



**SHRINERS HOSPITALS FOR CHILDREN**

Combined Financial Statements

December 31, 2010 and 2009

(With Independent Auditors' Report Thereon)

# SHRINERS HOSPITALS FOR CHILDREN

## Table of Contents

	<b>Page</b>
Independent Auditors' Report	1
Combined Statements of Financial Position	2
Combined Statements of Operations	3
Combined Statements of Changes in Net Assets	4
Combined Statements of Cash Flows	5
Notes to Combined Financial Statements	6



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

## **Independent Auditors' Report**

The Board of Directors  
Shriners Hospitals for Children:

We have audited the accompanying combined statements of financial position of Shriners Hospitals for Children as of December 31, 2010 and 2009, 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, 2010 and 2009, 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, 2011  
Certified Public Accountants

## SHRINERS HOSPITALS FOR CHILDREN

### Combined Statements of Financial Position

December 31, 2010 and 2009

(In thousands)

<b>Assets</b>	<b>2010</b>	<b>2009</b>
Cash and cash equivalents	\$ 13,335	7,830
Cash and cash equivalents held as collateral under securities lending transactions	595,150	781,883
Receivables, net	6,415	9,067
Accrued interest and dividends	24,638	24,773
Patient transportation funds held by Shrine temples	47,413	43,479
Inventories and deferred charges	28,753	10,937
Long-term investments:		
Marketable securities	6,638,250	6,325,300
Charitable gift annuities	26,694	23,763
Beneficial interest in trusts	491,007	465,835
Real estate and mineral interests	168,883	149,925
Miscellaneous investments	18,805	12,770
Estates in process	289,394	299,568
Land, buildings, and equipment, net of accumulated depreciation	781,724	766,860
Total assets	\$ 9,130,461	8,921,990
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 89,135	89,562
Pension benefits	153,464	147,606
Liabilities under securities lending transactions	595,150	781,883
Other liabilities	36,009	36,540
Total liabilities	873,758	1,055,591
Net assets (net of cumulative foreign currency translation adjustment of \$9,913 in 2010 and \$9,539 in 2009):		
Unrestricted:		
Operations	6,127,213	5,773,860
Land, buildings, and equipment	781,724	766,860
Total unrestricted	6,908,937	6,540,720
Temporarily restricted	377,404	380,319
Permanently restricted	970,362	945,360
Total net assets	8,256,703	7,866,399
Total liabilities and net assets	\$ 9,130,461	8,921,990

See accompanying notes to combined financial statements.

## SHRINERS HOSPITALS FOR CHILDREN

### Combined Statements of Operations

Years ended December 31, 2010 and 2009

(In thousands)

	2010	2009
Operating revenues and other support:		
Investment income:		
Interest	\$ 87,379	99,708
Dividends	74,671	78,738
Other investment income	33,736	36,028
Investment management fees	(13,518)	(14,272)
Bequests released from restrictions used for operations	176,050	182,784
Donations	35,777	35,633
Fund raising and special events	19,829	23,991
Hospital assessments	1,492	1,544
Reimbursements from Canadian Provinces	6,100	5,707
Net patient service revenue	4,622	—
Other	5,570	6,670
	431,708	456,531
Operating expenses:		
Hospitals	555,303	573,790
Research	28,294	33,101
Revenue cycle	5,787	591
Information systems	15,858	13,223
Headquarters, administrative, and board related	32,128	33,010
Fund raising and special events	19,392	18,057
	656,762	671,772
Decrease in net assets from operating activities	(225,054)	(215,241)
Nonoperating gains (losses):		
Gain (loss) on investments:		
Net realized gain (losses) from investments	162,527	(294,643)
Net unrealized gains on investments	414,948	1,171,083
	577,475	876,440
Life memberships	297	143
Change in patient transportation funds held by Shrine temples	3,934	(1,014)
Pension-related changes other than net periodic pension costs	(5,915)	(907)
Other, net	17,106	(3,544)
Foreign currency translation adjustments	374	929
	593,271	872,047
Increase in unrestricted net assets	\$ 368,217	656,806

See accompanying notes to combined financial statements.

**SHRINERS HOSPITALS FOR CHILDREN**

Combined Statements of Changes in Net Assets

Years ended December 31, 2010 and 2009

(In thousands)

	<u>2010</u>	<u>2009</u>
Unrestricted net assets:		
Decrease in net assets from operating activities	\$ (225,054)	(215,241)
Nonoperating gains (losses):		
Gain on investments:		
Net realized gains (losses) from investments	162,527	(294,643)
Net unrealized gains on investments	414,948	1,171,083
Total gains on investments	<u>577,475</u>	<u>876,440</u>
Life memberships	297	143
Change in patient transportation funds held by Shrine temples	3,934	(1,014)
Pension related changes other than net periodic pension costs	(5,915)	(907)
Other, net	17,106	(3,544)
Foreign currency translation adjustments	374	929
Total nonoperating gains	<u>593,271</u>	<u>872,047</u>
Increase in unrestricted net assets	<u>368,217</u>	<u>656,806</u>
Temporarily restricted net assets:		
Bequests	166,489	264,613
Donations	1,833	11,318
Other, net	(1,546)	(991)
Net realized (loss) gain from investment	(48)	1,085
Net unrealized gains from investments	6,407	8,191
Net assets released from restrictions used for operations	(176,050)	(182,784)
(Decrease) increase in temporarily restricted net assets	<u>(2,915)</u>	<u>101,432</u>
Permanently restricted net assets:		
Bequests	7,286	8,384
Donations	967	12,339
Other investment income	2	7
Other, net	(9)	—
Net realized loss from investment	(222)	(107)
Net unrealized gains from investments	16,978	26,539
Increase in permanently restricted net assets	<u>25,002</u>	<u>47,162</u>
Increase in net assets	<u>390,304</u>	<u>805,400</u>
Net assets, beginning of year	<u>7,866,399</u>	<u>7,060,999</u>
Net assets, end of year	\$ <u>8,256,703</u>	<u>7,866,399</u>

See accompanying notes to combined financial statements.

## SHRINERS HOSPITALS FOR CHILDREN

### Combined Statements of Cash Flows

Years ended December 31, 2010 and 2009

(In thousands)

	<b>2010</b>	<b>2009</b>
Cash flows from operating activities:		
Change in net assets	\$ 390,304	805,400
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	46,500	45,425
Loss on disposal of property and equipment	2,132	1,411
Realized and unrealized gains on investments	(600,590)	(912,148)
Gifts and bequests designated by the board or restricted by donor for long-term investment	(174,072)	(273,140)
Pension related changes other than net period pension costs	5,915	907
Changes in operating assets and liabilities:		
Receivables, net	2,652	(4,008)
Accrued interest and dividends	135	(2,832)
Patient transportation funds held by Shrine temples	(3,934)	1,014
Inventories and deferred charges	(17,816)	6,568
Beneficial interest in trusts	(25,172)	(47,893)
Estates in process	10,174	(95,655)
Accounts payable and accrued expenses	(427)	(378)
Pension benefits	(57)	(19,159)
Net cash used in operating activities	(364,256)	(494,488)
Cash flows from investing activities:		
Additions to property and equipment	(63,496)	(83,734)
Proceeds from sale of investments	5,243,419	4,183,691
Investment purchases	(4,983,703)	(3,875,805)
Net cash provided by investing activities	196,220	224,152
Cash flows from financing activities:		
Gifts and bequests designated for board endowment	166,489	264,613
Gifts and bequests permanently restricted by donors	7,286	8,384
Life memberships	297	143
Change in other liabilities	(531)	47
Net cash provided by financing activities	173,541	273,187
Net increase in cash and cash equivalents	5,505	2,851
Cash and cash equivalents at beginning of year	7,830	4,979
Cash and cash equivalents at end of year	\$ 13,335	7,830

See accompanying notes to combined financial statements.

# SHRINERS HOSPITALS FOR CHILDREN

Notes to Combined Financial Statements

December 31, 2010 and 2009

(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. This medical care is provided at no cost to patients or families. 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.



## SHRINERS HOSPITALS FOR CHILDREN

### Notes to Combined Financial Statements

December 31, 2010 and 2009

(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, 2010 and 2009 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 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, 2010 and 2009

(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, 2010 and 2009, SHC held \$595,150 and \$781,883, 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 \$581,558 and \$757,883 at December 31, 2010 and 2009, 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 board-designated 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, 2010 and 2009

(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 \$23,440 and \$25,026 and deferred income of \$12,569 and \$11,514 at December 31, 2010 and 2009, 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 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, 2010 or 2009.

**(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. 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 HOSPITALS FOR CHILDREN**

Notes to Combined Financial Statements

December 31, 2010 and 2009

(In thousands)

(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) 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.

**(p) Reclassifications**

Certain amounts from the 2009 financial statements have been reclassified to conform with the 2010 financial statement presentation.

**(2) Long-Term Investments**

Marketable securities at December 31, 2010 and 2009 consist of:

	2010		2009	
	Cost	Fair value	Cost	Fair value
Short-term investments	\$ 148,599	148,599	84,295	84,295
Common and preferred stocks	3,764,647	4,414,985	3,917,053	4,195,713
U.S. government securities	1,428,916	1,479,857	1,429,259	1,473,380
Corporate bonds	569,833	594,809	564,855	571,912
	<u>\$ 5,911,995</u>	<u>6,638,250</u>	<u>5,995,462</u>	<u>6,325,300</u>

Investment income and total return on all long-term investments was comprised of the following components for the years ended December 31, 2010 and 2009:

	2010	2009
Interest	\$ 87,379	99,708
Dividends	74,671	78,738
Trust income	17,614	17,704
Rents and royalties	10,411	8,334
Other income	5,711	9,997
Less investment management fees	(13,518)	(14,272)
Total income from investments	182,268	200,209
Net realized gains (losses) from investments	162,257	(293,665)
Net unrealized gains from investments	438,333	1,205,813
Total return on investments	<u>\$ 782,858</u>	<u>1,112,357</u>

**SHRINERS HOSPITALS FOR CHILDREN**

Notes to Combined Financial Statements

December 31, 2010 and 2009

(In thousands)

**(3) Land, Buildings, and Equipment**

Land, buildings, and equipment at December 31, 2010 and 2009 consist of:

	<u>2010</u>	<u>2009</u>	<u>Estimated useful lives</u>
Land	\$ 29,750	29,744	—
Land improvements	11,498	11,578	5 – 20 years
Buildings	890,223	822,256	40 – 50 years
Equipment	346,878	338,397	4 – 25 years
	<u>1,278,349</u>	<u>1,201,975</u>	
Less accumulated depreciation	<u>(602,141)</u>	<u>(566,964)</u>	
	676,208	635,011	
Projects in process	23,659	22,972	
Construction in progress	<u>81,857</u>	<u>108,877</u>	
Land, buildings, and equipment, net	<u>\$ 781,724</u>	<u>766,860</u>	

**(4) Construction and Other Major Capital Projects**

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

<u>Project</u>	<u>Total appropriation</u>	<u>Unexpended at December 31, 2010</u>
Honolulu	\$ 78,000	4,430
Canada	122,000	41,200
Portland	77,037	5,592
Philadelphia	16,682	14,318
Twin Cities	8,000	7,674
Los Angeles	4,561	2,842
Cincinnati	6,181	5,121
Other	10,324	3,908
Approved equipment expenditures:		
PACS imaging	22,417	4,154
Information systems projects	15,799	5,028
Other equipment	<u>13,852</u>	<u>13,852</u>
	<u>\$ 374,853</u>	<u>108,119</u>

## SHRINERS HOSPITALS FOR CHILDREN

Notes to Combined Financial Statements

December 31, 2010 and 2009

(In thousands)

### (5) 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.

At December 31, 2010 and 2009, amounts of \$1,043 and \$255, respectively, were due from Shriners International, and are included in receivables, net in the accompanying combined statements of financial position.

### (6) 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.

**SHRINERS HOSPITALS FOR CHILDREN**

Notes to Combined Financial Statements

December 31, 2010 and 2009

(In thousands)

Fund raising and special events revenues and costs for the years ended December 31, 2010 and 2009 consist of the following:

	<u>2010</u>	<u>2009</u>
Revenues from Shrine temple sponsored events	\$ 7,984	9,063
Direct mail revenue	4,061	7,473
Other revenue	<u>7,784</u>	<u>7,455</u>
	\$ <u>19,829</u>	<u>23,991</u>
Fund-raising costs paid directly by Shrine temples in connection with fund-raising events	\$ 616	929
Donor relations expense	8,974	5,042
Direct mail expense	2,017	3,242
Other costs	<u>7,785</u>	<u>8,844</u>
	\$ <u>19,392</u>	<u>18,057</u>

Revenues from Shrine temple sponsored events are reported net of direct costs of \$2,995 and \$2,860 for 2010 and 2009, respectively.

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 event yielded \$6,479 in revenues. Expenses incurred on this event in 2010 were \$7,784, creating a net loss on the event of \$1,305. The 2009 event yielded \$6,048 in revenues. Expenses incurred on this event in 2009 were \$7,415, creating a net loss on the event of \$1,367. These revenues and expenses are included above in other revenue and other costs.

**(7) 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 6), 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, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Temple revenues restricted for patient transportation	\$ 16,559	16,783
Patient transportation costs	<u>(12,625)</u>	<u>(17,797)</u>
Change in patient transportation funds	\$ <u>3,934</u>	<u>(1,014)</u>

## SHRINERS HOSPITALS FOR CHILDREN

### Notes to Combined Financial Statements

December 31, 2010 and 2009

(In thousands)

#### (8) 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.

The tables below summarize SHC's significant financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2010 and 2009:

	December 31, 2010	<u>Fair value measurements at reporting date using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
Long-term investments:				
Short-term investments	\$ 148,599	148,599	—	—
Common and preferred stocks	4,414,985	2,547,813	1,867,172	—
U.S. government securities	1,479,857	—	1,479,719	138
Corporate bonds	594,809	—	594,809	—
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	<u>7,343,639</u>	<u>2,696,412</u>	<u>4,478,206</u>	<u>169,021</u>
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	—	—



## SHRINERS HOSPITALS FOR CHILDREN

### Notes to Combined Financial Statements

December 31, 2010 and 2009

(In thousands)

	<u>December 31, 2009</u>	<u>Fair value measurements at reporting date using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
Long-term investments:				
Short-term investments	\$ 84,295	84,295	—	—
Common and preferred stocks	4,195,713	2,584,041	1,604,906	6,766
U.S. government securities	1,473,380	—	1,468,361	5,019
Corporate bonds	571,912	—	571,912	—
Charitable gift annuities	23,763	—	23,763	—
Beneficial interests in trusts	465,835	—	465,835	—
Real estate and mineral interests	149,925	—	—	149,925
Miscellaneous investments	12,770	—	12,770	—
Total	<u>6,977,593</u>	<u>2,668,336</u>	<u>4,147,547</u>	<u>161,710</u>
Collateral under securities lending transactions	781,883	781,883	—	—
Liabilities:				
Annuity liabilities	25,026	—	25,026	—
Liabilities under securities lending transactions	781,883	781,883	—	—

SHC's Level 1 assets and liabilities include investments in cash, cash equivalents, corporate equities, and debt and are valued at quoted market prices.

SHC's Level 2 assets include investments in U.S. Treasuries, government securities, corporate debt securities, derivatives, asset-backed securities, 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, fixed income investments, and asset-back securities.

**SHRINERS HOSPITALS FOR CHILDREN**

Notes to Combined Financial Statements

December 31, 2010 and 2009

(In thousands)

The tables below summarize the changes in Level 3 assets for the years ended December 31, 2010 and 2009:

	Fair value measurements using significant unobservable inputs (Level 3)			
	<u>Fixed income investments</u>	<u>Equity investments</u>	<u>Other investments</u>	<u>Total</u>
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 and/or out of Level 3, net	(1,707)	(325)	(5,762)	(7,794)
Ending balance	\$ 138	—	168,883	169,021

	Fair value measurements using significant unobservable inputs (Level 3)			
	<u>Fixed income investments</u>	<u>Equity investments</u>	<u>Other investments</u>	<u>Total</u>
2009:				
Beginning balance	\$ 13,340	2,806	157,566	173,712
Total gains (losses) (realized/ unrealized) included in (decrease) increase in unrestricted net assets	2,502	3,596	948	7,046
Purchases	3,667	7,391	—	11,058
Settlements	(622)	—	—	(622)
Sales	(5,059)	(4,201)	—	(9,260)
Transfers in and/or out of Level 3, net	(9,526)	(2,826)	(7,872)	(20,224)
Ending balance	\$ 4,302	6,766	150,642	161,710

**SHRINERS HOSPITALS FOR CHILDREN**

Notes to Combined Financial Statements

December 31, 2010 and 2009

(In thousands)

Realized and unrealized gains (losses) included in changes in net assets for the years ended December 31, 2010 and 2009 are reported in investment income as follows:

	<u>December 31</u>	
	<u>2010</u>	<u>2009</u>
Total gains included in (decrease) increase in unrestricted net assets	\$ 23,235	7,046
Change in unrealized gains (losses) relating to assets still held at reporting date	24,999	8,064

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>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>\$ 1,655,043</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) This fund seeks to exceed the S&P 500.

Estimates of fair values are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could affect the estimates.

**(9) 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).

**SHRINERS HOSPITALS FOR CHILDREN**

Notes to Combined Financial Statements

December 31, 2010 and 2009

(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, 2010 and 2009 included the following components:

	<b>Pension Plans</b>		<b>Postretirement Plan</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Service cost – benefits earned during the period	\$ 19,002	17,108	321	324
Interest cost on projected benefit obligation	22,384	19,852	549	529
Expected return on plan assets	(19,387)	(16,968)	—	—
Net amortized and deferral of unrecognized gains and losses	4,483	2,460	301	320
<b>Net periodic pension cost</b>	<b>\$ 26,482</b>	<b>22,452</b>	<b>1,171</b>	<b>1,173</b>

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, 2010 and 2009, respectively (using a measurement date of December 31):

	<b>Pension Plans</b>		<b>Postretirement Plan</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>Change in benefit obligation:</b>				
Benefit obligation at beginning of year	\$ 359,992	318,848	8,982	8,617
Service cost	19,002	17,108	321	324
Interest cost	22,384	19,852	550	529
Actuarial (gain) loss	17,190	16,377	179	(303)
Benefits paid	(12,436)	(12,193)	(250)	(185)
Settlements	—	—	—	—
<b>Benefit obligation at end of year</b>	<b>406,132</b>	<b>359,992</b>	<b>9,782</b>	<b>8,982</b>
<b>Change in plan assets:</b>				
Fair value of plan assets at beginning of year	221,368	161,549	—	—
Actual return on plan assets	26,057	29,356	—	—
Employer contributions	27,461	42,656	250	185
Benefits paid	(12,436)	(12,193)	(250)	(185)
<b>Fair value of plan assets at end of year</b>	<b>262,450</b>	<b>221,368</b>	<b>—</b>	<b>—</b>
<b>Funded status at end of year</b>	<b>\$ (143,682)</b>	<b>(138,624)</b>	<b>(9,782)</b>	<b>(8,982)</b>

**SHRINERS HOSPITALS FOR CHILDREN**

Notes to Combined Financial Statements

December 31, 2010 and 2009

(In thousands)

The accumulated benefit obligation for the Pension Plans was \$342,814 and \$288,114 at December 31, 2010 and 2009, 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, 2010 and 2009 were as follows:

	<b>Pension Plans</b>		<b>Postretirement Plan</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Discount rate	5.50%	6.00%	5.50%	6.00%
Rate of compensation increase	4.00	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:

	<b>Pension Plans</b>		<b>Postretirement Plan</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Discount rate	6.00%	6.00%	6.00%	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, 2010 and 2009

(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, 2010. Unrecognized actuarial losses represent unexpected changes in the projected benefit obligation and plan assets over time, primarily due to changes in assumed discount rates and investment experience. Unrecognized prior service cost is the impact of changes in plan benefits applied retrospectively to employee service previously rendered. Deferred pension costs are amortized into annual pension expense over the average remaining assumed service period for active employees.

	<u>Pension plans</u>		<u>Postretirement plan</u>	
	<u>Amounts recognized in unrestricted net assets at December 31, 2010</u>	<u>Amounts in unrestricted net assets to be recognized during the next fiscal year</u>	<u>Amounts recognized in unrestricted net assets at December 31, 2010</u>	<u>Amounts in unrestricted net assets to be recognized during the next fiscal year</u>
Actuarial loss (gain)	\$ 4,451	6,359	(34)	(11)
Prior service cost	32	32	300	300
Transition obligation	—	—	35	35
Total	<u>\$ 4,483</u>	<u>6,391</u>	<u>301</u>	<u>324</u>

***Plan Assets***

The weighted average allocation of the Pension Plans' assets at December 31, 2010 and 2009 were as follows:

<u>Asset category</u>	<u>2010</u>	<u>2009</u>
Short-term investments	1%	2%
Common and preferred stock	44	27
Corporate and miscellaneous bonds	31	28
Mutual funds	24	43
Total assets	<u>100%</u>	<u>100%</u>

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.

**SHRINERS HOSPITALS FOR CHILDREN**

Notes to Combined Financial Statements

December 31, 2010 and 2009

(In thousands)

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

	<u>December 31,</u>	<u>Fair value measurements at reporting date using</u>		
	<u>2010</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
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	—
Nothern Trust Global Investments Collective Russell 2000 Index Fund – Nonlending (e)	31,170	—	31,170	—
Nothern Trust Global Investments Collective Daily S&P 500 Equity Index Fund – Nonlending (f)	84,492	—	84,492	—
Nothern 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 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.

## SHRINERS HOSPITALS FOR CHILDREN

### Notes to Combined Financial Statements

December 31, 2010 and 2009

(In thousands)

(g) The primary objective of this fund is to provide investment results that approximate the overall performance of the Barclay's Capital Aggregate Bond Index. This fund does not participate in securities lending.

The table below summarizes the Pension Plan's significant financial assets measured at fair value on a recurring basis as of December 31, 2009:

	<u>December 31,</u>	<u>Fair value measurements at reporting date using</u>		
	<u>2009</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
Northern Trust Global Investments Collective Funds Trust (a)	\$ 4,255	4,255	—	—
Artio International Equity Group Trust Fund (b)	21,179	—	21,179	—
Blackrock Alpha Tilts Fund (c)	24,550	—	24,550	—
Blackrock World Ex-US Alpha Tilts L Fund(d)	11,545	—	11,545	—
Northern Trust Global Investments Collective Russell 2000 Index Fund - Nonlending (e)	21,032	—	21,032	—
Northern Trust Global Investments Collective Extended Equity Market Index Fund - Lending (f)	3,532	—	3,532	—
Northern Trust Global Investments Collective Daily S&P 500 Equity Index Fund - Lending (g)	34,726	—	34,726	—
Northern Trust Global Investments Collective Daily S&P 500 Equity Index Fund - Nonlending (h)	38,682	—	38,682	—
Northern Trust Global Investments Collective Daily Aggregate Bond Index Fund - Lending (i)	41,609	—	41,609	—
Northern Trust Global Investments Collective Daily Aggregate Bond Index Fund - Nonlending (j)	20,258	—	20,258	—
Total	<u>221,368</u>	<u>4,255</u>	<u>217,113</u>	<u>—</u>



## SHRINERS HOSPITALS FOR CHILDREN

### Notes to Combined Financial Statements

December 31, 2010 and 2009

(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 Dow Jones U.S. Completion ex-LPs Total Stock Market Index. This fund may 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 participate in securities lending.
- (h) 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.
- (i) The primary objective of this fund is to provide investment results that approximate the overall performance of the Barclay's Capital Aggregate Bond Index. This fund may participate in securities lending.
- (j) The primary objective of this fund is to provide investment results that approximate the overall performance of the Barclay's Capital Aggregate Bond Index. This fund does 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.

#### ***Contributions***

Annual contributions are determined based upon calculations prepared by the plans' actuary. Expected contributions to the Pension Plans and the Postretirement Plan are \$14,405 and \$297, respectively, in 2011.

# SHRINERS HOSPITALS FOR CHILDREN

## Notes to Combined Financial Statements

December 31, 2010 and 2009

(In thousands)

### ***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:		
2011	\$ 14,405	297
2012	15,833	319
2013	18,487	343
2014	19,844	369
2015	20,935	398
2016-2019	137,258	2,504

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 \$4,185 and \$1,455 in 2010 and 2009, respectively.

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.

### **(10) 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, 2010. 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.

# SHRINERS HOSPITALS FOR CHILDREN

## Notes to Combined Financial Statements

December 31, 2010 and 2009

(In thousands)

### (11) 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. Florida has not yet adopted UPMIFA and, therefore, SHC is not subject to its provisions.

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.

*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.

## SHRINERS HOSPITALS FOR CHILDREN

### Notes to Combined Financial Statements

December 31, 2010 and 2009

(In thousands)

Endowment net asset composition by type of fund, as of December 31, 2010 and 2009, are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total endowment net assets</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>
2009:				
Board-designated endowment funds	\$ 6,511,758	—	—	6,511,758
Donor-restricted endowment funds	—	122,207	343,628	465,835
	<u>\$ 6,511,758</u>	<u>122,207</u>	<u>343,628</u>	<u>6,977,593</u>

Changes in endowment net assets for the years ended December 31, 2010 and 2009 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total endowment net assets</u>
2010:				
Balance, beginning of year	\$ 6,511,758	122,207	343,628	6,977,593
Contributions	—	1,833	967	2,800
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)	—	7,164	(419,614)
Balance, end of year	<u>\$ 6,852,632</u>	<u>122,490</u>	<u>368,517</u>	<u>7,343,639</u>
2009:				
Balance, beginning of year	\$ 5,901,832	112,863	305,079	6,319,774
Contributions	—	11,318	12,339	23,657
Investment income	200,202	—	7	200,209
Net appreciation	876,440	9,276	26,432	912,148
Reclassifications	11,250	(11,250)	—	—
Withdrawals	(477,966)	—	(229)	(478,195)
Balance, end of year	<u>\$ 6,511,758</u>	<u>122,207</u>	<u>343,628</u>	<u>6,977,593</u>

#### (12) Subsequent Events

As required by FASB ASC 855, *Subsequent Events*, SHC evaluated events subsequent to December 31, 2010 and through April 4, 2011, the date on which the financial statements were available for issuance.