539, respectively.

(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 three interest rate options. No amount was outstanding at December 31, 2022 and 2021.

(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.

(In thousands)

At December 31, 2022 and 2021, an amount of $510 and $534, 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.

Fund-raising and special events revenues and costs for the years ended December 31, 2022 and 2021 consist of the following:

		2022	2021
Revenues from Shrine temple sponsored events	$	4,728	4,051
Direct mail revenue		86,006	80,233
Other revenue		5,705	4,596
	$	96,439	88,880
Fund-raising costs paid directly by Shrine temples in connection with fund-raising events	$	353	266
Direct mail expense		46,558	42,216
Other costs		10,644	9,100
	$	57,555	51,582

Revenues from Shrine temple sponsored events are reported net of direct costs of $2,445 and $1,636 for 2022 and 2021, respectively.

In addition to the fund-raising and special events expenses above, SHC incurred $79,589 and $51,447 of donor relation expense for the years ended December 31, 2022 and 2021, respectively. Such expenses are incurred to enhance donor relationships. Donations and bequests from such donors amounted to $464,499 and $413,606 for the years ended December 31, 2022 and 2021, 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 2022 tournament. The 2022 and 2021 event yielded $4,616 and $4,386, respectively, in revenues. Expenses incurred on this event in 2022 and 2021 were $9,444 and $8,256, respectively, creating a cost of the project of $4,828 and $3,870, respectively.

(In thousands)

(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.

The activities of the patient transportation funds reflected for the years ended December 31, 2022 and 2021 are as follows:

		2022	2021
Balance, beginning of year	$	82,080	76,396
Temple revenues restricted for patient transportation		13,114	11,501
Patient transportation costs		(14,711)	(5,817)
Change in patient transportation funds		(1,597)	5,684
Balance, end of year	$	80,483	82,080

(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.

(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, 2022 and 2021:

		December 31, 2022	Fair value measurements at reporting date using Level 1	Level 2	Level 3
Assets:					
Investments:					
Short-term investments	$	98,847	98,847	—	—
Common and preferred stocks		3,703,867	3,278,165	425,702	—
U.S. government securities		1,179,983	1,179,983	—	—
Corporate bonds		328,370	—	328,370	—
Other fixed income securities		296,146	69,421	226,480	245
Commodities fund		224,250	—	224,250	—
Charitable gift annuities		48,631	—	48,631	—
Beneficial interests in trusts		538,018	—	538,018	—
Real estate and mineral interests		345,638	—	—	345,638
Miscellaneous investments		29,535	—	29,535	—
		6,793,286	$ 4,626,416	1,820,986	345,883
Recorded at net asset value		1,988,643			
Total	$	8,781,929			
Collateral under securities lending transactions	$	591,506	591,506	—	—
Liabilities:					
Annuity liabilities	$	23,739	—	23,739	—
Liabilities under securities lending transactions		591,506	591,506	—	—

(In thousands)

	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	—
	8,488,551	$ 5,985,088	2,203,341	300,122
Recorded at net asset value	1,902,057			
Total	$ 10,390,608			
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	—	—

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.

(In thousands)

The tables below summarize the changes in Level 3 assets for the years ended December 31, 2022 and 2021:

		Fair value measurements using significant unobservable inputs (Level 3)		
		Other fixed income investments	**Other investments**	**Total**
2022:				
Beginning balance	$	245	299,877	300,122
Total gains (realized/unrealized) included in increase in net assets without donor restrictions		—	58,872	58,872
Purchases		—	1,938	1,938
Sales		—	(15,049)	(15,049)
Transfers into/out of Level 3		—	—	—
Ending balance	$	245	345,638	345,883

		Other fixed income investments	**Other investments**	**Total**
2021:				
Beginning balance	$	245	272,808	273,053
Total gains (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	$	245	299,877	300,122

(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, 2022 and 2021.

		Fair value December 31, 2022	Redemption frequency	Redemption notice period
WTC CTF Opportunistic Fixed Income (a)	$	342,423	Monthly	30 days
Pyramis Fixed Income Funds (a)		152,832	Monthly	15 days
Windjammer Senior Equity Fund (b)		19,185	N/A	N/A
Schroders Emg Mkts Equity Alpha (p)		76,894	Monthly	60 days
Aetos Capital Hedge Funds (d)		285,592	Quarterly	90 days
HarbourVest Dover (e)		65,222	N/A	N/A
CVI Carval Credit Value Fund (f)		101,986	N/A	N/A
Comvest Credit Partners (g)		35,007	N/A	N/A
Private Advisors Small Co Funds (h)		86,748	N/A	N/A
Securis Opportunities Fund (i)		56,921	Semi annually	180 days
Magnitude International (j)		130,273	N/A	N/A
Corbin Pinehurst Institutional (k)		115,375	Quarterly	100 days
Brookfield Capital Partners (l)		38,282	N/A	N/A
Apollo Investment Fund IX, (m)		20,384	N/A	N/A
HarbourVest Co-Investment (n)		35,855	N/A	N/A
Cloverlay II (o)		25,469	N/A	N/A
Fidelity Slct Emg Mkts (q)		108,301	Monthly	5 days
Macquarie Emg Mkts Small Cap (r)		98,828	Monthly	15 days
Arsenal VI (c)		3,233	N/A	N/A
Harbourvest Venture (s)		6,931	N/A	N/A
Kennedy Lewis III (f)		7,170	N/A	N/A
ThomaBravo XV (t)		12,017	N/A	N/A
Pinnacle (u)		163,715	Annually	180 days
Total	$	1,988,643		

(In thousands)

		Fair value December 31, 2021	Redemption frequency	Redemption 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	$	1,902,057		

(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 fund is to make control investments through market immersion within sub-markets across high growth, technology-rich healthcare and industrial growth companies via a combination of platform and add-on acquisitions.

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

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

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

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

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

(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 in 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.

(s) The fund is focused on primary partnership investments in US-based funds that pursue venture capital, growth equity, and other private equity transactions.

(t) The fund will invest in middle and large market companies that are operating in fragmented sub-sectors within software and can benefit from accretive add-on acquisitions.

(In thousands)

(u) The fund aims to identify talented commodity traders who employ a variety of trading strategies to trade commodities and related derivatives to generate alpha in both rising and falling commodity markets. Redemption has a three-year lock from inception date.

SHC had unfunded capital commitments related to private equity investments of $274,000 at December 31, 2022 and $336,000 at December 31, 2021.

(11) Contributed Nonfinancial Assets

SHC occasionally receives contributed nonfinancial assets from its donors. Such assets are recorded at fair value based on independent appraisals and current values for similar goods and services.

Contributions of nonfinancial assets included in the combined statements of operations and changes in net assets for the years ended June 30, 2022 and 2021 are as follows:

Nonfinancial Asset		2022	2021	Utilization in activities	Donor restriction	Fair value techniques
Real estate	$	1,938	2,985	Monetized	No donor restriction.	Appraised values
Annuities and Insurance		—	138	Monetized	No donor restriction.	Present value of annuity payments
Bonds		—	110	Monetized	No donor restriction.	Face Value
	$	1,938	3,233			

(12) 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, 2022 and 2021 included the following components:

		2022	
		Pension plans	Postretirement plan
Service cost – benefits earned during the period	$	17,713	468
Interest cost on projected benefit obligation		27,217	623
Expected return on plan assets		(37,422)	—
Net amortized and deferral of unrecognized gains and losses		10,979	—
Net periodic pension cost	$	18,487	1,091

(In thousands)

		2021	
		Pension plans	**Postretirement plan**
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		22,849	—
Net periodic pension cost	$	34,700	1,184

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, 2022 and 2021 (using a measurement date of December 31):

		2022	
		Pension plans	**Postretirement plan**
Change in benefit obligation:			
Benefit obligation at beginning of year	$	920,403	19,854
Service cost		17,713	468
Interest cost		27,217	623
Actuarial gain		(261,612)	(7,091)
Benefits paid		(40,392)	(449)
Benefit obligation at end of year		663,329	13,405
Change in plan assets:			
Fair value of plan assets at beginning of year		807,355	—
Actual return on plan assets		(178,939)	—
Employer contributions		20,151	450
Benefits paid		(40,391)	(450)
Fair value of plan assets at end of year		608,176	—
Funded status at end of year	$	(55,153)	(13,405)

(In thousands)

		2021	
		Pension plans	Postretirement plan
Change in benefit obligation:			
Benefit obligation at beginning of year	$	950,631	20,219
Service cost		21,854	586
Interest cost		25,266	597
Actuarial gain		(26,603)	(1,158)
Benefits paid		(50,745)	(390)
Benefit obligation at end of year		920,403	19,854
Change in plan assets:			
Fair value of plan assets at beginning of year		757,648	—
Actual return on plan assets		68,416	—
Employer contributions		32,036	390
Benefits paid		(50,745)	(390)
Fair value of plan assets at end of year		807,355	—
Funded status at end of year	$	(113,048)	(19,854)

The accumulated benefit obligation for the Pension Plans was $618,131 and $826,520 at December 31, 2022 and 2021, 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, 2022 and 2021 were as follows:

	2022	
	Pension plans	Postretirement plan
Discount rate	5.54 %	5.63 %
Rate of compensation increase	3.50	N/A

(In thousands)

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

Weighted average assumptions used to determine the net periodic benefit costs of the Pension Plans and the Postretirement Plan at December 31, 2022 and 2021 were as follows:

	2022	
	Pension plans	**Postretirement plan**
Discount rate	2.98 %	3.11 %
Expected long-term rate of return on plan assets	5.40	N/A
Rate of compensation increase	3.50	N/A

	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

The plan experienced an increase in the discount rate and an increase in the lump sum interest rate. The primary reason for the decrease in benefit cost were a decrease in the service cost due to the increase in the discount rate and a reduction in the amortization payment. 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.

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.

(Continued)

(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, 2022 and 2021. Unrecognized actuarial losses represent unexpected changes in the projected benefit obligation and plan assets over time, primarily due to changes in assumed discount rates and 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 net assets without donor restrictions at December 31, 2022	Amounts recognized in net assets without donor restrictions at December 31, 2022
Actuarial loss	$ 11,355	(6,019)
Prior service cost	2,131	—
Total	$ 13,486	(6,019)

	Pension plans	Postretirement plan
	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	$ 69,715	1,073

(In thousands)

(a) Plan Assets

The weighted average allocation of the Pension Plans' assets at December 31, 2022 and 2021 was as follows:

Asset category	2022	2021
Short-term investments	1 %	1 %
Common stock	11	10
U.S. government securities	30	28
Common collective trusts	40	42
Mutual funds	18	19
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, 2022 and 2021:

	December 31, 2022	Fair value measurements at reporting date using Level 1	Level 2
Assets:			
Short-term investments	$ 6,395	6,395	—
Common stock	65,848	65,848	—
U.S. government securities	181,721	181,721	—
Common collective trusts	245,322	—	245,322
Mutual funds	108,890	—	108,890
Total	$ 608,176	253,964	354,212

(In thousands)

		Fair value measurements at reporting date using	
	December 31, 2021	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

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 $17,380 and $639 respectively, in 2022.

(c) Benefit Payments

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

	Pension plans	Postretirement plan
Fiscal year(s):		
2023	$ 38,266	639
2024	40,414	652
2025	44,462	667
2026	45,484	686
2027	47,172	707
2028–2032	257,039	3,905

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 $12,241 and $12,540 in 2022 and 2021, respectively.

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

(13) 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, 2022 and 2021. 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.

(14) 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 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.

(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 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, 2022 and 2021, is as follows:

	Without donor restrictions	With donor restrictions	Total endowment assets
2022:			
Board-designated endowment funds	$ 8,251,478	—	8,251,478
Donor-restricted endowment funds	—	530,451	530,451
	$ 8,251,478	530,451	8,781,929
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

(In thousands)

Changes in endowment assets for the years ended December 31, 2022 and 2021 are as follows:

		Without donor restrictions	With donor restrictions	Total endowment net assets
2022:				
Balance, beginning of year	$	9,740,582	650,026	10,390,608
Investment income		206,500	—	206,500
Net appreciation		(1,398,903)	(128,024)	(1,526,927)
Reclassifications		(8,449)	8,449	—
Withdrawals		(278,252)	—	(278,252)
Balance, end of year	$	8,261,478	530,451	8,791,929

		Without donor restrictions	With donor restrictions	Total endowment net assets
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		(280,141)	—	(280,141)
Balance, end of year	$	9,740,582	650,026	10,390,608

(15) 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.

Expenses related to providing these services for the years ended December 31, 2022 and 2021 are reflected in the table below (in thousands).

	Year ended December 31, 2022				
	Hospital expense	Research expense	Management and general expense	Fundraising expense	Total
Advertising and promotion	$ 1,129	—	382	—	1,511
Benefits	69,244	647	16,431	4	86,326
Contributions	7,500	—	3,000	—	10,500
Depreciation	43,766	—	9,236	—	53,002
Dues and registrations	2,164	63	350	33	2,610
Food supplies	972	14	—	—	986
Insurance	7,613	—	339	—	7,952
Medical supplies	106,436	3,154	—	—	109,590
Miscellaneous	2,860	107	4,730	304	8,001
Occupancy	33,087	455	4,923	—	38,465
Office expense	3,485	714	25,637	280	30,116
Other fees for service	86,263	12,761	51,849	120,619	271,492
Patient costs	5	253	977	—	1,235
Payroll taxes	20,333	316	4,049	—	24,698
Postage	1,221	22	262	741	2,246
PGA Event	—	—	—	9,444	9,444
Salaries	320,654	7,946	55,116	5,316	389,032
Travel	3,078	207	2,380	403	6,068
Total operating expenses	$ 709,810	26,659	179,661	137,144	1,053,274

(In thousands)

	Year ended December 31, 2021				
	Hospital expense	**Research expense**	**Management and general expense**	**Fundraising expense**	**Total**
Advertising and 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
Total operating expenses	$ 702,462	27,417	177,441	103,029	1,010,349

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.

(16) 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, 2022 and 2021 are as follows (in thousands):

		2022	2021
Cash and cash equivalents	$	28,490	47,788
Receivables		85,268	70,688
Short-term investments		98,847	145,690
Non-current investments available within one year		7,709,569	9,207,986
Total	$	7,922,174	9,472,152

(17) Leases

As of December 31, 2022, the SHC is a party to four (4) operating leases and no financing leases as the lessee. The operating leases represent space rental of square footage utilized by SHC healthcare models within other healthcare facilities. The discount rate used for leases is incremental line of credit (LOC) borrowing rate SHC would incur based on their LOC agreement which is based on libor and banking fee. The options to renew the leases were considered on a case to case basis when assessing the value of the right-of-use assets as to whether SHC will assert its option to renew the leases or not.

Lessee

(a) Lease Cost

The operating lease cost for leases recorded with a corresponding ROU and Lease liability for the year ended December 31, 2022 is $2,133. The lease cost for short term and variable leases for the year ended December 31, 2022 were $2,245.

SHC is obligated under several noncancelable operating leases, primarily for office space, land lease, and office equipment, which expire through 2114. Lease expense for the year ended December 31, 2021 was $6,261.

(b) Lease Position

Lease-related assets and liabilities recorded in the consolidated statements of financial position at December 31 are as follows:

		2022
Operating leases:		
Operating lease ROU assets	$	10,256
Operating lease liabilities		10,256

(In thousands)

(c) Lease Terms and Discount Rates

SHC utilizes its incremental borrowing rate in determining the present value of lease payments unless the implicit rate is readily determinable. Lease terms and discount rates for December 31 are as follows:

	2022
Weighted-average remaining lease term (years):	
Operating leases	35 years
Weighted-average discount rate:	
Operating leases	0.005995 %

(d) Maturities

The maturities of lease liabilities at December 31, 2022 are as follows:

	Lease liability
2023	$ 1,714
2024	1,727
2025	976
2026	833
2027	846
Thereafter	24,543
Total future undiscounted lease payments	30,639
Less interest	(20,383)
Present value of lease liabilities	$ 10,256

(In thousands)

Lessor

The maturities and future minimum lease income for operating leases with remaining non-cancellable terms in excess of one year at December 31, 2022, are as follows:

		Lease income
2023	$	4,890
2024		5,020
2025		4,762
2026		4,445
2027		2,255
Thereafter		20,697
Total future undiscounted lease receipts	$	42,069

(18) Subsequent Events

SHC has evaluated events and transactions occurring subsequent to December 31, 2022 and 2021 as of April 11, 2023, which is the date the combined financial statements were available to be issued.

Subsequent to December 31, 2022, SHC Management believes that no material events have occurred since December 31, 2022 that requires recognition or disclosure in the consolidated financial statements.