# Consolidated Basic Financial Statements, Required Supplementary Information and Other Supplementary Information

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries
Year Ended June 30, 2022
With Report of Independent Auditors

Ernst & Young LLP

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# Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

## Consolidated Basic Financial Statements, Required Supplementary Information and Other Supplementary Information

Year Ended June 30, 2022

## Contents

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# Report of Independent Auditors

Management and The Board of Directors
Shands Teaching Hospital and Clinics, Inc.

## Report on the Audit of the Financial Statements

### *Opinions*

We have audited the accompanying financial statements of the business-type activities and fiduciary activities of Shands Teaching Hospital and Clinics, Inc. and Subsidiaries (the Company), a component unit of the University of Florida, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Company's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and fiduciary activities of the Company at June 30, 2022, and the respective changes in its financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Basis for Opinions*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States *(Government Auditing Standards)*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company, and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### *Adoption of GASB Statement No. 87, "Leases"*

As discussed in Note 2 to the consolidated basic financial statements, in 2022 the Company adopted new accounting guidance that changed its method for reporting leases as a result of the adoption of Governmental Accounting Standards Board Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.



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***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. 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 and *Government Auditing Standards* 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 financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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 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 Company'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 financial statements.



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- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company'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.

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that management's discussion and analysis (unaudited) on pages 5 through 21, the schedule of STHC's proportionate share of the net pension (asset) liability (unaudited) on page 95, the schedule of employer contributions (unaudited) on page 98, the schedule of changes in the net pension (asset) liability (unaudited) on page 100, the schedule of plan contributions (unaudited) on page 101 and the schedule of plan investment returns (unaudited) on page 102 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Company's basic financial statements. The supplementary consolidating information on pages 103 through 105 and the supplementary consolidated statement of cash flows for the UF Health Central Florida (UFHCF) obligated group on page 106 are presented for purposes of additional analysis and are not required to be part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional



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procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary consolidating information and the supplementary statement of cash flows for the UFHCF obligated group are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2022 on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Company's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control over financial reporting and compliance.

Ernst & Young LLP

September 28, 2022



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## Introduction

This section of the Shands Teaching Hospital and Clinics, Inc. and Subsidiaries' annual financial report presents the analysis of financial performance as of and for the year ended June 30, 2022, with comparative information as of and for the year ended June 30, 2021. This discussion has been prepared by management and should be read in conjunction with the consolidated basic financial statements and related note disclosures.

## Organization

Shands Teaching Hospital and Clinics, Inc. ("STHC") is an affiliate of the University of Florida ("UF") where, by statute, the President of UF has the authority to appoint and remove a majority of the members of the STHC Board of Directors. In addition, there is a significant presence of both UF Board of Trustees members and senior management personnel on the STHC Board. Governance oversight protocols closely align UF and STHC on material transactional and budgetary decisions affecting STHC.

STHC controls or owns various affiliated entities that operate facilities and provide services as part of STHC. STHC and certain of its affiliated entities, along with the UF Health Science Center, operate under names beginning with "UF Health." Prior to January 1, 2020, STHC and its affiliated entities primarily operated in north central Florida with activities concentrated in Alachua and Marion Counties ("UF Health Shands"). Effective January 1, 2020, STHC acquired Central Florida Health, Inc. ("CFH" or "UFHCF"), a community health care provider in central Florida, pursuant to which STHC became the sole corporate member of CFH. CFH manages and operates two acute care hospitals in central Florida – Leesburg Regional Medical Center, Inc. and The Villages Tri-County Medical Center, Inc. – as well as various related organizations ("UF Health Central Florida"). Certain of UF Health Central Florida's affiliates, including CFH and the two acute care hospitals, began operating under the "UF Health" brand effective January 1, 2020.

STHC and its affiliates are referred to as "Shands" throughout management's discussion and analysis of financial performance. The following describes the primary activities and operations of Shands:

**UF Health Shands**

- STHC operates the following:

  - **UF Health Shands Hospital** is part of a major academic medical center located in Gainesville, Florida, and is licensed to operate a 1,030-bed acute care hospital. UF Health Shands Hospital is a leading referral center in the State of Florida and provides clinical settings for medical education and training programs at UF.

  - **UF Health Shands Psychiatric Hospital** is a psychiatric and substance abuse facility located in Gainesville, licensed to operate 81 beds, of which 63 are psychiatric and 18 are substance abuse.

  - **UF Health Shands HomeCare** is a hospital-based home care agency providing home care services to residents of north central Florida.

  - **Hotel Eleo at the University of Florida** is a 173-room boutique hotel located on the campus of UF Health Shands Hospital.

- **Shands Recovery, LLC d/b/a UF Health Florida Recovery Center** provides outpatient and residential treatment for alcohol and drug abuse, with on-site leased housing for certain programs. STHC is the sole member of Shands Recovery, LLC.

- **Elder Care of Alachua County, Inc. ("Elder Care")** is a Florida not-for-profit corporation providing social and health care related services to the elderly in Alachua County. STHC is the sole corporate member of Elder Care.

- **Southeastern Healthcare Foundation, Inc. ("Southeastern")** is a Florida not-for-profit corporation providing charitable aid to UF and Shands. STHC is the sole corporate member of Southeastern.

- **Shands Auxiliary, Inc. ("Auxiliary")** is a Florida not-for-profit corporation created for the purpose of supporting, promoting, and encouraging certain fundraising events for the benefit of charitable organizations and programs. Southeastern is the sole corporate member of Auxiliary.

**UF Health Central Florida**

- **Central Florida Health, Inc. d/b/a UF Health Central Florida ("UFHCF")** is a not-for-profit community health care provider located in central Florida serving as the parent company to various health care related entities. STHC is the sole corporate member of UFHCF.

- **Leesburg Regional Medical Center, Inc. d/b/a UF Health Leesburg Hospital ("UFHL")** is a 330-bed acute care hospital located in Leesburg, Florida. UFHCF is the sole corporate member of UFHL.

- **The Villages Tri-County Medical Center, Inc. d/b/a UF Health The Villages® Hospital ("UFHV")** is a 307-bed acute care hospital in The Villages®, a residential community located in central Florida. UFHCF is the sole corporate member of UFHV.

- **Care Delivery Alliance, LLC** is a for-profit company jointly owned by UFHL and UFHV, organized to operate a physician-hospital organization with other participating healthcare providers.

- **Leesburg Regional Medical Center Foundation, Inc. d/b/a UF Health Leesburg Hospital Foundation ("UFHL Foundation")** is a fundraising organization located in Leesburg, coordinating fundraising activities for UFHL and its affiliates. UFHL is the sole corporate member of UFHL Foundation.

- **The Villages Regional Hospital Auxiliary Foundation, Inc. d/b/a UF Health The Villages® Hospital Auxiliary Foundation ("UFHV Foundation")** is a fundraising organization located in The Villages®, coordinating fundraising activities for UFHV and its affiliates. UFHV is the sole corporate member of UFHV Foundation.

- **Alliance Labs, LLC d/b/a UF Health Alliance Laboratory** is a single member LLC operating a diagnostic pathology practice and reference lab. UFHL is the sole member.

- **Pathology Services Alliance, LLC** is a single member LLC responsible for the professional billing of its employed pathologists. UFHL is the sole member.

- **Leesburg Regional Medical Center Physician Services, LLC** is a single member LLC responsible for the professional billing of its employed physicians. UFHL is the sole member.

- **The Villages Regional Hospital Physician Services, LLC** is a single member LLC responsible for the professional billing of its employed physicians. UFHV is the sole member.

**Shands' Partially-Owned, Unconsolidated Affiliates**

- STHC has a 49.9% minority interest in **Shands/Solantic Joint Venture, LLC,** which owns four walk-in urgent care centers located in north central Florida. Solantic of Orlando, LLC owns the remaining 50.1% majority interest and manages the facilities.

- STHC has a 49% minority interest in **Select Specialty Hospital – Gainesville, LLC ("SSH")**. Select Specialty Hospitals, Inc. ("Select"), an affiliate of Select Medical Corporation ("SMC"), owns the remaining 51% majority interest. SSH operates a 48-bed long-term acute care hospital located within STHC's primary hospital facility, which SSH leases from STHC. Select Unit Management, Inc., a wholly owned subsidiary of SMC, provides management services to SSH.

- STHC has a 49% minority interest in **Archer Rehabilitation, LLC ("Archer Rehab")**. Select owns the remaining 51% majority interest. Archer Rehab operates a 60-bed rehabilitation facility located approximately one mile from STHC's main hospital campus.

- STHC has a 50% interest in **UF Health South Central, LLC ("South Central")**. Florida Clinical Practice Association, Inc. ("FCPA"), a component unit of UF, owns the remaining 50% interest. South Central owns property located in Marion County, consisting of two medical office buildings, two vacant lots, and certain medical equipment. South Central leases the medical office buildings and equipment to FCPA, which operates various clinical practices therein.

- STHC entered into a Management Services, Governance, and Contribution Agreement (the "Deltona Agreement") with Halifax Hospital Medical Center ("Halifax"), Halifax Management System, Inc. ("HMS") and various affiliated entities, including Medical Center of Deltona, Inc., which operates **Halifax Health | UF Health Medical Center of Deltona ("MCD")**, a 43-bed acute care hospital located in Deltona, Florida. Under the Deltona Agreement, Halifax and STHC will: (i) provide management services to operate MCD, (ii) provide equal capital funding contributions, and (iii) equally receive MCD profits and distributions. Additionally, under the Deltona Agreement, STHC, HMS, and certain Halifax affiliates agreed to individually provide joint and several liability guarantees for obligations arising under a Master Securities Lending Agreement. STHC's total aggregate liability under the guaranty shall not exceed 50% of the total amount guaranteed by STHC and the other parties.

- UFHL has a 49% minority interest in **Lake Medical Imaging and Breast Center at The Villages, LLC d/b/a Lake Medical Imaging and Vascular Institute ("LMI")**, which operates four full service imaging centers located in The Villages® and Leesburg. Orange Blossom Gardens Radiology II, LLC owns the remaining 51% majority interest.

- UFHL and UFHV have a combined 50% interest in **Central Florida Cardiovascular Co-Management Company, LLC,** which provides management services to the cardiovascular service lines of UFHL and UFHV. The remaining interests are owned by independent physician partners.

- UFHCF has an 11.1% minority interest in **LeeSar, Inc. ("LeeSar")**, which provides medical supply distribution and group purchasing services to various health care organizations. Lee Memorial Hospital, Inc. and Sarasota Memorial Health Care System each own 44.45%.

**Required Financial Statements**

The required statements are the consolidated basic statement of net position, the consolidated basic statement of revenues, expenses and changes in net position and the consolidated basic statement of cash flows. These statements offer short- and long-term financial information about Shands' activities. The consolidated basic statement of net position reflects all of Shands' assets, deferred outflows of resources (deferred outflows), liabilities, and deferred inflows of resources (deferred inflows) and provides information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). Assets, liabilities, and deferred activity are presented in a classified format, which distinguishes between their current and long-term time frame. The difference between the assets plus deferred outflows and liabilities plus deferred inflows is reported as "net position."

The consolidated basic statement of revenues, expenses and changes in net position presents the change in net position resulting from revenues earned and expenses incurred. All changes in net position are reported as revenues are earned and expenses are incurred, regardless of the timing of related cash flows.

The consolidated basic statement of cash flows reports cash receipts, cash payments, and net changes in cash resulting from operating, financing (capital and non-capital), and investing activities. The purpose of the statement is to reflect the key sources and uses of cash during the reporting period.

## Financial Analysis of Shands

### Statements of Net Position

The consolidated basic statements of net position present the financial position of Shands as of June 30, 2022 and 2021 and include all assets, deferred outflows, liabilities and deferred inflows. Net position is one indicator of the current financial condition of Shands. Changes in net position are an indicator of whether the overall financial condition of the organization has improved or worsened over a period of time. They also provide the basis for evaluating the capital structure, as well as assessing the liquidity and financial flexibility of Shands. However, the financial statement user should consider other nonfinancial factors, such as changes in economic conditions, population change, regulations, and government legislation affecting the health care industry, among other factors.

The following table presents Shands' condensed consolidated basic statements of net position as of June 30, 2022 and 2021:

*(in thousands of dollars)*

| | 2022 | 2021 |
|---|---|---|
| Cash and cash equivalents | $ 109,244 | $ 186,287 |
| Short-term investments | 155,540 | 209,710 |
| Other current assets | 495,164 | 465,604 |
| Capital assets, net | 1,409,203 | 1,370,271 |
| Other assets | 1,374,764 | 1,373,512 |
| Total assets | 3,543,915 | 3,605,384 |
| Deferred outflows of resources | 130,189 | 105,139 |
| Current liabilities | 507,224 | 586,990 |
| Long-term liabilities | 1,113,119 | 1,188,317 |
| Total liabilities | 1,620,343 | 1,775,307 |
| Deferred inflows of resources | 185,659 | 49,697 |
| Net position: | | |
| Net investment in capital assets | 315,892 | 310,197 |
| Restricted: | | |
| Nonexpendable | 2,150 | 2,169 |
| Expendable | 1,904 | 3,065 |
| Unrestricted | 1,548,156 | 1,570,088 |
| Total net position | $ 1,868,102 | $ 1,885,519 |

**Note:** Shands reclassified certain amounts in its audited consolidated basic statement of net position as of June 30, 2021, to conform to the presentation in the consolidated basic statement of net position as of June 30, 2022.

**Assets and Deferred Outflows of Resources**

Cash and cash equivalents decreased by $77.0 million, or 41.4%. Significant sources of cash included $103.8 million in cash provided by operating activities, $30.4 million in reimbursement from a trustee-held project fund, $27.9 million in federal grants and state appropriations received, including the receipt of $20.9 million in Provider Relief Funds (see "COVID-19 Pandemic"), $8.9 million of donations and pledge receipts, $6.6 million of distributions from unconsolidated affiliates, and $6.4 million in proceeds from the sale of capital assets. Significant cash uses included $135.9 million in purchases of capital assets, $70.8 million in principal and interest payments on outstanding debt and lease obligations, and $62.5 million in purchases (net of sales) of short-term investments, assets whose use is limited, and assets whose use is restricted. Short-term investments decreased by $54.2 million, or 25.8%, due to the transfer of short-term investments to assets whose use is limited.

Other current assets, including net patient accounts receivable, inventories, and prepaid expenses and other current assets, increased by $29.6 million, or 6.3%. Patient accounts receivable, net increased by $28.8 million due to increased net patient service revenue and a temporary delay in billing due to a computer system conversion at UFHCF in May 2022. Inventory balances increased by $3.2 million due to the increased cost of medical supplies. Prepaid expenses and other current assets decreased by $2.5 million primarily due to the timing of the receipt of State of Florida supplemental Medicaid payments for the graduate medical education ("GME") program, as well as the timing of payments made on prepaid contracts and payments received on non-patient accounts receivable.

Capital assets, net increased by $38.9 million, or 2.8%, reflecting purchases of capital assets of $135.9 million, the addition of $28.9 million in right-to-use lease assets recognized due to the implementation of GASB Statement No. 87, *Leases* ("GASB No. 87"), and a $2.5 million increase in retainage and construction payables, largely offset by depreciation and amortization expense of $124.2 million and the sale of capital assets with a net book value of $4.2 million.

Other assets were largely unchanged and include assets whose use is limited, assets whose use is restricted, and other assets. Assets whose use is limited decreased by $75.2 million due to $186.6 million in investment losses (including change in fair value of investments) in Shands' pooled investment program and certain direct investments, partially offset by the transfer of $110.0 million from short-term investments. Assets whose use is restricted decreased by $31.7 million primarily due to $30.4 million in reimbursement from a trustee-held project fund and the receipt of $1.7 million of collateral on interest rate swap contracts. Other assets increased by $108.1 million primarily due to a $96.7 million increase in the pension asset associated with the defined benefit ("DB") pension plan and the addition of $28.2 million in receivables on leases, non-current portion, recognized due to the implementation of GASB No. 87, partially offset by a $6.3 million net decrease in investments in unconsolidated affiliates (due to $6.6 million in distributions received, partially offset by $0.3 million in income earned from unconsolidated affiliates), a $5.1 million impairment of a note receivable, and a $3.1 million decrease in group health claims receivable.

Deferred outflows of resources increased by $25.1 million, or 23.8%, primarily due to a $46.7 million increase in deferred outflows on pension, partially offset by a $20.1 million decrease in the accumulated decrease in fair value of hedging derivatives. The increase in deferred outflows on pension is due to the impact of changes in actuarial assumptions ($48.6 million), partially offset by differences in projected and actual actuarial experience ($1.8 million) and the net decrease in plan contribution levels ($0.1 million). The change in the accumulated decrease in fair value of hedging derivatives is due to the net change in the fair value of certain interest rate swap contracts used as a hedge against changes in interest rates on certain variable rate debt instruments.

**Liabilities, Deferred Inflows of Resources and Net Position**

Current liabilities decreased by $79.8 million, or 13.6%, primarily due to a $129.5 million decrease in Medicare advances, current portion, and a $1.5 million decrease in accrued salaries and leave payable, partially offset by a $28.5 million increase in accounts payable and accrued expenses, a $19.0 million increase in estimated third-party payor settlements, and a $3.5 million increase in lease obligations, current portion. The decrease in Medicare advances, current portion, is due to the repayment of Medicare advances received due to COVID-19 (see "COVID-19 Pandemic"). The decrease in accrued salaries and leave payable is primarily due to the timing of the payroll payment cycle. The increase in accounts payable and accrued expenses is primarily due to a $26.6 million increase in accounts payable due to the timing of the vendor invoice and payment cycles and a $2.5 million increase in retainage and construction payables. The increase in estimated third-party payor settlements is due to settlement payment activity to/from certain third-party government payors and changes in settlement estimates. The increase in lease obligations, current portion, is due to the adoption of GASB No. 87.

Long-term liabilities decreased by $75.2 million, or 6.3%, primarily due to a $39.0 million decrease in other liabilities, a $31.7 million decrease in Medicare advances, less current portion, and a $25.4 million decrease in long-term debt, less current portion, partially offset by a $20.9 million increase in lease obligations, less current portion. The decrease in other liabilities is primarily due to $14.2 million in payments of social security taxes deferred until December 2021, as permitted under the CARES Act, a $20.1 million change in the fair value of interest rate swaps in a liability position and used as a hedge against changes in interest rates on certain variable rate debt instruments, and a $3.0 million decrease in the allowance for professional liability claims. The decrease in Medicare advances, less current portion, is due to the repayment of Medicare advances received due to COVID-19 (see "COVID-19 Pandemic"). The decrease in long-term debt, less current portion, is primarily due to principal payments of $19.9 million and amortization of bond premium of $5.2 million. The increase in lease obligations, less current portion, is due to the recognition of lease liabilities resulting from the adoption of GASB No. 87.

Deferred inflows of resources increased by $136.0 million, or 273.6%, primarily due to a $105.3 million increase in deferred inflows on pension and a $30.8 million increase in deferred inflows on leases. The increase in deferred inflows on pension is due to the net differences in projected and actual earnings on plan investments ($118.8 million), partially offset by the impact of changes in actuarial assumptions ($13.5 million). The increase in deferred inflows on leases is due to the adoption of GASB No. 87.

Total net position decreased by $17.4 million, or 0.9%, due to a deficit of revenues over expenses of $18.5 million and other changes in net position of $1.1 million, partially offset by capital contributions of $2.2 million.

## Statements of Revenues, Expenses and Changes in Net Position

The following table presents Shands' condensed consolidated basic statements of revenues, expenses and changes in net position for the years ended June 30, 2022 and 2021:

*(in thousands of dollars)*

| | 2022 | 2021 |
|---|---|---|
| Net patient service revenue | $ 2,545,388 | $ 2,188,083 |
| Other operating revenue | 68,081 | 47,188 |
| Total operating revenues | 2,613,469 | 2,235,271 |
| Operating expenses | 2,436,472 | 2,150,515 |
| Operating income | 176,997 | 84,756 |
| Nonoperating (expenses) revenues, net | (195,471) | 144,162 |
| (Deficit) excess of revenues over expenses | (18,474) | 228,918 |
| Other changes in net position: | | |
| Capital contributions | 2,210 | 1,415 |
| Other changes in net position | (1,153) | 668 |
| (Decrease) increase in net position | (17,417) | 231,001 |
| Net position: | | |
| Beginning of year | 1,885,519 | 1,654,518 |
| End of year | $ 1,868,102 | $ 1,885,519 |

**Note:** Shands reclassified certain amounts in its audited consolidated basic statement of revenues, expenses and changes in net position for the year ended June 30, 2021, to conform to the presentation in the consolidated basic statement of revenues, expenses, and changes in net position for the year ended June 30, 2022.

## Operating Revenues

Total operating revenues increased by $378.2 million, or 16.9%, due to a $357.3 million increase in net patient service revenue and a $20.9 million increase in other operating revenue. The increase in net patient service revenue is primarily due to a $260.2 million increase in State of Florida Medicaid supplemental revenue and a $97.1 million increase in all other net patient service revenue. The increase in Medicaid supplemental revenue is primarily due to two newly formed programs, the indirect medical education program ("IME") and the directed payment program ("DPP"), resulting in a $263.9 million increase in net patient service revenue. The increase in all other net patient service revenue (which reflects a 4.7% increase in net patient service revenue, excluding Medicaid supplemental revenue) is due to increased payor payment rates and increased outpatient activity (4.5% overall increase). While inpatient admissions and inpatient surgical cases have been adversely impacted by new variants of the COVID-19 virus (decrease of 3.0% and 5.6%, respectively), outpatient surgeries increased by 2.5%, outpatient visits increased by 3.3% and emergency room visits increased by 10.3%. These changes in volume, along with increased payor payment rates and increased Medicaid supplemental revenue, drove the overall increase in net patient service revenue. The increase in other operating revenue is primarily due to an $8.4 million increase in grant revenue, a $4.7 million increase in hotel revenue, a $4.1 million insurance settlement for a cybersecurity event (See "Cybersecurity Event at UFHCF"), and a $3.1 million increase in organ procurement activities.

**Operating Expenses**

Operating expenses increased by $286.0 million, or 13.3%, due to a $104.5 million (11.1%) increase in salaries and benefits, a $170.2 million (15.6%) increase in supplies and services, and an $11.3 million (10.0%) increase in depreciation and amortization. The increase in salaries and benefits is due to a $122.7 million increase in salaries and wages, partially offset by an $18.2 million decrease in employee benefits. The increase in salaries and wages is due to an increase in contract labor ($99.3 million) due to a national shortage of skilled nurses and other health care professionals, along with a significant increase in the price of contract labor driven by increased market demand, and a 6.2% increase in average wage rates ($43.2 million), partially offset by a 2.8% decrease in non-contract labor hours ($19.8 million). The decrease in employee benefits is primarily due to a $22.5 million decrease in DB pension plan expense, partially offset by a $4.3 million increase in all other employee benefits. The increase in supplies and services is primarily due to a $99.7 million increase in professional fees, a $34.2 million increase in supplies, a $30.3 million increase in other direct costs, and a $9.5 million increase in purchased services. The increase in professional fees is primarily related to expenditures incurred in connection with the new IME program ($69.7 million) and increases in physician fees and support of UF and its health science colleges. The increase in supplies is driven by inflationary cost increases and increases in high cost drug utilization. The increase in other direct costs is primarily related to expenditures incurred in connection with the new DPP program ($29.1 million). The increase in purchased services is driven by increased repairs and maintenance, software maintenance, and advertising. The increase in depreciation and amortization expense is primarily related to $6.2 million of amortization of intangible right-to-use lease assets recognized due to the adoption of GASB No. 87.

**Nonoperating (Expenses) Revenues, Net**

Nonoperating (expenses) revenues, net decreased by $339.6 million, primarily due to a $362.9 million decrease in net investment (loss) income (including change in fair value of investments), partially offset by a $16.3 million increase in federal grants and state appropriations and a $7.1 million increase in income from unconsolidated affiliates. Investment performance decreased from $176.3 million of investment income for the year ended June 30, 2021 to $186.6 million of investment loss for the year ended June 30, 2022. The decline in investment performance has been driven by instability in the global equity and fixed income markets due to inflation, changes in interest rates, and war in Ukraine, among other things. The changes in investment (loss) income were primarily due to a $324.9 million decrease in the change in investment value of Shand's pooled investment funds, a $24.4 million decrease in the change in fair value of other direct investments, and a $13.8 million decrease in investment income from other direct investments. The increase in federal grants and state appropriations was due to an increase in Provider Relief Funds received (see "COVID-19 Pandemic"). The increase in income from unconsolidated affiliates is due to a non-recurring $9.1 million impairment loss recognized in the prior year on UFHL's investment in LMI and UFHCF's investment in LeeSar.

**Other Changes in Net Position**

Capital contributions increased by $0.8 million and other changes in net position decreased by $1.8 million.

**Patient Volumes**

The following tables present the associated volumes of each facility on a comparative basis for the years ended June 30, 2022 and 2021:

| | 2022 | 2021 | Net Change | % Change |
|---|---|---|---|---|
| **Admissions (1)** | | | | |
| UF Health Shands Hospital | 49,119 | 51,039 | (1,920) | (3.8)% |
| UF Health Shands Psychiatric Hospital | 3,749 | 3,718 | 31 | 0.8% |
| UF Health Leesburg Hospital | 17,557 | 18,521 | (964) | (5.2)% |
| UF Health The Villages® Hospital | 15,860 | 15,808 | 52 | 0.3% |
| Total | 86,285 | 89,086 | (2,801) | (3.1)% |
| **Outpatient Visits (2)** | | | | |
| UF Health Shands Hospital | 1,103,051 | 1,062,908 | 40,143 | 3.8% |
| UF Health Shands Psychiatric Hospital | 1,086 | 976 | 110 | 11.3% |
| UF Health Florida Recovery Center | 26,765 | 25,767 | 998 | 3.9% |
| UF Health Leesburg Hospital | 71,226 | 65,224 | 6,002 | 9.2% |
| UF Health The Villages® Hospital | 59,555 | 52,143 | 7,412 | 14.2% |
| Total | 1,261,683 | 1,207,018 | 54,665 | 4.5% |

(1) Includes inpatient and observation admissions
(2) Includes outpatient visits, emergency room and trauma visits

Total admissions decreased by 3.1%, inpatient admissions decreased by 3.0%, and observation admissions decreased by 3.7%. Total outpatient visits, including emergency room and trauma visits, increased by 4.5%. Emergency room and trauma visits increased by 10.3%. The decreases in inpatient admissions were largely caused by surges of the Delta and Omicron variants of COVID-19 resulting in cancelled inpatient surgeries (see "COVID-19 Pandemic").

**Cybersecurity Event at UFHCF**

On May 31, 2021, UFHCF detected unusual activity involving its computer systems. Management took immediate action to contain the event, including reporting it to law enforcement and launching an investigation with independent experts. The investigation determined that unauthorized access to UFHCF's computer network occurred between May 29, 2021 and May 31, 2021. During this brief time period, some individuals' information may have been accessible, such as names, addresses, dates of birth, social security numbers, health insurance information, medical record numbers and patient account numbers, as well as limited treatment information used by

UFHCF for its business operations. UFHCF's electronic medical records were not involved or accessed. Management has no reason to believe the accessed information was further used or disclosed; however, UFHCF complied with notice requirements and mailed letters to individuals whose data may have been involved and, as a precautionary measure, has offered them complimentary credit monitoring and identity protection services. Patients have also been encouraged to review statements from their health insurer, and to contact them immediately if they see any services they did not receive. UFHCF also established a dedicated call center for patients to call with questions.

UFHCF has responded to additional inquiries from law enforcement and regulatory agencies whose investigations are ongoing. Shands has insurance coverage and contingency plans for certain potential liabilities relating to the data breach; however, Shands is responsible for deductibles and any other expenses that may be incurred in excess of insurance coverage. Management assembled the documentation to support an insurance claim and recently settled the claim with the insurance carrier.

**COVID-19 Pandemic**

Shands' operations and financial condition have been significantly impacted by the continuing effects of a novel coronavirus ("COVID-19") which evolved into a global pandemic beginning in early 2020. The financial impact of the COVID-19 pandemic has primarily been driven by lost revenue due to sharp declines in patient volume at the onset of the pandemic and the continuing societal effects of the pandemic over time. Increased expenses due to an increased need for personal protective equipment for caregivers and visitors, and materials and staffing necessary for COVID-19 testing (i.e., swabs, collection kits, reagents, etc.) have also had a continued impact on financial performance.

In response to COVID-19 and its effects on the U.S. economy and the health care delivery system, Congress passed various stimulus bills, which have provided certain financial benefits to Shands. The following is a summary of the key benefits provided to Shands as part of the various stimulus funding packages passed by Congress:

- The Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was enacted in March 2020, and authorized $100 billion in direct funding to hospitals and other healthcare providers through the creation of a Provider Relief Fund ("PRF"). Congress then passed the Paycheck Protection Program and Health Care Enactment Act in April 2020, which increased the amount of the PRF to $175 billion. This funding is intended to compensate healthcare providers for lost revenues and incremental expenses incurred in response to the COVID-19 pandemic and is not required to be repaid, provided recipients attest to and comply with certain terms and conditions. Since April 2020, the U.S. Department of Health and Human Services (“HHS”) has made various general and targeted distributions to health care providers from the PRF. In April 2020, Shands received distributions of $42.2 million as part of the general distribution from the PRF. In July 2020, Shands received an additional $1.8 million from the PRF targeted to certain rural providers. In October 2020 and January 2021, Shands received an additional $0.1 million and $2.6 million, respectively, from the PRF. More recently, in November 2021, Shands received $10.6 million of American Rescue Plan rural payments from the PRF and in December 2021, Shands received $10.3 million in phase 4 general distributions from the PRF. These distributions were recorded as grant revenue within federal grants and state appropriations in the consolidated basic statements of revenues, expenses and changes in net position in the fiscal year the funds were received.

- HHS released reporting requirements for the PRF, including guidance and clarification on eligible uses for funds received from the PRF, and has subsequently revised the reporting requirements at various times since the creation of the PRF. Based on the most recent guidance, recipients may use funds for health care related expenses attributable to COVID-19 that another source has not reimbursed and is not obligated to reimburse, and then for lost patient care revenue. Measurement dates for the use of funds vary based on the timing of the receipt of funds. Management is aware that funds received from the PRF are subject to audit, and certain amounts could be at risk of being repaid. However, based on the estimated financial impact of COVID-19 through June 30, 2022, management does not believe such repayment amounts, if any, would be material to the consolidated basic financial statements.

- The CARES Act also expanded the Medicare Accelerated and Advance Payment Program as a way to increase cash flow to Medicare providers impacted by the COVID-19 pandemic. In April 2020, Shands received Medicare advances totaling $229.2 million as part of the expanded Accelerated and Advance Payment Program under the CARES Act. As of June 30, 2022, Shands has repaid $191.8 million of Medicare advances. Based on the repayment terms, management estimates that as of June 30, 2022, the remaining $37.4 million is expected to be repaid within one year and as such, is recorded as Medicare advances, current portion, and included in current liabilities in the consolidated basic statement of net position.

Management anticipates that the extent of COVID-19’s adverse impact on Shands’ operating results and financial position will be driven by many factors, most of which are beyond management’s control and ability to forecast. The ultimate impact on operating results will be a function of the duration and scope of the COVID-19 outbreak in areas served by Shands and its effect on patient volumes and expenses. As a result, at this time, management cannot reasonably estimate the future impact on operations of a prolonged continuation of the COVID-19 pandemic, but such impact could be material.

**Debt Outstanding**

As of June 30, 2022, Shands had $1,083.4 million in long-term debt outstanding compared to $1,108.5 million at June 30, 2021. Long-term debt is comprised of tax-exempt bond issues, taxable notes, and installment debt. Shands utilizes interest rate swaps to synthetically convert interest rates on certain of its variable rate bonds to fixed rates.

Certain of Shands' outstanding debt instruments are secured by various promissory notes and subject to the terms of a master trust indenture entered into by STHC's Obligated Group, of which STHC is the only member. Of Shands' total outstanding debt, $933.6 million is attributable to STHC's Obligated Group obligations compared to $951.7 million at June 30, 2021. Including the effect of the interest rate swaps, all of STHC's Obligated Group's bonds and notes outstanding are subject to fixed rates. The Series 2007A Bonds, Series 2008A Bonds, and Series 2008C Bonds are variable rate bonds with fixed rate payer interest rate swaps, which synthetically convert the interest rates on the bonds to fixed rates. The Series 2014A Bonds, Series 2014B Bonds, Series 2016A Bonds, Series 2019A Bonds, Series 2019B-1 Bonds, and Series 2019B-2 Bonds are unenhanced fixed rate bonds. The Series 2013A Taxable Notes are taxable fixed rate notes.

Certain of Shands' outstanding debt instruments are secured by various promissory notes and subject to the terms of a master trust indenture entered into by UFHCF's Obligated Group. UFHCF, UFHL, and UFHV are the only members of UFHCF's Obligated Group. Of Shands' total outstanding debt, $149.8 million is attributable to UFHCF's Obligated Group obligations compared to $156.8 million at June 30, 2021. UFHCF's Obligated Group also utilizes interest rate swaps to synthetically convert interest rates on its variable rate bonds to fixed rates. Including the effect of the interest rate swaps, 74.4% of UFHCF's Obligated Group's bonds outstanding are subject to fixed rates. The Series 2011 Bonds and Series 2017 Bonds are variable rate bonds with fixed rate payer interest rate swaps, which synthetically convert the interest rates on a portion of the bonds to fixed rates. The Series 2014A Bonds and Series 2014B Bonds are unenhanced fixed rate bonds.

**Credit Ratings**

In February 2021, Moody's Investors Service affirmed its previous underlying credit rating of A3 and indicated a "Stable" outlook on all of STHC's Obligated Group's rated debt. In March 2021, Standard & Poor's affirmed its previous underlying credit rating of A and indicated a "Stable" outlook on all of STHC's Obligated Group's rated debt.

In February 2021, Moody's Investors Service affirmed its previous underlying credit rating of A3 but revised its outlook on all of UFHCF's Obligated Group's rated debt from "Negative" to "Stable." In March 2021, Standard & Poor's affirmed its previous underlying credit rating of A- but revised its outlook from "Negative" to "Stable" on Series 2014A Bonds and Series 2014B Bonds of UFHCF's Obligated Group's debt.

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

# Consolidated Basic Statement of Net Position

*(in thousands of dollars)*

June 30, 2022

| | | |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ | 109,244 |
| Short-term investments | | 155,540 |
| Patient accounts receivable, net of allowance for uncollectibles of $91,153 | | 349,183 |
| Inventories | | 61,681 |
| Prepaid expenses and other current assets | | 84,300 |
| Total current assets | | 759,948 |
| Assets whose use is limited | | 1,045,007 |
| Assets whose use is restricted | | 30,133 |
| Capital assets, net | | 1,409,203 |
| Other assets | | 299,624 |
| Total assets | | 3,543,915 |
| **Deferred outflows of resources** | | |
| Accumulated decrease in fair value of hedging derivatives | | 15,998 |
| Deferred loss on debt refunding | | 23,977 |
| Deferred outflows on pension | | 90,214 |
| Total deferred outflows of resources | | 130,189 |
| **Liabilities** | | |
| Current liabilities: | | |
| Long-term debt, current portion | | 24,664 |
| Lease obligations, current portion | | 4,277 |
| Accounts payable and accrued expenses | | 212,362 |
| Accrued salaries and leave payable | | 94,955 |
| Estimated third-party payor settlements | | 133,538 |
| Medicare advances, current portion | | 37,428 |
| Total current liabilities | | 507,224 |
| Long-term liabilities: | | |
| Long-term debt, less current portion | | 1,058,719 |
| Lease obligations, less current portion | | 25,846 |
| Other liabilities | | 28,554 |
| Total long-term liabilities | | 1,113,119 |
| Total liabilities | | 1,620,343 |
| **Deferred inflows of resources** | | |
| Deferred inflows on pension | | 153,120 |
| Deferred inflows on leases | | 30,826 |
| Deferred gain on debt refunding | | 1,713 |
| Total deferred inflows of resources | | 185,659 |
| **Net position** | | |
| Net investment in capital assets | | 315,892 |
| Restricted: | | |
| Nonexpendable | | 2,150 |
| Expendable | | 1,904 |
| Unrestricted | | 1,548,156 |
| Total net position | $ | 1,868,102 |

*The accompanying notes are an integral part of these consolidated basic financial statements.*

## Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

## Consolidated Basic Statement of Revenues, Expenses, and Changes in Net Position

*(in thousands of dollars)*

Year Ended June 30, 2022

| | |
|---|---|
| **Operating revenues** | |
| Net patient service revenue, net of provision for bad debts of $213,079 | $ 2,545,388 |
| Other operating revenue | 68,081 |
| Total operating revenues | 2,613,469 |
| **Operating expenses** | |
| Salaries and benefits | 1,047,758 |
| Supplies and services | 1,264,501 |
| Depreciation and amortization | 124,213 |
| Total operating expenses | 2,436,472 |
| Operating income | 176,997 |
| **Nonoperating revenues (expenses)** | |
| Federal grants and state appropriations | 27,928 |
| Interest expense | (42,388) |
| Net investment loss, including change in fair value | (186,631) |
| Gain on disposal of capital assets, net | 2,274 |
| Other nonoperating revenues, net | 3,346 |
| Total nonoperating expenses, net | (195,471) |
| Deficit of revenues over expenses before capital contributions and other changes in net position | (18,474) |
| Capital contributions | 2,210 |
| Other changes in net position | (1,153) |
| Decrease in net position | (17,417) |
| **Net position** | |
| Beginning of year | 1,885,519 |
| End of year | $ 1,868,102 |

*The accompanying notes are an integral part of these consolidated basic financial statements.*

# Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

## Consolidated Basic Statement of Cash Flows

*(in thousands of dollars)*

Year Ended June 30, 2022

| | |
|---|---|
| **Cash flows from operating activities** | |
| Cash received from patients and third-party payors | $ 2,396,858 |
| Other receipts from operations | 57,719 |
| Payments for salaries and benefits | (1,083,963) |
| Payments to suppliers and vendors | (1,266,840) |
| Net cash provided by operating activities | 103,774 |
| **Cash flows from noncapital financing activities** | |
| Federal grants and state appropriations | 27,928 |
| Donations and pledge receipts | 8,908 |
| Other noncapital financing activities | (5,326) |
| Net cash provided by noncapital financing activities | 31,510 |
| **Cash flows from capital and related financing activities** | |
| Purchase of capital assets | (135,850) |
| Proceeds from sale of capital assets | 6,435 |
| Principal payments on long-term debt | (19,905) |
| Principal payments on lease obligations | (4,647) |
| Interest payments | (46,286) |
| Receipt of collateral on interest rate swaps | 1,720 |
| Capital contributions | 2,210 |
| Reimbursement from trustee-held project fund | 30,383 |
| Net cash used in capital and related financing activities | (165,940) |
| **Cash flows from investing activities** | |
| Investment income received | 3,820 |
| Payments received on notes receivable | 1,709 |
| Distributions from unconsolidated affiliates | 6,565 |
| Purchase of short-term investments, assets whose use is limited, and assets whose use is restricted | (618,159) |
| Sale of short-term investments, assets whose use is limited, and assets whose use is restricted | 555,620 |
| Other investing activities | 4,058 |
| Net cash used in investing activities | (46,387) |
| Net decrease in cash and cash equivalents | (77,043) |
| **Cash and cash equivalents** | |
| Beginning of year | 186,287 |
| End of year | $ 109,244 |

*The accompanying notes are an integral part of these consolidated basic financial statements.*

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

# Consolidated Basic Statement of Cash Flows (continued)

*(in thousands of dollars)*

Year Ended June 30, 2022

| | | |
|---|---|---|
| **Reconciliation of operating income to net cash provided by operating activities** | | |
| Operating income | $ | 176,997 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation and amortization | | 124,213 |
| Provision for bad debts | | 213,079 |
| Changes in: | | |
| Patient accounts receivable | | (241,900) |
| Inventories | | (3,209) |
| Prepaid expenses and other current assets | | 5,077 |
| Other assets | | (139,210) |
| Accounts payable and accrued expenses | | 25,913 |
| Accrued salaries and leave payable | | (1,532) |
| Estimated third-party payor settlements | | 19,032 |
| Medicare advances | | (161,153) |
| Other liabilities | | 86,467 |
| Total adjustments | | (73,223) |
| Net cash provided by operating activities | $ | 103,774 |
| **Supplemental noncash investing, capital and financing activities** | | |
| Accrued purchases of capital assets | $ | 12,345 |
| Amortization of lease asset | | 6,226 |
| Amortization of lease receivable | | 7,027 |

*The accompanying notes are an integral part of these consolidated basic financial statements.*

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Statement of Fiduciary Net Position – Defined Benefit Pension Plan

*(in thousands of dollars)*

June 30, 2022

| | | |
|---|---|---|
| **Assets** | | |
| Receivables: | | |
| Accounts receivable – sale of investments | $ | 16,673 |
| Accrued interest and dividends | | 4,192 |
| Accounts receivable – foreign currency contracts and other | | 27 |
| Total receivables | | 20,892 |
| Investments: | | |
| Interest bearing cash | | 8,043 |
| U.S. government securities | | 179,126 |
| Corporate debt instruments – preferred | | 68,649 |
| Corporate debt instruments | | 111,701 |
| Fixed income funds | | 240,991 |
| Equity funds | | 236,575 |
| Preferred and common stock | | 88,240 |
| Private equity funds | | 14,486 |
| Other investments | | 10,623 |
| Total investments | | 958,434 |
| Total assets | | 979,326 |
| **Liabilities** | | |
| Accounts payable – purchase of investments and dividend foreign taxes payable | | 60,586 |
| Accrued expenses | | 1,503 |
| Total liabilities | | 62,089 |
| **Net position restricted for pension benefits** | $ | 917,237 |

*The accompanying notes are an integral part of these consolidated basic financial statements.*

# Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

## Statement of Changes in Fiduciary Net Position – Defined Benefit Pension Plan

*(in thousands of dollars)*

Year Ended June 30, 2022

| | |
|---|---|
| **Additions** | |
| Employer contributions | $ 16,116 |
| Total additions | 16,116 |
| **Deductions** | |
| Benefit payments | 58,320 |
| Net investment loss | 223,953 |
| Investment expenses | 2,599 |
| PBGC insurance premium | 3,840 |
| Administrative expenses | 428 |
| Total deductions | 289,140 |
| **Net decrease in net position** | (273,024) |
| **Net position restricted for pension benefits** | |
| Beginning of year | 1,190,261 |
| End of year | $ 917,237 |

*The accompanying notes are an integral part of these consolidated basic financial statements.*

## 1. Organization

Shands Teaching Hospital and Clinics, Inc. ("STHC") is an affiliate of the University of Florida ("UF") where, by statute, the President of UF has the authority to appoint and remove a majority of the members of the STHC Board of Directors. In addition, there is a significant presence of both UF Board of Trustees ("UF Board") members and senior management personnel on the STHC Board. Governance oversight protocols closely align UF and STHC on material transactional and budgetary decisions affecting STHC.

STHC controls or owns various affiliated entities that operate facilities and provide services as part of STHC. STHC and certain of its affiliated entities, along with the UF Health Science Center, operate under names beginning with "UF Health." Prior to January 1, 2020, STHC and its affiliated entities primarily operated in north central Florida with activities concentrated in Alachua and Marion Counties ("UF Health Shands"). Effective January 1, 2020, STHC acquired Central Florida Health, Inc. ("CFH" or "UFHCF"), a community health care provider in central Florida, pursuant to which STHC became the sole corporate member of CFH. CFH manages and operates two acute care hospitals in central Florida – Leesburg Regional Medical Center, Inc. and The Villages Tri-County Medical Center, Inc. – as well as various related organizations ("UF Health Central Florida"). Certain of UF Health Central Florida's affiliates, including CFH and the two acute care hospitals, began operating under the "UF Health" brand effective January 1, 2020. The accompanying consolidated basic financial statements include the accounts of STHC and its subsidiaries (referred to as "Shands" throughout these notes to the consolidated basic financial statements).

The following describes the primary activities and operations of Shands:

### UF Health Shands

- **STHC** operates the following:

  - **UF Health Shands Hospital** is part of a major academic medical center located in Gainesville, Florida, and is licensed to operate a 1,030-bed acute care hospital. UF Health Shands Hospital is a leading referral center in the State of Florida and provides clinical settings for medical education and training programs at UF.

  - **UF Health Shands Psychiatric Hospital** is a psychiatric and substance abuse facility located in Gainesville, licensed to operate 81 beds, of which 63 are psychiatric and 18 are substance abuse.

**1. Organization (continued)**

- **UF Health Shands HomeCare** is a hospital-based home care agency providing home care services to residents of north central Florida.

- **Hotel Eleo at the University of Florida** is a 173-room boutique hotel located on the campus of UF Health Shands Hospital.

- **Shands Recovery, LLC d/b/a UF Health Florida Recovery Center** provides outpatient and residential treatment for alcohol and drug abuse, with on-site leased housing for certain programs. STHC is the sole member of Shands Recovery, LLC.

- **Elder Care of Alachua County, Inc. ("Elder Care")** is a Florida not-for-profit corporation providing social and health care related services to the elderly in Alachua County. STHC is the sole corporate member of Elder Care.

- **Southeastern Healthcare Foundation, Inc. ("Southeastern")** is a Florida not-for-profit corporation providing charitable aid to UF Health Shands. STHC is the sole corporate member of Southeastern.

- **Shands Auxiliary, Inc. ("Auxiliary")** is a Florida not-for-profit corporation created for the purpose of supporting, promoting, and encouraging certain fundraising events for the benefit of charitable organizations and programs. Southeastern is the sole corporate member of Auxiliary.

**UF Health Central Florida**

- **Central Florida Health, Inc. d/b/a UF Health Central Florida ("UFHCF")** is a not-for-profit community health care provider located in central Florida serving as the parent company to various health care related entities. STHC is the sole corporate member of UFHCF.

- **Leesburg Regional Medical Center, Inc. d/b/a UF Health Leesburg Hospital ("UFHL")** is a 330-bed acute care hospital located in Leesburg, Florida. UFHCF is the sole corporate member of UFHL.

- **The Villages Tri-County Medical Center, Inc. d/b/a UF Health The Villages® Hospital ("UFHV")** is a 307-bed acute care hospital in The Villages®, a residential community located in central Florida. UFHCF is the sole corporate member of UFHV.

**1. Organization (continued)**

- **Care Delivery Alliance, LLC** is a for-profit company jointly owned by UFHL and UFHV, organized to operate a physician-hospital organization with other participating healthcare providers.

- **Leesburg Regional Medical Center Foundation, Inc. d/b/a UF Health Leesburg Hospital Foundation ("UFHL Foundation")** is a fundraising organization located in Leesburg, coordinating fundraising activities for UFHL and its affiliates. UFHL is the sole corporate member of UFHL Foundation.

- **The Villages Regional Hospital Auxiliary Foundation, Inc. d/b/a UF Health The Villages® Hospital Auxiliary Foundation ("UFHV Foundation")** is a fundraising organization located in The Villages®, coordinating fundraising activities for UFHV and its affiliates. UFHV is the sole corporate member of UFHV Foundation.

- **Alliance Labs, LLC d/b/a UF Health Alliance Laboratory** is a single member LLC operating a diagnostic pathology practice and reference lab. UFHL is the sole member.

- **Pathology Services Alliance, LLC** is a single member LLC responsible for the professional billing of its employed pathologists. UFHL is the sole member.

- **Leesburg Regional Medical Center Physician Services, LLC** is a single member LLC responsible for the professional billing of its employed physicians. UFHL is the sole member.

- **The Villages Regional Hospital Physician Services, LLC** is a single member LLC responsible for the professional billing of its employed physicians. UFHV is the sole member.

Shands has interests in various unconsolidated affiliates, fully described in Note 7.

## 1. Organization (continued)

### Description of the Reporting Entity

The accompanying consolidated basic financial statements are prepared in accordance with accounting principles established by the Governmental Accounting Standards Board ("GASB"). Under these principles, STHC is considered the primary government for reporting purposes, and STHC's subsidiaries are each considered blended component units. STHC and its blended component units are presented in the aggregate in the consolidated basic financial statements. UFHL and UFHV are considered major component units of STHC. Condensed financial statements for UFHL and UFHV are presented in Note 15. All other subsidiaries of STHC are considered non-major component units and are presented in the aggregate along with STHC in the condensed financial statements in Note 15.

## 2. Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies followed by Shands in the presentation of these consolidated basic financial statements.

### Basis of Presentation

The accompanying consolidated basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, including all applicable effective statements of the GASB, on the accrual basis of accounting and include the accounts of Shands. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Significant intercompany accounts and transactions have been eliminated.

The defined benefit pension plan is a fiduciary fund used to account for the assets held in trust for the Shands HealthCare Pension Plan II (the "Plan"). The Plan's trustee holds the Plan's assets on behalf of the trust. A description of the Plan is included in Note 10.

### Use of Estimates

The preparation of these consolidated basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated basic financial statements and accompanying notes. Actual results could differ from those estimates.

## 2. Summary of Significant Accounting Policies (continued)

### Tax Status

STHC, Elder Care, Southeastern, Auxiliary, UFHCF, UFHL, UFHV, UFHL Foundation, and UFHV Foundation are exempt from federal income taxes pursuant to Section 501(a) as organizations described in Section 501(c)(3) of the Internal Revenue Code and from state income taxes pursuant to Chapter 220.13 of the Florida Statutes. The other affiliates are single member LLCs and disregarded entities for federal and state tax purposes except for sales and use tax on non-medical purchases.

### Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid instruments with original maturities of three months or less when purchased, except those classified as assets whose use is restricted in the accompanying consolidated basic statement of net position.

### Investments

STHC participates in a pooled investment program which consists of various limited liability companies established for the purpose of investing in specific types of investment securities. These entities are referred to as “Pooled Investment Fund(s)” and STHC’s share of the income and losses are included in net investment income, including change in fair value, in the accompanying consolidated basic statement of revenues, expenses, and changes in net position.

Shands’ direct investments primarily consist of the Florida Treasury Investment Pool Special Purpose Investment Account (the “SPIA”), government securities, fixed income securities, fixed income mutual funds, domestic equity mutual funds, international equity mutual funds, real estate investment trusts, equity securities exchange traded funds (“ETF”), money market funds, and a private equity partnership. Investments are carried at fair value. Interest, dividends, and gains and losses on investments, both realized and unrealized, are included in net investment income, including change in fair value, in the accompanying consolidated basic statement of revenues, expenses, and changes in net position.

### Assets Whose Use is Limited

Assets whose use is limited is comprised of assets designated for specific purposes by the Board. The Board retains control of these assets and may, at its discretion, subsequently designate their use for other purposes.

## 2. Summary of Significant Accounting Policies (continued)

### Assets Whose Use is Restricted

Assets whose use is restricted primarily include assets held by trustees under indenture agreements, donor funds restricted for specific purposes, and funds designated to meet the State of Florida's workers' compensation and medical malpractice requirements.

### Inventories

Inventories consist principally of medical, surgical, and pharmaceutical supplies that are stated at the lower of cost (average cost method) or market.

### Pledges Receivable

Pledges receivable represent donor commitments to provide future funding, primarily in association with various construction projects at Shands and are generally due over the next five years. Pledges receivable are recorded net of an estimated allowance for uncollectible pledges. The current portion of pledges receivable is reported in prepaid expenses and other current assets in the accompanying consolidated basic statement of net position. The long-term portion of pledges receivable is reported in other assets in the accompanying consolidated basic statement of net position. For the year ended June 30, 2022, pledge discount rates range from 0.1% to 2.7%.

### Capital Assets

Capital assets are recorded at historical cost at date of purchase or at the acquisition value at date of donation. Shands capitalizes assets with an initial cost of $2,000 or greater. Right-to-use lease assets are stated at the present value of minimum lease payments at the inception of the lease. Routine maintenance and repairs are expensed when incurred. Expenditures that materially increase the value, change the capacity or extend the useful life of an asset are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the related depreciable assets as recommended by the American Hospital Association. Right-to-use lease assets and leasehold improvements are amortized using the straight-line method over the shorter of the lease term or the estimated useful life of the related assets. Such amortization is included in depreciation and amortization expense in the accompanying consolidated basic statement of revenues, expenses and changes in net position.

## 2. Summary of Significant Accounting Policies (continued)

Shands' estimated useful lives of depreciable assets are as follows:

| | Estimated Useful Lives (Years) |
|---|---|
| Land improvements | 5-40 |
| Buildings | 15-40 |
| Leasehold improvements | 3-25 |
| Movable equipment | 3-15 |

Gains and losses on disposition are recorded in the year of disposal and are reported in nonoperating revenues (expenses) in the accompanying consolidated basic statement of revenues, expenses and changes in net position.

### Unconsolidated Affiliates

The consolidated basic financial statements include all operating units as well as unconsolidated affiliates with an equity interest. Investments in unconsolidated affiliates are recorded in other assets in the accompanying consolidated basic statement of net position. Investment gains (losses) from unconsolidated affiliates are recorded in other nonoperating revenues (expenses), net in the accompanying consolidated basic statement of revenues, expenses, and changes in net position.

### Accrued Leave

Shands provides paid time off ("PTO") to eligible employees for vacations, holidays, and short-term illness dependent on their years of continuous service and their payroll classification. Shands accrues the estimated expense related to PTO based on pay rates currently in effect. Upon termination of employment, employees will have their eligible PTO paid in varying amounts. Accrued PTO was approximately $52,498,000 as of June 30, 2022, and is included in accrued salaries and leave payable in the accompanying consolidated basic statement of net position.

### Long-Term Debt

Long-term debt is comprised of tax-exempt bond issues, taxable notes, and installment debt.

## 2. Summary of Significant Accounting Policies (continued)

### Bond Premiums and Discounts

Bond premiums and discounts are amortized over the period the bonds are outstanding using the effective interest method and are included in interest expense in the accompanying consolidated basic statement of revenues, expenses, and changes in net position.

### Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows of resources represent a consumption of net assets applicable to a future reporting period. Deferred inflows of resources represent an acquisition of net assets applicable to a future reporting period. Deferred outflows of resources have a positive effect on net position, similar to assets, and deferred inflows of resources have a negative effect on net position, similar to liabilities. Notwithstanding those similarities, deferred outflows of resources are not assets and deferred inflows of resources are not liabilities and accordingly, are not included in those sections of the accompanying consolidated basic statement of net position, but rather are separately reported.

Deferred gains and losses on debt refunding are amortized over the shorter of the remaining life of the refunded debt or the life of the new debt using the straight-line method, which approximates the effective interest method. Amortization of deferred gains and deferred losses on debt refunding are included in interest expense in the accompanying consolidated basic statement of revenues, expenses, and changes in net position.

### Derivative Financial Instruments

Shands' derivative financial instruments consist of interest rate swaps, which are utilized by Shands to manage net exposure to interest rate changes associated with its variable rate debt and to lower its overall borrowing costs. Shands entered into floating to fixed rate interest rate swap agreements to reduce the market risk associated with changes in interest rates related to certain of Shands' variable rate revenue bonds. These derivative instruments are evaluated to determine if

**2. Summary of Significant Accounting Policies (continued)**

the derivative instrument is effective in reducing the identified financial risk. If the derivative instrument is determined to be an effective hedge, its fair value is recorded in other assets or other liabilities with a corresponding deferred outflow of resources or deferred inflow of resources in the accompanying consolidated basic statement of net position. Deferred outflows of resources or deferred inflows of resources constitute changes in fair value of effectively hedged derivative instruments. If the derivative instrument is determined to be an ineffective hedge or when there is no hedged financial instrument, the derivative instrument is considered to be an investment derivative; its fair value is recorded in other assets or other liabilities within the accompanying consolidated basic statement of net position; and the change in fair value is recognized within net investment income, including change in fair value, in the accompanying consolidated basic statement of revenues, expenses, and changes in net position.

**Defined Benefit Pension Plan**

For purposes of measuring the net pension asset or liability, deferred outflows of resources or deferred inflows of resources related to the Plan, the defined benefit pension expense or income, information about the Plan’s fiduciary net position, and additions to and deductions from the Plan’s fiduciary net position have been determined on the same basis as they are reported to the Plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Net Position**

Net position is categorized as “net investment in capital assets,” “restricted-nonexpendable,” “restricted-expendable,” and “unrestricted.” Net investment in capital assets is intended to reflect the portion of net position associated with capital assets, less amounts due on outstanding debt used to finance the purchase or construction of those assets. Deferred outflows of resources and deferred inflows of resources attributable to capital assets or related debt are also included as a component of net investment in capital assets. Unspent debt proceeds are excluded from net investment in capital assets and are included in unrestricted net position, unless the unspent amounts are externally restricted. Restricted net position has restrictions placed on the use of assets through external constraints imposed by donors. Restricted-nonexpendable net position consists of assets that have been restricted by donors to be maintained by Shands in perpetuity. Restricted-expendable net position includes assets whose use by Shands has been restricted by donors to a specific time period or purpose. Unrestricted net position consists of net assets that do not meet the definition of net investment in capital assets and have no external restrictions on use.

## 2. Summary of Significant Accounting Policies (continued)

### Revenues and Expenses

Shands' consolidated basic statement of revenues, expenses and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with, or in support of, the provision of health care services, Shands' principal activity. Operating expenses are all expenses incurred in support of the principal activity of providing health care services. Federal grants and state appropriations, interest expense, net investment income, including change in fair value, and gains and losses on disposal of capital assets are reported as nonoperating revenues (expenses).

### Net Patient Service Revenue and Patient Accounts Receivable

Shands has agreements with Medicare, Medicaid, and other third-party payors that provide for payments to Shands at amounts different from its established rates. Payment arrangements vary significantly and include, but are not limited to, prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue and patient accounts receivable are reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered and include estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. It is management's opinion that the estimated amounts, which are recorded as current liabilities in the accompanying consolidated basic statement of net position, represent the best estimate to date of the estimated liability for outstanding Medicare, Medicaid, and other third-party payor settlements.

**2. Summary of Significant Accounting Policies (continued)**

**Medicare**

Shands participates in the federal Medicare program. Approximately 35.2% of Shands' net patient service revenue for the year ended June 30, 2022, was derived from services to Medicare beneficiaries. Inpatient acute care services rendered to Medicare beneficiaries are reimbursed at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.

Inpatient non-acute services, outpatient services, and defined capital costs related to Medicare beneficiaries are reimbursed based upon a prospective reimbursement methodology. Shands is paid for certain reimbursable services at a tentative rate with final settlement determined after submission of annual cost reports by Shands and audits by the Medicare Administrative Contractor ("MAC"). Shands' classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review. As of June 30, 2022, the Medicare cost reports were final settled by the MAC through June 30, 2008 for STHC, through June 30, 2018 for UFHL, and through June 30, 2019 for UFHV.

**Medicaid**

Shands participates in the State of Florida Medicaid program. The Agency for Health Care Administration ("AHCA") administers the Statewide Medicaid Managed Care Managed Medical Assistance ("MMA") Program. The MMA program is comprised of several types of managed care plans including health maintenance organizations, provider service networks, and other specialized networks. The majority of Medicaid beneficiaries are required to enroll in the MMA program. Approximately 10.9% of Shands' net patient service revenue for the year ended June 30, 2022, was derived from services to Medicaid beneficiaries. Inpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates per discharge and outpatient services are reimbursed at prospectively determined rates based upon Enhanced Ambulatory Patient Groupings ("EAPGs").

In addition to the prospectively determined rates per discharge and EAPG payments received by Shands for the provision of health care services to Medicaid beneficiaries, the State of Florida provides supplemental Medicaid and disproportionate share payments to reflect the additional costs associated with treating the Medicaid population in Florida. These amounts are reflected in net patient service revenue in the accompanying consolidated basic statement of revenues, expenses and changes in net position. Prior to fiscal year 2018, Shands was paid for certain services

## 2. Summary of Significant Accounting Policies (continued)

provided to Medicaid beneficiaries based on tentative rates derived from filed annual cost reports. These rates are subject to retroactive adjustments based on the results of final audited cost reports. As of June 30, 2022, all cost reports used to determine rates subject to retroactive adjustments have been final audited and any amounts due to AHCA based on the audit results are reported in estimated third-party payor settlements in the accompanying consolidated basic statement of net position.

### Other Third-Party Payors

Shands has also entered into reimbursement agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for reimbursement under these agreements vary significantly and include, but are not limited to, prospectively determined rates per discharge, discounts from established charges and prospectively determined per diem rates.

### Provision for Bad Debts and Allowance for Uncollectible Accounts

The provision for bad debts is based on management's assessment of historical and expected net collections, considering business and economic conditions, trends in federal and state governmental health care coverage, and other collection indicators. Throughout the year, management assesses the adequacy of the allowance for uncollectible accounts based upon these trends and other factors. The results of this review are then used to make any modification to the provision for bad debts to establish an appropriate allowance for uncollectible accounts. Patient accounts receivable are written off after collection efforts have been followed under Shands' policies.

### Accounting Pronouncements

In June 2017, the GASB issued GASB Statement No. 87, *Leases* ("GASB No. 87"). GASB No. 87 establishes standards of accounting and financial reporting by lessees and lessors. GASB No. 87 requires a lessee to recognize a lease liability and an intangible right-to-use lease asset at the commencement of the lease term, with certain exceptions, and will require a lessor to recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term, with certain exceptions. Shands adopted GASB No. 87 as of July 1, 2021. The adoption of this statement resulted in an increase in lease obligations and related right-to-use lease assets of approximately $28,985,000 with respect to leases in which Shands is lessee, and the recognition of a lease receivable and related deferred inflow of resources of approximately $38,413,000 with respect to leases in which Shands is lessor.

**2. Summary of Significant Accounting Policies (continued)**

In May 2020, the GASB issued GASB Statement No. 95*, Postponement of the Effective Dates of Certain Authoritative Guidance* ("GASB No. 95"). GASB No. 95 provides temporary relief to governments, in light of a global pandemic brought about by the emergence of a novel coronavirus ("COVID-19"), by extending the effective dates of certain accounting and financial reporting provisions in Statements and Implementation Guides that were effective for reporting periods or fiscal years beginning after June 15, 2018. This includes postponing the effective date of the following: GASB Statement No. 84, *Fiduciary Activities*, GASB No. 87, GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, GASB Statement No. 90, *Majority Equity Interests-an amendment of GASB Statements No. 14 and No. 61*, GASB Statement No. 91, *Conduit Debt Obligations*, certain provisions of GASB Statement No. 92, *Omnibus 2020* and certain provisions of GASB Statement No. 93, *Replacement of Interbank Offered Rates*. GASB No. 95 was effective immediately.

In May 2019, the GASB issued GASB Statement No. 91, *Conduit Debt Obligations* ("GASB No. 91"). GASB No. 91 clarifies the existing definition of a conduit debt obligation, establishes that a conduit debt obligation is not a liability of the issuer, and establishes standards for accounting and financial reporting of additional and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations. The effective date, as amended by GASB No. 95, is for reporting periods beginning after December 15, 2021. Shands is currently evaluating the impact GASB No. 91 will have on its consolidated basic financial statements.

In March 2020, the GASB issued GASB Statement No. 93, *Replacement of Interbank Offered Rates* ("GASB No. 93"). GASB No. 93 establishes accounting and financial reporting requirements related to the replacement of certain interbank offered rates – most notably the London Interbank Offered Rate (LIBOR) – in hedging derivative instruments and leases, and identifies appropriate benchmark interest rates for hedging derivative instruments. LIBOR is expected to cease to exist in its current form, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates by either changing the reference rate or adding or changing fallback provisions related to the reference rate. The removal of LIBOR as an appropriate benchmark interest rate will be effective when LIBOR ceases to be determined by the ICE Benchmark Administration using the methodology in place as of December 31, 2021. Shands is currently evaluating the impact GASB No. 93 will have on its consolidated basic financial statements.

**2. Summary of Significant Accounting Policies (continued)**

In March 2020, the GASB issued GASB Statement No. 94*, Public-Private and Public-Public Partnerships and Availability Payment Arrangements* ("GASB No. 94"). The primary objective of GASB No. 94 is to improve financial reporting and address certain issues related to public-private and public-public partnership arrangements ("PPP") and to provide guidance for accounting and financial reporting for availability payment arrangements ("APA"). A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. An APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. GASB No. 94 is effective for fiscal years beginning after June 15, 2022. Shands is currently evaluating the impact GASB No. 94 will have on its consolidated basic financial statements.

In May 2020, the GASB issued GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* ("GASB No. 96"). GASB No. 96 provides guidance on the accounting and financial reporting for subscription-based information technology arrangements ("SBITA") for government end users. SBITA is defined as a contract that conveys control of the right to use another party's information technology software, alone or in combination with tangible capital assets, as specified in the contract for a period of time in an exchange or exchange-like transaction. GASB No. 96 establishes that a SBITA results in a right-to-use subscription asset, an intangible asset, and a corresponding subscription liability, and requires additional disclosures regarding a SBITA. GASB No. 96 is effective for fiscal years beginning after June 15, 2022. Shands is currently evaluating the impact GASB No. 96 will have on its consolidated basic financial statements.

In June 2020, the GASB issued GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans* ("GASB No. 97"). The primary objective of GASB No. 97 is to increase the consistency and comparability of reporting fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board would typically perform for certain defined contribution pension plans, defined contribution other postemployment benefit plans, and other employee benefit plans. This Statement also enhances the relevance and comparability of the accounting and financial reporting for Internal Revenue Code Section 457 deferred compensation plans. Paragraphs 4 and 5 of GASB

**2. Summary of Significant Accounting Policies (continued)**

No. 97 are effective immediately and the remainder of GASB No. 97 is effective for reporting periods beginning after June 15, 2021. Shands adopted paragraphs 4 and 5 of GASB No. 97 as of July 1, 2020 and the remaining provisions of GASB No. 97 as of July 1, 2021. The adoption of this statement did not have a material impact on the consolidated basic financial statements.

In April 2022, the GASB issued GASB Statement No. 99, *Omnibus 2022* ("GASB No. 99"). GASB No. 99 establishes accounting and financial reporting requirements for specific issues related to the classification and reporting of derivative instruments, clarification of certain provisions of GASB Nos. 87, 94, and 96, the extension of the period of time established under GASB No. 93 for use of LIBOR as an appropriate benchmark interest rate, and various other matters. The requirements of paragraphs 26-32 of GASB No. 99 are effective immediately. The requirements of paragraphs 11-25 of GASB No. 99 are effective for fiscal years beginning after June 15, 2022. The requirements of paragraphs 4-10 of GASB No. 99 are effective for fiscal years beginning after June 15, 2023. Shands is currently evaluating the impact paragraphs 4-25 of GASB No. 99 will have on its consolidated basic financial statements. Shands adopted all remaining provisions of GASB No. 99 for the year ended June 30, 2022. The adoption of the statement did not have a material impact on the consolidated basic financial statements.

In June 2022, the GASB issued GASB Statement No. 100*, Accounting Changes and Error Corrections* ("GASB No. 100"). The primary objective of GASB No. 100 is to enhance the accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. GASB No. 100 is effective for fiscal years beginning after June 15, 2023. Shands is currently evaluating the impact GASB No. 100 will have on its consolidated basic financial statements.

In June 2022, the GASB issued GASB Statement No. 101, *Compensated Absences* ("GASB No. 101"). GASB No. 101 establishes accounting and reporting requirements for liabilities arising from certain types of compensated absence arrangements. GASB No. 101 is effective for fiscal years beginning after December 15, 2023. Shands is currently evaluating the impact GASB No. 101 will have on its consolidated basic financial statements.

**3. Unsponsored Community Benefit**

Community benefit is a planned, managed, organized, and measured approach to a health care organization's participation in meeting identified community health needs. It involves collaboration with a "community" to "benefit" its residents, particularly the poor and other underserved groups, by improving health status and quality of life. Community benefit projects and services are identified by health care organizations in response to findings of a community health assessment, strategic and/or clinical priorities, and partnership areas of attention.

Community benefit categories include financial assistance, Medicaid shortfall, community health services, health professions education, research, and donations. Shands has a long history of providing community benefits and has quantified these benefits using national guidelines.

Shands has policies for providing financial assistance for patients requiring care but who have limited or no means to pay for that care. These policies provide free or discounted health and health-related services to persons who qualify under certain income and asset criteria. Because Shands does not pursue collection of amounts determined to qualify for financial assistance, they are not reported as net patient service revenue. Shands maintains records to identify and monitor the level of financial assistance it provides. Charges foregone for services provided under Shands' financial assistance policy, as a percentage of total charges for the year ended June 30, 2022, were approximately 3.1%.

Medicaid shortfall represents the cost of providing services to patients covered by the State of Florida Medicaid program in excess of net patient service revenue earned in the provision of those services.

Shands also provides benefits for the broader community. The cost of providing these community benefits can exceed the revenue sources available. Examples of the benefits provided by Shands and general definitions regarding those benefits are described below:

- Community health services include activities carried out to improve community health. They extend beyond patient care activities and are usually subsidized by the health care organization. Examples include community health education, counseling and support services, and health care screenings.

**3. Unsponsored Community Benefit (continued)**

- Health professions education includes education provided in clinical settings such as internships and programs for physicians, nurses, and allied health professionals. It also includes scholarships for health professional education related to providing community health improvement services and specialty in-service programs to professionals in the community.

- Research includes studies on health care delivery, unreimbursed studies on therapeutic protocols, evaluation of innovative treatments, and research papers prepared for professional journals.

- Donations include funds and in-kind services benefiting the community-at-large.

Shands' valuation of unsponsored community benefits at estimated cost, net of reimbursement, for the year ended June 30, 2022, is as follows:

*(in thousands of dollars)*

| | |
|---|---|
| Financial assistance provided | $ 75,741 |
| Government support applied to charity care | (2,785) |
| Medicaid shortfall | 103,605 |
| Net unreimbursed financial assistance and Medicaid shortfall | 176,561 |
| Benefits for the broader community: | |
| Community health services | 3,512 |
| Health professions education | 34,150 |
| Research | 18,248 |
| Donations | 545 |
| Total quantifiable benefits for the broader community | 56,455 |
| Total unsponsored community benefits | $ 233,016 |

The estimated cost of financial assistance provided was determined by applying Shands' overall cost to charge ratio to total charges foregone. The Medicaid shortfall was estimated by comparing the estimated cost of providing services to patients covered by the State of Florida Medicaid program, determined by applying Shands' overall cost to charge ratio to total Medicaid charges, to total Medicaid net patient service revenue. Any excess of cost over net patient service revenue is reported as a Medicaid shortfall. The cost of benefits for the broader community represents estimated expenses incurred.

**3. Unsponsored Community Benefit (continued)**

Shands also plays a leadership role in the communities it serves by providing additional community benefits that have not been quantified. This role includes serving as a state designated Level I trauma center and Joint Commission Primary Stroke center in Gainesville. Shands also maintains an air and ground ambulance network at its trauma center and throughout remote areas in North Florida, Central Florida and the Florida Panhandle. Other specialty services provided at Shands' facilities include a regional burn intensive care unit and transplant centers for adult and pediatric patients in several disciplines, including heart, lung, liver, kidney, and bone marrow. In addition, Shands provides specialized pediatric services, including neonatal intensive care, pediatric intensive care, pediatric open heart and cardiac catheterization.

In addition to the community benefits described above, Shands provides benefits to the community through advocacy of community service by employees. Shands' employees serve numerous

organizations through board representation, in-kind and direct donations, fundraising, youth sponsorship, and other related activities.

**4. Investments**

Investments are reported in the accompanying consolidated basic statement of net position as follows at June 30, 2022**:**

*(in thousands of dollars)*

| | |
|---|---|
| Current assets: | |
| Short-term investments | $ 155,540 |
| | |
| Long-term assets: | |
| Assets whose use is limited | 1,045,007 |
| Assets whose use is restricted | 30,133 |
| | $ 1,230,680 |

Assets whose use is limited include investments internally designated by the Board for capital improvements and debt service.

**4. Investments (Continued)**

Assets whose use is restricted are comprised of the following at June 30, 2022:

| *(in thousands of dollars)* | |
|---|---|
| Held by trustees under indenture agreements | $ 22,147 |
| Held by trustee to meet workers' compensation and medical malpractice requirements | 5,058 |
| Donor funds restricted for specific purposes | 2,918 |
| Held by insurance company under escrow agreement | 10 |
| | $ 30,133 |

**Pooled Investments**

Shands participates in a pooled investment program, managed by the University of Florida Investment Corporation ("UFICO"), a direct support organization of UF, through a management agreement. Participants acquire membership units in one or more of the Pooled Investment Funds and share in the investment income, expenses, gains, and losses of each Pooled Investment Fund based on their proportionate share, as determined by membership units. The fair value of the position in the pool is the same as the value of the pool shares. The Pooled Investment Funds are not registered with the Securities and Exchange Commission as an investment company.

Shands holds membership units in the following Pooled Investment Funds:

- **Florida Global Fixed Income Fund, LLC**, which invests in domestic and international fixed income securities, including intermediate government and corporate bonds;

- **Florida Global Equity Fund, LLC**, which invests in domestic and international equity securities and equity funds; and

- **Florida Hedged Strategies Fund, LLC**, which invests in domestic and international hedge funds and exchange traded funds.

## 4. Investments (continued)

### Direct Investments

STHC and certain of its subsidiaries invest in the SPIA, government securities, fixed income securities, fixed income mutual funds, domestic equity mutual funds, international equity mutual funds, real estate investment trusts, equity securities ETF, and money market funds.

The Florida State Treasury operates the SPIA, a special investment program for public entities. The SPIA funds are combined with State Funds and are invested as part of the Florida Treasury Investment Pool. STHC maintains a direct investment in the SPIA.

In addition, STHC has a direct investment in Pantheon USA Fund V, L.P., a private equity fund whose investments include limited partnerships which invest in diversified buyout, growth equity and venture capital portfolios.

The maturity of investments at June 30, 2022, is as follows:

*(in thousands of dollars)*

| | Fair Value | Less Than 1 Year | 1–5 Years | 6–10 Years | Over 10 Years | N/A |
|---|---|---|---|---|---|---|
| Pooled Investments: | | | | | | |
| Florida Global Fixed Income Fund, LLC | $ 392,487 | $ – | $ – | $ – | $ – | $ 392,487 |
| Florida Global Equity Fund, LLC | 483,867 | – | – | – | – | 483,867 |
| Florida Hedged Strategies Fund, LLC | 164,218 | – | – | – | – | 164,218 |
| | 1,040,572 | – | – | – | – | 1,040,572 |
| Direct Investments: | | | | | | |
| SPIA | 141,176 | – | 141,176 | – | – | – |
| Government securities | 149 | – | – | – | – | 149 |
| Fixed income securities | 793 | 175 | 493 | – | – | 125 |
| Fixed income mutual funds | 28,854 | – | – | – | – | 28,854 |
| Domestic equity mutual funds | 810 | – | – | – | – | 810 |
| International equity mutual funds | 354 | – | – | – | – | 354 |
| Real estate investment trusts | 32 | – | – | – | – | 32 |
| Equity securities ETF | 3,382 | 58 | 36 | 734 | 31 | 2,523 |
| Money market funds | 14,458 | 10 | – | – | – | 14,448 |
| Private equity | 100 | – | – | – | – | 100 |
| | 190,108 | 243 | 141,705 | 734 | 31 | 47,395 |
| | $ 1,230,680 | $ 243 | $ 141,705 | $ 734 | $ 31 | $ 1,087,967 |

## 4. Investments (continued)

### Investment Risk Factors

There are many factors that can affect the value of investments. Some, such as concentration of credit risk, custodial credit risk, interest rate risk and foreign currency risk, may affect both equity and fixed income securities. Equity securities respond to such factors as economic conditions, individual company earnings performance and market liquidity, while fixed income securities may be sensitive to credit risk and changes in interest rates.

### Credit Risk

This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Shands' investment policy provides guidelines for its fund managers and lists specific allowable investments. The policy provides for the utilization of varying styles of managers so that portfolio diversification is maximized and total portfolio efficiency is enhanced.

The credit risk profile of Shands' investments as of June 30, 2022, is as follows:

*(in thousands of dollars)*

| | Fair Value | AAA/AA | AA-f | A | BBB/ BB/B | Not Rated |
|---|---|---|---|---|---|---|
| Pooled Investments: | | | | | | |
| Florida Global Fixed Income Fund, LLC | $ 392,487 | $ – | $ – | $ – | $ – | $ 392,487 |
| Florida Global Equity Fund, LLC | 483,867 | – | – | – | – | 483,867 |
| Florida Hedged Strategies Fund, LLC | 164,218 | – | – | – | – | 164,218 |
| | 1,040,572 | – | – | – | – | 1,040,572 |
| Direct Investments: | | | | | | |
| SPIA | 141,176 | – | 141,176 | – | – | – |
| Government securities | 149 | – | – | – | – | 149 |
| Fixed income securities | 793 | 223 | – | 396 | 50 | 124 |
| Fixed income mutual funds | 28,854 | – | – | – | – | 28,854 |
| Domestic equity mutual funds | 810 | – | – | – | – | 810 |
| International equity mutual funds | 354 | – | – | – | – | 354 |
| Real estate investment trusts | 32 | – | – | – | – | 32 |
| Equity securities ETF | 3,382 | 623 | – | 58 | 164 | 2,537 |
| Money market funds | 14,458 | – | – | – | – | 14,458 |
| Private equity | 100 | – | – | – | – | 100 |
| | 190,108 | 846 | 141,176 | 454 | 214 | 47,418 |
| | $ 1,230,680 | $ 846 | $ 141,176 | $ 454 | $ 214 | $ 1,087,990 |

**4. Investments (continued)**

**Concentration of Credit Risk**

Investments in any one issuer that represent 5% or more of Shands' investment portfolio are required to be separately disclosed. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. As of June 30, 2022, Shands did not have any investments that equaled or exceeded this threshold.

**Custodial Credit Risk**

As of June 30, 2022, Shands' investments were not exposed to custodial credit risk since the full amount of investments were insured, collateralized, or registered in Shands' name.

**Interest Rate Risk**

Shands' investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Refer to the distribution of Shands' investment in fixed income securities by maturity as of June 30, 2022.

**Investment Income**

Net investment income, including change in fair value, for the year ended June 30, 2022, is as follows:

*(in thousands of dollars)*

| | |
|---|---|
| Pooled investment program losses | $ (185,683) |
| Dividends, interest and other income | 6,346 |
| Net realized gain on investments | 40,992 |
| Net decrease in fair value of investments | (48,286) |
| | $ (186,631) |

The calculation of net realized gain on investments is independent of the calculation of the net decrease in fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year are included in net decrease in fair value of investments in the current year and in prior years.

## 5. Fair Value

Shands categorizes its fair value measurements within the fair value hierarchy. The hierarchy is summarized in the three broad levels listed below:

- Level 1 – quoted prices in active markets for identical securities.
- Level 2 – other significant observable inputs (including quoted prices for similar investments, interest rates, credit risks, etc.).
- Level 3 – significant unobservable inputs (including Shands' own assumptions in determining the fair value of investments).

Fixed income mutual funds, domestic equity mutual funds, international equity mutual funds, real estate investment trusts, equity securities ETF, and money market funds are classified in Level 1 of the fair value hierarchy and are valued at quoted market prices for identical securities in active markets.

Fixed income securities and government securities are classified in Level 2 of the fair value hierarchy and are valued by external pricing vendors.

Shands' investments in Pooled Investment Funds are measured at the net asset value ("NAV") per share or its equivalent. Shands can redeem up to 90% of its investment in any Pooled Investment Fund with 45 days' notice.

Shands' investment in the SPIA is measured at the NAV per share or its equivalent. The SPIA invests in a combination of short-term liquid instruments and intermediate fixed income securities. A maximum of 40% can be redeemed in varying amounts with 1-20 days' notice, including up to $20,000,000 with same day notice. The remaining 60% can be redeemed with 6 months' notice. The 6 months' notice period may be waived by the SPIA's administration upon request.

Shands' investment in Pantheon USA Fund V, L.P. is measured at the NAV per share or its equivalent. Redemptions are allowable only to the extent of distributions received from the fund's underlying fund investments. It is expected that the underlying assets of the fund will be liquidated over the next year. The remaining unfunded commitment as of June 30, 2022, is approximately $156,000.

**5. Fair Value (continued)**

Shands' interest rate swaps are classified in Level 2 of the fair value hierarchy. The fair values of the fixed rate payer interest rate swaps are estimated using the zero-coupon discounting method. This method calculates the future payments required by the interest rate swap, assuming the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon bond due on the date of each future net settlement payment on the interest rate swaps. The fair values of interest rate swaps are included in Note 9.

**6. Capital Assets**

A summary of changes in capital assets for the year ended June 30, 2022, is as follows:

*(in thousands of dollars)*

| | Balance at June 30, 2021 | Additions | Disposals and Transfers | Balance at June 30, 2022 |
|---|---|---|---|---|
| Depreciable assets | | | | |
| Capital assets (excluding lease assets): | | | | |
| Buildings and leasehold improvements | $ 1,742,860 | $ 28,469 | $ (28,483) | $1,742,846 |
| Equipment | 927,489 | 52,556 | (9,745) | 970,300 |
| Accumulated depreciation | (1,456,993) | (117,987) | 26,626 | (1,548,354) |
| Capital assets (excluding lease assets), net | 1,213,356 | (36,962) | (11,602) | 1,164,792 |
| Right-to-use lease assets: | | | | |
| Buildings and leasehold improvements | 33,805 | – | – | 33,805 |
| Equipment | 678 | – | – | 678 |
| Accumulated amortization | – | (6,226) | – | (6,226) |
| Right-to-use lease assets, net | 34,483 | (6,226) | – | 28,257 |
| Net depreciable assets | 1,247,839 | (43,188) | (11,602) | 1,193,049 |
| Land | 90,776 | 2,639 | (750) | 92,665 |
| Construction-in-progress | 60,641 | 122,286 | (59,438) | 123,489 |
| Capital assets, net | $ 1,399,256 | $ 81,737 | $ (71,790) | $1,409,203 |

## 6. Capital Assets (continued)

Depreciation and amortization expense was approximately $124,213,000 for the year ended June 30, 2022. Amortization expense on right-to-use lease assets was approximately $6,226,000 for the year ended June 30, 2022. For the year ended June 30, 2022, fully depreciated capital assets with an original cost of approximately $16,930,000 were disposed of and are no longer in service. Construction-in-progress at June 30, 2022 consists primarily of costs incurred for the construction of various hospital building renovations and other related projects.

## 7. Unconsolidated Affiliates

STHC has a 49.9% minority interest in Shands/Solantic Joint Venture, LLC ("CareSpot"), which owns four walk-in urgent care centers located in north central Florida. Solantic of Orlando, LLC owns the remaining 50.1% majority interest and manages the facilities.

STHC has a 49% minority interest in Select Specialty Hospital – Gainesville, LLC ("SSH"). Select Specialty Hospitals, Inc. ("Select"), an affiliate of Select Medical Corporation ("SMC"), owns the remaining 51% majority interest. SSH operates a 48-bed long-term acute care hospital located within STHC's primary hospital facility, which SSH leases from STHC. Select Unit Management, Inc., a wholly owned subsidiary of SMC, provides management services to SSH.

STHC has a 49% minority interest in Archer Rehabilitation, LLC ("Archer Rehab"). Select owns the remaining 51% majority interest. Archer Rehab operates a 60-bed rehabilitation facility located approximately one mile from STHC's main hospital campus.

STHC has a 50% interest in UF Health South Central, LLC ("South Central"). Florida Clinical Practice Association, Inc. ("FCPA"), a component unit of UF, owns the remaining 50% interest. South Central owns property located in Marion County, consisting of two medical office buildings, two vacant lots, and certain medical equipment. South Central leases the medical office buildings and equipment to FCPA, which operates various clinical practices therein.

On December 17, 2019, STHC entered into a Management Services, Governance, and Contribution Agreement (the "Deltona Agreement") with Halifax Hospital Medical Center ("Halifax"), Halifax Management System, Inc. ("HMS") and various affiliated entities including Medical Center of Deltona, Inc., which operates Halifax Health | UF Health Medical Center of Deltona ("MCD"), a 43-bed acute care hospital located in Deltona, Florida. MCD opened to the public on February 4, 2020. Under the Deltona Agreement, Halifax and STHC will: (i) provide management services to operate MCD, (ii) provide equal capital funding contributions, and

**7. Unconsolidated Affiliates (continued)**

(iii) equally receive MCD profits and distributions. On February 4, 2020, STHC made an initial contribution of $12,000,000 to MCD. Additionally, under the Deltona Agreement, STHC, HMS, and certain Halifax affiliates agreed to individually provide joint and several liability guarantees for obligations arising under a Master Securities Loan Agreement entered into on December 18, 2019, by MCD and JP Morgan Chase Bank, N.A. STHC's total aggregate liability under the guaranty shall not exceed 50% of the total amount guaranteed by STHC and the other parties.

UFHL has a 49% minority interest in Lake Medical Imaging and Breast Center at The Villages, LLC d/b/a Lake Medical Imaging and Vascular Institute ("LMI"), which operates four full service imaging centers located in The Villages® and Leesburg. Orange Blossom Gardens Radiology II, LLC owns the remaining 51% majority interest.

UFHL and UFHV have a combined 50% ownership interest in Central Florida Cardiovascular Co-Management Company, LLC ("CFCCMC"), which provides management services to the cardiovascular service lines of UFHL and UFHV. The remaining shares are owned by independent physician partners.

UFHCF has an 11.1% minority ownership interest in LeeSar, Inc. ("LeeSar"), which provides medical supply distribution and group purchasing services to various health care organizations. Lee Memorial Hospital, Inc. and Sarasota Memorial Health Care System each own 44.45%.

A summary of changes in investments in unconsolidated affiliates for the year ended June 30, 2022, is as follows:

*(in thousands of dollars)*

| | Balance at June 30, 2021 | Distributions | Investment Gain (Loss) | Balance at June 30, 2022 |
|---|---|---|---|---|
| CareSpot | $ 3,118 | $ (1,123) | $ 1,037 | $ 3,032 |
| SSH | 4,051 | (2,024) | 704 | 2,731 |
| Archer Rehab | 7,436 | (1,263) | 1,051 | 7,224 |
| South Central | 6,444 | – | – | 6,444 |
| MCD | 4,346 | – | (3,596) | 750 |
| LMI | 14,373 | (2,155) | (194) | 12,024 |
| CFCCMC | 657 | – | 472 | 1,129 |
| LeeSar | 5,182 | – | 796 | 5,978 |
| | $ 45,607 | $ (6,565) | $ 270 | $ 39,312 |

**8. Long-Term Debt**

Long-term debt is comprised of the following at June 30, 2022:

| *(in thousands of dollars)* | |
|---|---|
| Direct Placement Tax-Exempt Bonds: | |
| Alachua County Health Facilities Authority: | |
| Series 2008C, final maturity October 2028 | $ 24,375 |
| Series 2016A, final maturity December 2030 | 30,470 |
| | 54,845 |
| City of Leesburg, Florida: | |
| Series 2011, final maturity July 2036 | 50,160 |
| Series 2017, final maturity July 2036 | 26,775 |
| | 76,935 |
| | 131,780 |
| Other Tax-Exempt Bonds: | |
| Alachua County Health Facilities Authority: | |
| Series 2007A, final maturity December 2037 | 40,395 |
| Series 2008A, final maturity December 2037 | 49,990 |
| Series 2014A, final maturity December 2044 | 250,000 |
| Series 2014B, final maturity December 2034 | 50,000 |
| Series 2019A, final maturity December 2049 | 167,170 |
| Series 2019B-1, final maturity December 2037 | 105,735 |
| Series 2019B-2, final maturity December 2037 | 45,020 |
| | 708,310 |
| Sumter County Industrial Development Authority: | |
| Series 2014A, final maturity July 2044 | 43,675 |
| Series 2014B, final maturity July 2032 | 26,370 |
| | 70,045 |
| | 778,355 |
| Taxable Notes: | |
| Series 2013A, final maturity December 2042 | 125,000 |
| | 1,035,135 |
| Net unamortized bond premium | 48,248 |
| Total long-term debt | 1,083,383 |
| Less: Current portion | (24,664) |
| Long-term portion | $ 1,058,719 |

## 8. Long-Term Debt (continued)

Changes in Shands' long-term debt, excluding unamortized discounts or premiums, for the year ended June 30, 2022, were as follows:

*(in thousands of dollars)*

| | Balance at June 30, 2021 | Additions | Reductions | Balance at June 30, 2022 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| Direct Placement Tax-Exempt Bonds: | | | | | |
| Alachua County Health Facilities Authority: | | | | | |
| Series 2008C, final maturity October 2028 | $ 28,125 | $ – | $ (3,750) | $ 24,375 | $ 3,750 |
| Series 2016A, final maturity December 2030 | 34,825 | – | (4,355) | 30,470 | 4,460 |
| | 62,950 | – | (8,105) | 54,845 | 8,210 |
| City of Leesburg, Florida: | | | | | |
| Series 2011, final maturity July 2036 | 52,855 | – | (2,695) | 50,160 | 2,810 |
| Series 2017, final maturity July 2036 | 27,910 | – | (1,135) | 26,775 | 1,190 |
| | 80,765 | – | (3,830) | 76,935 | 4,000 |
| | 143,715 | – | (11,935) | 131,780 | 12,210 |
| Other Tax-Exempt Bonds: | | | | | |
| Alachua County Health Facilities Authority: | | | | | |
| Series 2007A, final maturity December 2037 | 40,395 | – | – | 40,395 | – |
| Series 2008A, final maturity December 2037 | 49,990 | – | – | 49,990 | – |
| Series 2014A, final maturity December 2044 | 250,000 | – | – | 250,000 | – |
| Series 2014B, final maturity December 2034 | 50,000 | – | – | 50,000 | – |
| Series 2019A, final maturity December 2049 | 167,170 | – | – | 167,170 | – |
| Series 2019B-1, final maturity December 2037 | 109,600 | – | (3,865) | 105,735 | 4,215 |
| Series 2019B-2, final maturity December 2037 | 45,020 | – | – | 45,020 | – |
| | 712,175 | – | (3,865) | 708,310 | 4,215 |
| Sumter County Industrial Development Authority | | | | | |
| Series 2014A, final maturity July 2044 | 44,670 | – | (995) | 43,675 | 1,045 |
| Series 2014B, final maturity July 2032 | 28,365 | – | (1,995) | 26,370 | 2,095 |
| | 73,035 | – | (2,990) | 70,045 | 3,140 |
| | 785,210 | – | (6,855) | 778,355 | 7,355 |
| Taxable Notes: | | | | | |
| Series 2013A, final maturity December 2042 | 125,000 | – | – | 125,000 | – |
| Installment debt | 1,115 | – | (1,115) | – | – |
| Total long-term debt | $ 1,055,040 | $ – | $ (19,905) | $ 1,035,135 | $ 19,565 |

The current portion of net unamortized bond premium was approximately $5,099,000 as of June 30, 2022.

## 8. Long-Term Debt (continued)

Maturities of long-term debt, including corresponding interest, over the next five years and in five-year increments thereafter are as follows:

*(in thousands of dollars)*

| | Direct Placement Bonds | | Other Bonds and Notes | | Total Debt Service | |
|---|---|---|---|---|---|---|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| Year ending June 30: | | | | | | |
| 2023 | $ 12,210 | $ 2,769 | $ 7,355 | $ 38,924 | $ 19,565 | $ 41,693 |
| 2024 | 9,075 | 2,540 | 11,385 | 38,496 | 20,460 | 41,036 |
| 2025 | 8,885 | 2,352 | 12,971 | 37,928 | 21,856 | 40,280 |
| 2026 | 9,120 | 2,165 | 13,770 | 37,259 | 22,890 | 39,424 |
| 2027 | 9,355 | 1,973 | 60,480 | 35,216 | 69,835 | 37,189 |
| 2028-2032 | 56,200 | 5,856 | 64,835 | 163,809 | 121,035 | 169,665 |
| 2033-2037 | 26,935 | 1,759 | 168,920 | 140,010 | 195,855 | 141,769 |
| 2038-2042 | – | – | 142,635 | 109,372 | 142,635 | 109,372 |
| 2043-2047 | – | – | 316,905 | 41,862 | 316,905 | 41,862 |
| 2048-2052 | – | – | 104,099 | 6,357 | 104,099 | 6,357 |
| | $ 131,780 | $ 19,414 | $ 903,355 | $ 649,233 | $ 1,035,135 | $ 668,647 |

Cash paid for interest was approximately $46,286,000 for the year ended June 30, 2022.

STHC entered into a Master Trust Indenture dated March 1, 1996, as amended and supplemented (“STHC MTI”) with U.S. Bank, National Association, as successor trustee, which established an obligated group (“STHC Obligated Group”) of affiliated entities that are jointly and severally liable for all obligations issued under the STHC MTI. STHC is currently the only member of the STHC Obligated Group. STHC has pledged a security interest in its gross revenues to secure payment of all obligations issued under the STHC MTI. All of STHC’s long-term debt is subject to obligations issued under the STHC MTI. The STHC MTI provides for specific financial covenants, including a minimum debt service coverage requirement. The STHC Obligated Group was in compliance with all such financial covenants as of June 30, 2022. The direct placement bonds require certain minimum bond ratings and compliance with certain financial ratio covenants in order to avoid an event of default. If STHC fails to pay any principal amounts when due, or if an event of default occurs, the lender can accelerate payment of the entire amount of principal due immediately.

**8. Long-Term Debt (continued)**

UFHL and UFHV entered into a Master Trust Indenture dated December 1, 2008, as amended and supplemented ("UFHCF MTI") with Bank of New York Mellon Trust Company, National Association, as successor trustee, which established an obligated group ("UFHCF Obligated Group") of affiliated entities that are jointly and severally liable for all obligations issued under the UFHCF MTI. UFHCF, UFHL, and UFHV are currently the only members of the UFHCF Obligated Group. Each member of the UFHCF Obligated Group has pledged a security interest in its net income (as defined in the UFHCF MTI) and certain mortgaged property, including land and improvements, buildings and improvements, and equipment, to secure payment of all obligations issued under the UFHCF MTI. All of the UFHCF Obligated Group members' long-term debt is subject to obligations issued under the UFHCF MTI. The UFHCF MTI provides for specific financial covenants, including a minimum debt service coverage requirement. The UFHCF Obligated Group was in compliance with all such financial covenants as of June 30, 2022. The direct placement bonds require certain minimum bond ratings and compliance with certain financial ratio covenants in order to avoid an event of default. If any member of the UFHCF Obligated Group fails to pay any principal amounts when due, or if an event of default occurs, the lender can accelerate payment of the entire amount of principal due immediately.

**Direct Placement Tax-Exempt Bonds (Alachua County Health Facilities Authority)**

*Series 2008C Health Facilities Revenue Bonds*

In November 2008, the Alachua County Health Facilities Authority ("ACHFA") issued the Series 2008C Health Facilities Revenue Bonds ("Series 2008C Bonds") on behalf of STHC. The proceeds of the Series 2008C Bonds were used to refund the Series 1996B Health Facilities Revenue Bonds and to pay related costs of issuance.

The Series 2008C Bonds are variable rate bonds based upon 65% of one-month LIBOR plus 1.30%. The interest rate on the Series 2008C Bonds was 1.99% at June 30, 2022.

*Series 2016A Health Facilities Revenue Refunding Bonds*

In May 2016, the ACHFA issued the Series 2016A Health Facilities Revenue Refunding Bonds ("Series 2016A Bonds") on behalf of STHC. The proceeds of the Series 2016A Bonds were used to advance refund the Series 2008D1 Health Facilities Revenue Bonds and Series 2008D2 Health Facilities Revenue Bonds and to pay related costs of issuance.

The interest rate on the Series 2016A Bonds is fixed at 2.50% and interest is payable quarterly.

**8. Long-Term Debt (continued)**

**Direct Placement Tax-Exempt Bonds (City of Leesburg, Florida)**

*Series 2011 Hospital Revenue Refunding Bonds*

In October 2011, the City of Leesburg issued the Series 2011 Hospital Revenue Refunding Bonds ("Series 2011 Bonds") on behalf of UFHCF. The proceeds of the Series 2011 Bonds were used to refund the Series 2008A Hospital Revenue Refunding Bonds, the Series 2008C Hospital Revenue Refunding Bonds and the Series 2009B Hospital Revenue Refunding Bonds and to pay related costs of issuance.

The Series 2011 Bonds are variable rate bonds based upon 79% of one-month LIBOR plus 0.73%. The interest rate on the Series 2011 Bonds was 2.14% at June 30, 2022.

*Series 2017 Hospital Revenue Refunding Bonds*

In December 2017, the City of Leesburg issued the Series 2017 Hospital Revenue Refunding Bonds ("Series 2017 Bonds") on behalf of UFHCF. The proceeds of the Series 2017 Bonds were used to refund the Series 2009A Hospital Revenue Bonds and to pay related costs of issuance.

The Series 2017 Bonds are variable rate bonds based upon 83% of one-month LIBOR plus 0.72%. The interest rate on the Series 2017 Bonds was 2.20% at June 30, 2022.

**Other Tax-Exempt Bonds (Alachua County Health Facilities Authority)**

*Series 2007A Health Facilities Revenue Bonds*

In March 2007, the ACHFA issued the Series 2007A Health Facilities Revenue Bonds ("Series 2007A Bonds") on behalf of STHC. The proceeds of the Series 2007A Bonds were used to finance capital improvement projects and to pay related costs of issuance.

The Series 2007A Bonds are variable rate bonds based upon 67% of three-month LIBOR plus 0.87%. The interest rate on the bonds is reset quarterly and the interest rate was 1.94% at June 30, 2022. The Series 2007A Bonds are redeemable at STHC's option at par value.

**8. Long-Term Debt (continued)**

*Series 2008A Health Facilities Revenue Bonds*

In June 2008, the ACHFA issued the Series 2008A Health Facilities Revenue Bonds ("Series 2008A Bonds") on behalf of STHC. The proceeds of the Series 2008A Bonds were used to retire the Series 2007C Health Facilities Revenue Bonds.

The Series 2008A Bonds are variable rate bonds issued in the Unit Pricing Mode. Interest periods range from 1 to 270 days. The weighted average interest rate on the Series 2008A Bonds was 1.18% at June 30, 2022. The Series 2008A Bonds are backed by a bank letter of credit ("LOC") expiring in August 2024. The annual LOC fee is equal to 0.40% of the bank LOC amount of approximately $53,893,000. There were no amounts outstanding under this LOC at June 30, 2022. In the event of a draw on the LOC, beginning on the date that is 367 days after the draw, STHC shall begin to repay the principal component of the draw in six equal installments, due every six months thereafter. The Series 2008A Bonds are redeemable at the option of STHC at par value.

*Series 2014A and Series 2014B Health Facilities Revenue Bonds*

In October 2014, the ACHFA issued the Series 2014A Health Facilities Revenue Bonds ("Series 2014A Bonds") and the Series 2014B Health Facilities Revenue Bonds ("Series 2014B Bonds") on behalf of STHC. The proceeds of the Series 2014A Bonds and Series 2014B Bonds were used to finance capital improvement projects and to pay related costs of issuance.

The Series 2014A Bonds and Series 2014B Bonds are unenhanced fixed rate bonds. Interest rates on the Series 2014A Bonds range from 4.00% to 5.00% and the interest rate on the Series 2014B Bonds is 5.00%. Interest on the Series 2014A Bonds and Series 2014B Bonds is payable semiannually. The Series 2014A Bonds and Series 2014B Bonds maturing on or after December 1, 2024, are redeemable at STHC's option at par value.

*Series 2019A Health Facilities Revenue Bonds*

In October 2019, the ACHFA issued the Series 2019A Health Facilities Revenue Bonds ("Series 2019A Bonds") on behalf of STHC. The proceeds of the Series 2019A Bonds were used to finance capital improvement projects and pay related costs of issuance.

The Series 2019A Bonds are unenhanced fixed rate bonds. Interest rates on the Series 2019A Bonds range from 3.00% to 4.00% and interest is payable semiannually. The Series 2019A Bonds maturing on or after December 1, 2029, are redeemable at STHC's option at par value.

**8. Long-Term Debt (continued)**

*Series 2019B-1 and Series 2019B-2 Health Facilities Revenue Refunding Bonds*

In October 2019, the ACHFA issued the Series 2019B-1 Health Facilities Revenue Refunding Bonds ("Series 2019B-1 Bonds") and the Series 2019B-2 Health Facilities Revenue Refunding Bonds ("Series 2019B-2 Bonds") on behalf of STHC. The proceeds of the Series 2019B-1 Bonds and the Series 2019B-2 Bonds were used to refund $60,000,000 of the Series 2007A Bonds and all of the Series 2007B Health Facilities Revenue Refunding Bonds, the Series 2010A Health Facilities Revenue Bonds, the Series 2012A and Series 2012B Health Facilities Revenue Bonds, and to pay related costs of issuance.

The Series 2019B-1 Bonds and the Series 2019B-2 Bonds are unenhanced fixed rate bonds. Interest rates on the Series 2019B-1 Bonds range from 4.00% to 5.00% and the interest rate on the Series 2019B-2 Bonds is 5.00%. Interest on the Series 2019B-1 Bonds and Series 2019B-2 Bonds is payable semiannually. The Series 2019B-1 Bonds maturing on or after December 1, 2029, are redeemable at STHC's option at par value. The Series 2019B-2 Bonds are redeemable at STHC's option at par value on or after June 1, 2026, until and including the last day of the initial term rate period of December 1, 2026.

**Other Tax-Exempt Bonds (Sumter County Industrial Development Authority)**

*Series 2014A Hospital Revenue Bonds*

In March 2014, the Sumter County Industrial Development Authority ("SCIDA") issued the Series 2014A Hospital Revenue Bonds ("SCIDA Series 2014A Bonds") on behalf of UFHCF. The proceeds of the SCIDA Series 2014A Bonds were used to finance capital improvement projects and pay related costs of issuance.

The SCIDA Series 2014A Bonds are unenhanced fixed rate bonds. Interest rates on the SCIDA Series 2014A Bonds range from 5.00% to 5.25% and interest is payable semiannually. The SCIDA Series 2014A Bonds maturing on or after July 1, 2024 are redeemable at UFHCF's option at par value.

**8. Long-Term Debt (continued)**

*Series 2014B Hospital Revenue Bonds*

In November 2014, the SCIDA issued the Series 2014B Hospital Revenue Bonds ("SCIDA Series 2014B Bonds") on behalf of UFHCF. The proceeds of the SCIDA Series 2014B Bonds were used to refund the Series 2002 Hospital Revenue Bonds, finance capital improvement projects and pay related costs of issuance.

The SCIDA Series 2014B Bonds are unenhanced fixed rate bonds. The interest rate on the SCIDA Series 2014B Bonds is 5.00% and interest is payable semiannually. The SCIDA Series 2014B Bonds maturing on or after July 1, 2024 are redeemable at UFHCF's option at par value.

**Taxable Notes**

*Series 2013A Taxable Notes*

In March 2013, STHC issued the Series 2013A Taxable Notes ("Series 2013A Notes"). The proceeds of the Series 2013A Notes were used to finance capital improvement projects and for other business purposes.

The interest rate on the Series 2013A Notes is fixed at 4.741% and interest is payable semiannually.

## 9. Interest Rate Swaps

At June 30, 2022, Shands had the following derivative instruments outstanding:

*(in thousands of dollars)*

| Item | Type | Objective | Notional Amount | Effective Date | Maturity or Termination Date | Terms | Fair Value |
|---|---|---|---|---|---|---|---|
| 2007A | Fixed rate payer interest rate swap | Hedge of changes in cash flows on the Series 2007A Bonds | $ 40,395 | 3/30/2007 | 12/1/2037 | Pay fixed rate of 4.349%. Receive 67% of three-month LIBOR plus 87 basis points. | $ (5,808) |
| 2008A | Fixed rate payer interest rate swap | Hedge of changes in cash flows on the Series 2008A Bonds | $ 49,990 | 11/7/2007 | 12/1/2037 | Pay fixed rate of 3.538%. Receive 67% of one-month LIBOR. | (8,130) |
| 2008C | Fixed rate payer interest rate swap | Hedge of changes in cash flows on the Series 2008C Bonds | $ 24,375 | 11/5/2008 | 10/2/2028 | Pay fixed rate of 4.18%. Receive 65% of one-month LIBOR plus 130 basis points. | (731) |
| 2011 | Fixed rate payer interest rate swap | Hedge of changes in cash flows on a portion of the Series 2011 Bonds | $ 12,500 | 8/14/2008 | 7/1/2031 | Pay fixed rate of 3.352%. Receive 67% of one month LIBOR. | (755) |
| 2017 | Fixed rate payer interest rate swap | Hedge of changes in cash flows on the Series 2017 Bonds | $ 26,960 | 3/1/2011 | 7/1/2036 | Pay fixed rate of 3.6375%. Receive 67% of one-month LIBOR. | (3,370) |
| | | | | | | | $ (18,794) |

At June 30, 2022, approximately $18,794,000 related to the fair value of interest rate swaps are recorded in other liabilities in the accompanying consolidated basic statement of net position. Changes in fair value of approximately $20,084,000 were reported as accumulated decrease in fair value of hedging derivatives in the accompanying consolidated basic statement of net position.

## 9. Interest Rate Swaps (continued)

### Credit Risk

Shands has sought to limit its counterparty risk. As of June 30, 2022, the Moody's and Standard & Poor's credit ratings for the counterparty were as follows:

| Item | Moody's | Standard & Poor's |
|---|---|---|
| 2007A | A2 | A- |
| 2008A | A2 | A- |
| 2008C | A2 | A |
| 2011 | A2 | AA- |
| 2017 | A2 | A |

### Interest Rate Risk

Shands is not exposed to interest rate risk on its fixed rate payer interest rate swap agreements as they are structured in a receive variable, pay fixed rate mode.

### Basis Risk

Shands is exposed to basis risk on certain fixed rate payer swap agreements because the variable rate payments received by Shands on the hedging derivative instrument are based on a rate or index other than the interest rates that Shands pays on its hedged variable rate debt. As of June 30, 2022, the weighted variable interest rates on Shands' hedged variable rate debt and swap index are as follows:

| Item | Type | Objective | Debt Interest Rate | Swap Index Rate |
|---|---|---|---|---|
| 2008A | Fixed rate payer interest rate swap | Hedge of changes in cash flows on the Series 2008A Bonds | 1.18% | 67% of one-month LIBOR, reset weekly, or 1.11% |
| 2011 | Fixed rate payer interest rate swap | Hedge of changes in cash flows on a portion of the Series 2011 Bonds | 2.14% | 67% of one-month LIBOR, reset monthly, or 1.20% |
| 2017 | Fixed rate payer interest rate swap | Hedge of changes in cash flows on the Series 2017 Bonds | 2.20% | 67% of one-month LIBOR, reset monthly, or 1.20% |

**9. Interest Rate Swaps (continued)**

**Termination Risk**

The interest rate swap agreements use the International Swap Dealers Association Master Agreement, which includes standard termination event provisions, such as failure to pay and bankruptcy.

**Commitments**

The 2007A interest rate swap agreement requires collateral to be posted if the fair value of the interest rate swap is negative and exceeds certain thresholds. The threshold amount depends on Shands' unenhanced credit rating as determined by Moody's and Standard & Poor's. As of June 30, 2022, Shands was not required to post collateral with the counterparty.

**10. Retirement Benefit Plans**

**Defined Contribution Plans**

STHC sponsors two defined contribution plans that cover eligible employees – the Shands HealthCare Matched Savings Account 403(b) ("403(b) Plan") and the Shands HealthCare Matched Savings Account 401(a) ("401(a) Plan"). Under the provisions of the 403(b) Plan, employees may elect to defer up to 75% of annual compensation (as defined) subject to Internal Revenue Code limitations. Under the 401(a) Plan, STHC makes a nonelective discretionary contribution on behalf of employees (a percentage of compensation based upon years of service) and a matching contribution equal to 75% of the first 4% of compensation that an employee contributes to the 403(b) Plan. STHC's contributions to the 401(a) Plan were approximately $41,092,000 for the year ended June 30, 2022.

UFHCF sponsors a defined contribution plan that covers eligible employees – the CFH 401(k) ("401(k) Plan"). Under the 401(k) Plan, UFHCF makes a matching contribution equal to 100% of the first 4% of compensation that an employee contributes to the 401(k) Plan. Additional contributions to the 401(k) Plan are at the discretion of management up to an additional 1.25% of employee compensation. UFHCF's contributions to the 401(k) Plan were approximately $3,342,000 for the year ended June 30, 2022.

## 10. Retirement Benefit Plans (continued)

### Defined Benefit Pension Plan Disclosures, as Required by GASB Statement No. 68

*Plan Description*

The Plan is a cost-sharing, multiple-employer, defined benefit pension plan covering eligible employees (as defined by the Plan) of STHC ("Plan Sponsor") and Shands Jacksonville HealthCare, Inc. ("SJHC"). The Plan was frozen effective July 1, 2013. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"), as amended. The Plan's stand-alone financial statements are filed with the Internal Revenue Service Form 5500, which is available to the public on the Department of Labor's Employee Benefits Security Administration website.

Oversight of the Plan's assets is vested in the STHC Investment Committee, which consists of five members, appointed by the Finance Committee of the STHC Board. The STHC Investment Committee has the authority to establish and amend the investment policy statement, including asset allocation, subject to the approval of the Finance Committee of the STHC Board.

*Benefits Provided*

The Plan provides for retirement and death benefits. Retirement benefits are determined based upon varying formulas dependent upon hire date and years of service. For participants hired prior to July 1, 1997, the Plan provided benefits under a traditional benefit formula (1.6% of the average of the employee's five highest annual compensation amounts multiplied by the employee's years of credited service) through July 1, 2011 when the Plan was amended to cease traditional pension benefits. For participants hired as of July 1, 1997 and subsequent new hires through June 30, 2010, and as of July 1, 2011 for participants who were previously accruing benefits under the traditional pension formula, the Plan provided cash balance benefits, with a hypothetical account maintained for each participant in which contributions were credited for the benefit of the individual based on a participant's years of credited vesting service. Participants continued to accrue cash balance benefits through June 30, 2013, when the Plan was amended to cease accrual of cash balance benefits. Employees hired on or after July 1, 2010, receive retirement benefits through the 401(a) Plan.

## 10. Retirement Benefit Plans (continued)

Benefit terms provide for annual cost-of-living adjustments to retired participants and beneficiaries of participants receiving benefits under the traditional pension formula. Benefit payments are adjusted each October 1 following benefit commencement to reflect the changes in the Consumer Price Index for the twelve months ended the preceding June 30. The increase is limited to 3% per year.

*Employees Covered by Benefit Terms*

At June 30, 2021, the measurement date for the pension liability, the following employees of STHC were covered by the benefit terms (participant data as of July 1, 2020):

| | |
|---|---|
| Active | 3,057 |
| Terminated vested | 1,648 |
| Retired | 2,865 |
| | 7,570 |

*Contributions*

The Plan Sponsor's funding policy is for STHC and SJHC to make contributions to meet the minimum funding requirements of Internal Revenue Code Sections 412(a) and 430 as determined by an independent actuary. Additionally, STHC and SJHC may contribute an amount above the required contribution. STHC's contributions of approximately $16,116,000 for the year ended June 30, 2022, exceed the minimum funding requirements of ERISA.

*Net Pension Asset*

STHC's proportionate share of the net pension asset as of June 30, 2022 was approximately $204,865,000 based on a measurement date of June 30, 2021, and is included in other assets in the accompanying consolidated basic statement of net position. The total pension liability used to calculate the net pension asset as of June 30, 2021, was determined based on the results of an actuarial valuation as of July 1, 2020, projected forward to June 30, 2021, using standard actuarial techniques. STHC's proportionate share of the net pension asset was developed by calculating the pension liability for STHC and SJHC based on the individual participant data as actuarially determined and the plan fiduciary net position was calculated by the timing and amounts of actual contributions and benefit payments made by STHC and SJHC and an allocation of the investment return and administrative expenses based on the weighted average market value of plan assets. At June 30, 2022, STHC's proportionate share of the net pension asset was 92.8%, which was a .40% decrease from June 30, 2021.

## 10. Retirement Benefit Plans (continued)

The total pension liability was based on the results of the actuarial valuation as of July 1, 2020, and was determined based on census data as of July 1, 2020 and the following actuarial assumptions:

Investment Rate of Return: 5.10%, net of pension plan investment expense, including inflation.

Salary increases: Not applicable

Inflation: .65% for the period July 1, 2020 through June 30, 2021, 2.02% for the period July 1, 2021 through June 30, 2022, and 2.00% per year thereafter.

Retirement Growth Account Interest Crediting Rate: 3.88% for the period July 1, 2020 through June 30, 2021, 3.29% for the period July 1, 2021 through June 30, 2022, and 4.10% per year thereafter. The 3.88% and 3.29% rates represent the actual interest rate credited in each respective period.

Mortality rates were based upon the Pri-2012 blue collar base mortality rates published by the Society of Actuaries with future improvements in mortality using the Mercer Modified Scale MMP-2019 applied on a generational basis.

The actuarial assumptions associated with retirement and termination rates and used in the July 1, 2020 valuation were based on the results of an actual experience study conducted in 2020, which assessed actual experience for the period July 1, 2015 through June 30, 2020.

**10. Retirement Benefit Plans (continued)**

The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected real rates of return (expected returns, net of plan investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| *Asset Class* | **Target Allocation** | **Long-Term Expected Real Rate of Return** |
|---|---|---|
| Global Equity | 37.0% | 5.75% |
| Long Credit Fixed Income | 28.0% | 1.80% |
| Long Government/Credit Fixed Income | 28.0% | 1.22% |
| Multi Asset Credit | 5.6% | 2.63% |
| Private Equity | 1.4% | 8.83% |
| Total | 100.0% | |

The discount rate used to measure the total pension liability was 5.10%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in amounts equal to the actuarially determined contributions. Based on that assumption, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**10. Retirement Benefit Plans (continued)**

*Sensitivity of the Net Pension Asset to Changes in the Discount Rate*

The following presents STHC's proportionate share of the net pension asset calculated using the discount rate of 5.10%, as well as a discount rate that is 1% lower (4.10%), and 1% higher (6.10%):

| *(in thousands of dollars)* | 1% Decrease 4.10% | Current Discount Rate 5.10% | 1% Increase 6.10% |
|---|---|---|---|
| Proportionate share of the net pension asset | $ 95,113 | $ 204,865 | $ 295,912 |

*Pension Income and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Defined Benefit Pension*

STHC recognized pension income of approximately $21,960,000 for the year ended June 30, 2022. At June 30, 2022, Shands reported deferred outflows of resources and deferred inflows of resources related to defined benefit pension from the following sources:

| *(in thousands of dollars)* | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ 1,278 | $ 911 |
| Changes in assumptions | 72,820 | 4,999 |
| Net differences between projected and actual earnings on pension plan investments | – | 147,210 |
| Contributions made during the year ended June 30, 2022 not yet recognized in fiduciary net position | 16,116 | – |
| Total | $ 90,214 | $ 153,120 |

**10. Retirement Benefit Plans (continued)**

The contributions made to the Plan during the year ended June 30, 2022 will be reported as an increase in Shands' proportionate share of the net pension asset during the subsequent year. The other amounts reported as deferred outflows of resources on pension and deferred inflows of resources on pension will be recognized as a decrease in pension expense or an increase in pension income as follows:

*(in thousands of dollars)*

| **Year Ending June 30** | |
|---|---|
| 2023 | $ 10,656 |
| 2024 | 12,266 |
| 2025 | 22,169 |
| 2026 | 33,930 |
| Thereafter | - |

**10. Retirement Benefit Plans (continued)**

**Fair Value Measurements**

The following table presents the fair value leveling of the Plan's investments as of the measurement date of June 30, 2021:

*(in thousands of dollars)*

| | **Level 1** | **Level 2** | **Level 3** | **Fair Value** |
|---|---|---|---|---|
| Interest bearing cash | $ 3,792 | $ – | $ – | $ 3,792 |
| U.S. government securities | – | 217,743 | – | 217,743 |
| Corporate debt instruments-preferred | – | 73,162 | – | 73,162 |
| Corporate debt instruments | – | 153,905 | – | 153,905 |
| Fixed income funds | – | 310,329 | – | 310,329 |
| Equity funds | – | 308,406 | – | 308,406 |
| Preferred and common stock | 125,808 | – | – | 125,808 |
| Other investments | – | 9,411 | – | 9,411 |
| Total assets in the fair value hierarchy | $ 129,600 | $ 1,072,956 | $ – | 1,202,556 |
| Investments measured at NAV | | | | 17,680 |
| Total investments measured at fair value | | | | $ 1,220,236 |

## 10. Retirement Benefit Plans (continued)

### Credit Risk

The Plan's investment policy provides guidelines for the long credit fixed income manager that require the minimum average quality rating of the portfolio to be a BBB+ rating and the minimum quality rating of an individual holding shall be a single B rating at the time of purchase. The policy also provides guidelines for the long government/credit fixed income investment manager that require the minimum average quality rating of the portfolio to be an A- rating and the minimum quality rating of an individual holding for at least 85% of the portfolio to be a BBB- rating at the time of purchase.

### Interest Rate Risk

Interest rate risk exposure is managed by limiting investment maturities in accordance with parameters in the Plan's investment policy. The Plan has investments maturing as of the measurement date of June 30, 2021 as follows:

*(in thousands of dollars)*

| | Fair Value | Less Than 1 Year | 1–5 Years | 6–10 Years | Over 10 Years | N/A |
|---|---|---|---|---|---|---|
| Interest bearing cash | $ 3,792 | $ – | $ – | $ – | $ – | $ 3,792 |
| U.S. government securities | 217,743 | 46,982 | – | 34,543 | 136,218 | – |
| Corporate debt instruments-preferred | 73,162 | – | 3,339 | 4,106 | 65,717 | – |
| Corporate debt instruments | 153,905 | 3,953 | 34,940 | 10,777 | 104,117 | 118 |
| Fixed income funds | 310,329 | – | – | – | – | 310,329 |
| Equity funds | 308,406 | – | – | – | – | 308,406 |
| Preferred and common stock | 125,808 | – | – | – | – | 125,808 |
| Other investments | 9,411 | 417 | 1,055 | 3,897 | 4,042 | – |
| Total assets in the fair value hierarchy | 1,202,556 | $ 51,352 | $ 39,334 | $ 53,323 | $ 310,094 | $ 748,453 |
| Investments measured at NAV | 17,680 | | | | | |
| Total investments | $ 1,220,236 | | | | | |

## 10. Retirement Benefit Plans (continued)

The Plan has investment credit ratings as of the measurement date of June 30, 2021 as follows:

*(in thousands of dollars)*

| | Fair Value | AAA/AA | A | BBB | Below BBB- | Not Rated |
|---|---|---|---|---|---|---|
| Interest bearing cash | $ 3,792 | $ – | $ – | $ – | $ – | $ 3,792 |
| U.S. government securities | 217,743 | 217,743 | – | – | – | - |
| Corporate debt instruments-preferred | 73,162 | 14,070 | 28,900 | 23,464 | 5,774 | 954 |
| Corporate debt instruments | 153,905 | 5,032 | 19,581 | 89,503 | 35,752 | 4,037 |
| Fixed income funds | 310,329 | – | – | – | – | 310,329 |
| Equity funds | 308,406 | – | – | – | – | 308,406 |
| Preferred and common stock | 125,808 | – | – | – | – | 125,808 |
| Other investments | 9,411 | 3,994 | 1,721 | 708 | 2,634 | 354 |
| Total assets in the fair value hierarchy | 1,202,556 | $ 240,839 | $ 50,202 | $ 113,675 | $ 44,160 | $ 753,680 |
| Investments measured at NAV | 17,680 | | | | | |
| Total investments measured at fair value | $ 1,220,236 | | | | | |

### Concentration of Credit Risk

The Plan's investment policy provides certain guidelines to limit concentration of credit risk. The guidelines require long credit and long government/credit fixed income portfolio investments to be appropriately distributed to provide prudent diversification. At the time of purchase, the market value of a holding in an individual issuer will be limited to 5% of the portfolio market value, and each individual issue shall not represent more than 5% of the portfolio market value with the exception of government and government-agency sponsored issues, or in the case of long government/credit fixed income portfolio investments, collective vehicles such as mutual funds and commingled trusts employed in the execution of the strategy. As of the measurement date of June 30, 2021, the Plan did not have any investments that equaled or exceeded these thresholds.

### Custodial Risk

The custodial risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Plan would not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of the measurement date of June 30, 2021, the Plan's investment portfolio was held by a single third-party custodian.

**10. Retirement Benefit Plans (continued)**

**Foreign Currency Risk**

The Plan's investment policy provides guidelines for the long credit fixed income manager and long government/credit fixed income manager that permits it to invest up to 20% and 10%, respectively, of total investments in foreign currency-denominated investments. In addition, the Plan has one non-U.S. equity manager that invests in foreign currency-denominated equities.

The Plan's exposure to foreign currency risk as of the measurement date of June 30, 2021 is as follows:

*(in thousands of dollars)*

| | |
|---|---|
| **Currency:** | |
| Australian dollar | $ 2,565 |
| Brazil real | (21) |
| Canadian dollar | 2,542 |
| Chilean peso | 80 |
| Danish krone | 4,283 |
| Euro currency unit | 28,089 |
| Hong Kong dollar | 13,180 |
| Japanese yen | 14,061 |
| Mexican peso | (119) |
| Peruvian sol | 915 |
| British sterling pound | 10,573 |
| South African rand | 2,869 |
| South Korean won | 1,121 |
| Swedish krona | 3,795 |
| Swiss franc | 6,775 |
| Total Plan investments subject to foreign currency risk | $ 90,708 |
| Percentage of total Plan investments | 7.4% |

## 11. Defined Benefit Pension Plan Disclosures, as Required by GASB Statement No. 67

A description of the Plan is included in Note 10.

*Employees Covered by Benefit Terms*

At June 30, 2021, the measurement date for the pension liability, the following employees of the Plan were covered by the benefit terms (participant data as of July 1, 2021):

| | |
|---|---|
| Active | 2,829 |
| Terminated vested | 1,699 |
| Retired | 3,386 |
| | 7,914 |

*Net Pension Asset*

The components of the Plan's net pension asset as of June 30, 2022 were as follows:

*(in thousands of dollars)*

| | |
|---|---|
| Total pension liability | $ (893,162) |
| Plan fiduciary net position | 917,237 |
| Net pension asset | $ 24,075 |
| Plan fiduciary net position as a percentage of the total pension liability | 102.7% |

The total pension liability used to calculate the net pension asset as of June 30, 2022, was determined based on the results of an actuarial valuation as of July 1, 2021, projected forward to June 30, 2022 using standard actuarial techniques. The July 1, 2021 actuarial valuation was determined based on the census data as of July 1, 2021 and the following actuarial assumptions:

Investment Rate of Return: 6.10%, net of pension plan investment expense, including inflation.

Salary increases: Not applicable

Inflation: 3.00% for the period July 1, 2021 through June 30, 2022, 3.00% for the period July 1, 2022 through June 30, 2023, and 2.00% per year thereafter.

## 11. Defined Benefit Pension Plan Disclosures, as Required by GASB Statement No. 67 (continued)

Retirement Growth Account Interest Crediting Rate: 3.29% for the period July 1, 2021 through June 30, 2022, 3.42% for the period July 1, 2022 through June 30, 2023, and 4.10% per year thereafter. The 3.29% and 3.42% rates represent the actual interest rate credited in each respective period.

Mortality rates were based upon the Pri-2012 blue collar base mortality rates published by the Society of Actuaries with future improvements in mortality using the Mercer Modified Scale MMP-2021 applied on a generational basis.

The actuarial assumptions associated with retirement and termination rates and used in the July 1, 2021 valuation were based on the results of an actual experience study conducted in 2020, which assessed actual experience for the period July 1, 2015 through June 30, 2020.

For the year ended June 30, 2022, the annual money-weighted rate of return on pension plan investments, net of investment plan expenses, was -19.4%. The money-weighted rate of return expresses investment performance, net of investment expenses, adjusted for the changing amounts actually invested.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected real rates of return (expected returns, net of plan investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| *Asset Class* | **Target Allocation** | **Long-Term Expected Real Rate of Return** |
|---|---|---|
| Global Equity | 37.0% | 5.82% |
| Long Credit Fixed Income | 28.0% | 1.78% |
| Long Government/Credit Fixed Income | 28.0% | 1.01% |
| Multi Asset Credit | 5.6% | 2.74% |
| Private Equity | 1.4% | 8.93% |
| Total | 100.0% | |

## 11. Defined Benefit Pension Plan Disclosures, as Required by GASB Statement No. 67 (continued)

The discount rate used to measure the total pension liability was 6.10%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in amounts equal to the actuarially determined contributions. Based on that assumption, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the Net Pension Asset to Changes in the Discount Rate*

The following presents the net pension asset (liability) calculated using the discount rate of 6.10%, as well as a discount rate that is 1% lower (5.10%), and 1% higher (7.10%):

| *(in thousands of dollars)* | **1% Decrease 5.10%** | **Current Discount Rate 6.10%** | **1% Increase 7.10%** |
|---|---|---|---|
| Net pension asset (liability) | $ (70,112) | $ 24,075 | $ 103,446 |

## 11. Defined Benefit Pension Plan Disclosures, as Required by GASB Statement No. 67 (continued)

### Fair Value Measurements

The following table presents the fair value leveling of the Plan's investments as of June 30, 2022:

*(in thousands of dollars)*

| | Level 1 | Level 2 | Level 3 | Fair Value |
|---|---|---|---|---|
| Interest bearing cash | $ 8,043 | $ – | $ – | $ 8,043 |
| U.S. government securities | – | 179,126 | – | 179,126 |
| Corporate debt instruments-preferred | – | 68,649 | – | 68,649 |
| Corporate debt instruments | – | 111,701 | – | 111,701 |
| Fixed income funds | – | 240,991 | – | 240,991 |
| Equity funds | | 236,575 | – | 236,575 |
| Preferred and common stock | 88,240 | – | – | 88,240 |
| Other investments | – | 10,623 | – | 10,623 |
| Total assets in the fair value hierarchy | $ 96,283 | $847,665 | $ – | 943,948 |
| Investments measured at NAV | | | | 14,486 |
| Total investments measured at fair value | | | | $ 958,434 |

### Credit Risk

The Plan's investment policy provides guidelines for the long credit fixed income manager that require the minimum average quality rating of the portfolio to be a BBB+ rating and the minimum quality rating of an individual holding shall be a single B rating at the time of purchase. The policy also provides guidelines for the long government/credit fixed income investment manager that require the minimum average quality rating of the portfolio to be an A- rating and the minimum quality rating of an individual holding for at least 85% of the portfolio to be a BBB- rating at the time of purchase.

## 11. Defined Benefit Pension Plan Disclosures, as Required by GASB Statement No. 67 (continued)

### Interest Rate Risk

Interest rate risk exposure is managed by limiting investment maturities in accordance with parameters in the Plan's investment policy. The Plan has investments maturing as of June 30, 2022 as follows:

*(in thousands of dollars)*

| | Fair Value | Less Than 1 Year | 1–5 Years | 6–10 Years | Over 10 Years | N/A |
|---|---|---|---|---|---|---|
| Interest bearing cash | $ 8,043 | $ – | $ – | $ – | $ – | $ 8,043 |
| U.S. government securities | 179,126 | 579 | 4,438 | 23,409 | 140,222 | 10,478 |
| Corporate debt instruments-preferred | 68,649 | 18 | 4,501 | 4,392 | 58,497 | 1,241 |
| Corporate debt instruments | 111,701 | 2,552 | 13,620 | 18,045 | 71,856 | 5,628 |
| Fixed income funds | 240,991 | – | – | – | 173,178 | 67,813 |
| Equity funds | 236,575 | 2,109 | – | – | – | 234,466 |
| Preferred and common stock | 88,240 | – | 1,141 | – | 79 | 87,020 |
| Other investments | 10,623 | – | 821 | 1,502 | 8,300 | – |
| Total assets in the fair value hierarchy | 943,948 | $ 5,258 | $ 24,521 | $ 47,348 | $ 452,132 | $ 414,689 |
| Investments measured at NAV | 14,486 | | | | | |
| Total investments | $ 958,434 | | | | | |

The Plan has investment credit ratings as of June 30, 2022 as follows:

*(in thousands of dollars)*

| | Fair Value | AAA/AA | A | BBB | Below BBB- | Not Rated |
|---|---|---|---|---|---|---|
| Interest bearing cash | $ 8,043 | $ – | $ – | $ – | $ – | $ 8,043 |
| U.S. government securities | 179,126 | 179,126 | – | – | – | – |
| Corporate debt instruments-preferred | 68,649 | 18,909 | 26,702 | 8,090 | 13,706 | 1,242 |
| Corporate debt instruments | 111,701 | 6,838 | 18,830 | 32,746 | 47,658 | 5,629 |
| Fixed income funds | 240,991 | – | – | – | – | 240,991 |
| Equity funds | 236,575 | – | – | – | – | 236,575 |
| Preferred and common stock | 88,240 | – | – | – | – | 88,240 |
| Other investments | 10,623 | 4,399 | 787 | 758 | 820 | 3,859 |
| Total assets in the fair value hierarchy | 943,948 | $ 209,272 | $ 46,319 | $ 41,594 | $ 62,184 | $ 584,579 |
| Investments measured at NAV | 14,486 | | | | | |
| Total investments measured at fair value | $ 958,434 | | | | | |

## 11. Defined Benefit Pension Plan Disclosures, as Required by GASB Statement No. 67 (continued)

### Concentration of Credit Risk

The Plan's investment policy provides certain guidelines to limit concentration of credit risk. The guidelines require long credit and long government/credit fixed income portfolio investments to be appropriately distributed to provide prudent diversification. At the time of purchase, the market value of a holding in an individual issuer will be limited to 5% of the portfolio market value, and each individual issue shall not represent more than 5% of the portfolio market value with the exception of government and government-agency sponsored issues, or in the case of long government/credit fixed income portfolio investments, collective vehicles such as mutual funds and commingled trusts employed in the execution of the strategy. As of June 30, 2022, the Plan did not have any investments that equaled or exceeded these thresholds.

### Custodial Risk

The custodial risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Plan would not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of June 30, 2022, the Plan's investment portfolio was held by a single third-party custodian.

### Foreign Currency Risk

The Plan's investment policy provides guidelines for the long credit fixed income manager and long government/credit fixed income manager that permits it to invest up to 20% and 10%, respectively, of total investments in foreign currency-denominated investments. In addition, the Plan has one non-U.S. equity manager that invests in foreign currency-denominated equities.

## 11. Defined Benefit Pension Plan Disclosures, as Required by GASB Statement No. 67 (continued)

The Plan's exposure to foreign currency risk as of June 30, 2022 is as follows:

*(in thousands of dollars)*

| | |
|---|---|
| **Currency:** | |
| Australian dollar | $ 486 |
| Brazil real | (88) |
| Canadian dollar | 2,675 |
| Danish krone | 3,478 |
| Euro currency unit | 21,711 |
| Hong Kong dollar | 10,423 |
| Japanese yen | 11,621 |
| Mexican peso | 11 |
| Norwegian krone | 703 |
| Peruvian sol | 603 |
| British sterling pound | 5,199 |
| South African rand | 4,795 |
| Swedish krona | 2,479 |
| Swiss franc | 5,197 |
| Total Plan investments subject to foreign currency risk | $ 69,293 |
| Percentage of total Plan investments | 7.2% |

## 12. Commitments and Contingencies

*Hospital Facility Contractual Agreement*

STHC entered into a contractual agreement as of July 1, 1980 with the State Board of Education of the State of Florida ("State Board of Education"), as subsequently restated and amended, which provides for the use of hospital facilities (buildings and improvements) of the patient care and clinical education unit of the J. Hillis Miller Health Center at the University of Florida ("Health Center") through December 31, 2057, with renewal provisions. In 2002, the powers and authority of the State Board of Education regarding the contractual agreement with STHC were transferred to the UF Board. The contractual agreement also provided for the transfer to STHC of all other assets and liabilities arising from the operation of the STHC facilities prior to July 1, 1980. At termination of the contractual agreement, the net assets of STHC revert to the UF Board. Legal title to all buildings and improvements transferred to STHC remains with UF during the term of the contractual agreement. The contractual agreement provides for a 12-month grace period for any event of default, other than the bankruptcy of STHC. In addition, the contractual agreement limits the right of the UF Board to terminate the contractual agreement solely to the circumstance when STHC declares bankruptcy and, in such event, requires net revenue derived from the operation of the hospital facilities to continue to be applied to the payment of STHC's debts.

Under the terms of the contractual agreement, STHC is obligated to manage, operate, maintain, and insure the hospital facilities in support of the programs of the Health Center, which include the College of Medicine, and further agrees to contract with the UF Board for the provision of these programs.

*Lessee Leases Under GASB No. 87*

In connection with the adoption of GASB No. 87, Shands recognized a lease obligation and a right-to-use lease asset for agreements whereby Shands has the right to determine the nature and manner of an underlying asset's use for a period of one year or greater.

**12. Commitments and Contingencies (continued)**

**Property Leases**

Shands leases 34 facilities throughout central Florida in order to provide healthcare services to patients in the region. These sites include a mix of physician and other medical offices. While terms vary by lease, each lease provides for a monthly lease payment subject to a fixed escalation on the anniversary date of each agreement. None of the leases contain provisions for variable payments or residual value guarantees. Additionally, there are no other payments such as residual value guarantees or termination penalties, not previously included in the measurement of the lease liability reflected as outflows of resources. As of June 30, 2022, the right-to-use lease asset, net of amortization for property leases was approximately $27,813,000, and is included in capital assets, net in the accompanying consolidated basic statement of net position.

**Vehicle Leases**

Shands leases 16 vehicles ranging from passenger cars to transit vans. Lease terms range up to 63 months. The monthly lease payment, annual mileage allowance, and excess mileage rate are specific to each vehicle. Upon termination of a vehicle lease, Shands is responsible for payment of any excess mileage charge based on the applicable annual mileage allowance and excess mileage rate of the vehicle. Estimates of excess mileage charges are excluded from the computation of the right to use asset and corresponding obligation. If Shands decides to continue use of a vehicle after the term of the lease has ended, the terms of the lease remain in full force and effect and Shands shall continue to pay the monthly lease payment for each month a vehicle is in use beyond the lease termination date. There are no other payments such as residual value guarantees or termination penalties, not previously included in the measurement of the lease liability reflected as outflows of resources. As of June 30, 2022, the right-to-use asset, net of amortization for the fleet amounted to approximately $444,000, and is included in capital assets, net in the accompanying consolidated basic statement of net position.

**12. Commitments and Contingencies (continued)**

The following is a schedule, by year, of the principal and interest requirements to maturity for lease obligations for each of the five subsequent fiscal years and in five-year increments thereafter as o June 30, 2022:

*(in thousands of dollars)*

| Year | Principal | Interest | Total |
|---|---|---|---|
| 2023 | $ 4,277 | $ 736 | $ 5,013 |
| 2024 | 3,674 | 634 | 4,308 |
| 2025 | 3,387 | 546 | 3,933 |
| 2026 | 3,197 | 462 | 3,659 |
| 2027 | 2,931 | 387 | 3,318 |
| 2028-2032 | 8,938 | 1,059 | 9,997 |
| 2033-2037 | 1,028 | 557 | 1,585 |
| 2038-2042 | 880 | 378 | 1,258 |
| 2043-2047 | 764 | 251 | 1,015 |
| 2048-2052 | 1,047 | 97 | 1,144 |
| Total | $ 30,123 | $ 5,107 | $ 35,230 |

At June 30, 2022, the unamortized value of right-to-use lease assets included in capital assets, net in the accompanying consolidated basic statement of net position was approximately $34,483,000, and the accumulated amortization on right-to-use lease assets as of June 30, 2022 was approximately $6,226,000.

*Lessor Leases Under GASB No. 87*

In connection with the adoption of GASB No. 87, Shands recognized a lease receivable and a deferred inflow of resources for lease agreements in which Shands was the lessor. Shands is the lessor for 17 property locations throughout north central Florida in order to assist in the provision of healthcare services in the region. These sites include various physician and other medical offices. While terms vary by lease, each lease provides for a monthly lease payment subject to a fixed escalation on the anniversary date of each agreement. Lease revenue on lessor leases was approximately $3,164,000 and for the year ended June 30, 2022, and is included in other nonoperating revenues, net in the accompanying consolidated basic statement of revenues, expenses, and changes in net position. Interest income on lessor leases was approximately $742,000 for the year ended June 30, 2022, and is included in net investment loss, including change

## 12. Commitments and Contingencies (continued)

in fair value in the accompanying consolidated basic statement of revenues, expenses, and changes in net position. As of June 30, 2022, the long-term receivable for leases was approximately $31,385,000, and is included in other assets in the accompanying consolidated basic statement of net position.

The following is a schedule, by year, of the principal and interest requirements to maturity for the property lease receivable for each of the five subsequent fiscal years and in five-year increments thereafter as of June 30, 2022:

*(in thousands of dollars)*

| Year | Principal | Interest | Total |
|---|---|---|---|
| 2023 | $ 3,214 | $ 794 | $ 4,008 |
| 2024 | 3,271 | 721 | 3,992 |
| 2025 | 3,348 | 646 | 3,994 |
| 2026 | 3,440 | 570 | 4,010 |
| 2027 | 3,377 | 493 | 3,870 |
| 2028-2032 | 5,737 | 1,778 | 7,515 |
| 2033-2037 | 1,271 | 1,471 | 2,742 |
| 2038-2042 | 1,825 | 1,202 | 3,027 |
| 2043-2047 | 2,517 | 826 | 3,343 |
| 2048-2052 | 3,385 | 314 | 3,699 |
| Total | $ 31,385 | $ 8,815 | $ 40,200 |

Commitments

STHC is the guarantor of a lease between the landlord and FCPA (lessee) for certain property located at The Oaks Mall in Gainesville. STHC provides a full guaranty on the monthly lease payments of approximately $116,000, which are subject to increases after the initial ten years. The lease expires on October 31, 2039.

Shands has contracts for the construction and renovation of facilities and equipment purchases. As of June 30, 2022, the remaining commitments relating to these contracts were approximately $140,933,000.

Shands has contracts for the maintenance of its computer application software and communications network. As of June 30, 2022, the remaining commitments relating to these contracts were approximately $10,143,000.

## 12. Commitments and Contingencies (continued)

*Risk Management and Professional Liabilities*

Shands is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; cybersecurity events; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters in excess of self-insured limits. Settled claims have not exceeded this commercial coverage for the year ended June 30, 2022.

Shands was granted sovereign immunity under the provision of Chapter 2011-114, Laws of Florida, and further codified in Section 768.28, Florida Statutes. As such, recoveries in tort actions are limited to $200,000 for any one person for one incident and all recoveries related to one incident are limited to a total of $300,000. Upon acquisition by STHC on January 1, 2020, UFHCF has been granted the same sovereign immunity protection.

Shands participates with other health care providers in the University of Florida J. Hillis Miller Health Center Self-Insurance Program ("UFSIP"). UFSIP is an operating unit of the Board of Governors of the State of Florida ("FBOG"). UFSIP provides medical malpractice and general liability occurrence-based coverage to Shands. Insurance in excess of the coverage provided by UFSIP is provided by the University of Florida Healthcare Education Insurance Company ("UFHEIC"). UFHEIC is wholly owned by FBOG. UFHEIC provides coverage to Shands on a claims-reported basis. UFHEIC obtains reinsurance for a substantial portion of the insurance coverage that it provides to the participants in its insurance program. The policies between UFSIP and UFHEIC and Shands are not retrospectively rated. The costs incurred by Shands related to these policies are expensed in the period that coverage is provided.

Shands could be subject to malpractice claims in excess of insurance coverage through UFSIP or UFHEIC; however, the estimated potential loss, if any, cannot be estimated. Management of Shands is not aware of any potential uninsured losses that could materially affect the consolidated financial position of Shands.

## 12. Commitments and Contingencies (continued)

Prior to January 1, 2020, UFHCF purchased commercial malpractice insurance policies to cover medical malpractice claims. Such policies had deductible provisions, in varying amounts, for which UFHCF was self-insured. UFHCF purchased tail coverage for claims that occurred prior to January 1, 2020. Losses that are subject to the deductible provisions, including an estimate of claims incurred but not reported as of June 30, 2022, total approximately $5,500,000 and are included in other liabilities in the accompanying consolidated basic statement of net position. UFHCF may be liable for ultimate losses in excess of amounts accrued. Management believes that any adjustments to Shands' recorded liability will not materially affect Shands' financial position, results of operations or cash flows.

The following is a summary of changes in UFHCF's self-insurance liability for professional and general liability costs for the year ended June 30, 2022:

*(in thousands of dollars)*

| | | |
|---|---|---|
| Balance at beginning of year | $ | 8,531 |
| Provision for claims reported and claims incurred but not reported | | (1,684) |
| Claims paid | | (1,347) |
| Balance at end of year | $ | 5,500 |

*Self-Insured Health Plans*

Shands participates with other related party employers controlled by UF, including Shands Jacksonville Medical Center ("SJMC"), UFICO, and other eligible employees of UF, in a self-insured health plan ("GatorCare") to provide health and pharmaceutical coverage to its employees. GatorCare Health Management Corporation, Inc. ("GCHMC"), a Florida not-for-profit corporation, was incorporated to coordinate and facilitate the management of GatorCare. Funding amounts collected by GCHMC are determined by the level of benefits coverage selected by each employee and to cover administrative costs of the plan. Cash held by GCHMC is largely restricted for payments of self-insured health and pharmacy claims of Shands and the related party employers, with the remaining cash available to cover the administrative functions of GCHMC.

Expenses, net of employee contributions, related to the health and pharmaceutical plans for the year ended June 30, 2022 were approximately $114,385,000.

**12. Commitments and Contingencies (continued)**

*Workers' Compensation Insurance*

STHC and UFHCF are self-insured for workers' compensation up to $750,000 and $500,000, respectively, per occurrence for the year ended June 30, 2022. Shands has purchased excess coverage from a commercial carrier up to the amount allowed by Florida Statutes. Total workers' compensation expense for the year ended June 30, 2022 was approximately $2,828,000.

*Litigation*

Shands is involved in litigation arising in the normal course of business. After consultation with legal counsel, management believes that these matters will be resolved without material adverse effect on Shands' future financial position or results of operations.

*Other Industry Risks*

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenue from patient services. There have also been numerous lawsuits filed against non-profit hospitals related to charity care. These lawsuits allege various hospital practices related to the uninsured, including, among other things, charging uninsured patients more than what insurers would pay for the same services, rapidly rising prices, and aggressive collection policies. Management believes that Shands is in compliance with current laws and regulations and that Shands' ultimate exposure from any such matters would not have a material effect on its consolidated basic financial statements.

## 13. Transactions with Related Parties

Shands has various agreements for services provided by UF in support of its health science colleges, including physician services, utilities, and various other services. Expenses related to these agreements were approximately $364,103,000 for the year ended June 30, 2022. At June 30, 2022, approximately $26,679,000 was owed to UF under these agreements and is included in accounts payable and accrued expenses in the accompanying consolidated basic statement of net position.

Shands provides contracted services at cost to UF in support of its health science colleges, including nonphysician medical professional services, telephone communication, and various other services. The amount for these contracted services was approximately $152,325,000 for the year ended June 30, 2022. At June 30, 2022, approximately $22,606,000 was owed to Shands under these agreements and is included in prepaid expenses and other current assets in the accompanying consolidated basic statement of net position.

Shands has an agreement whereby UF provides billing services for emergency room physician fees. UF remits the collections to Shands on a monthly basis, less an administrative fee. The amount collected by UF on Shands' behalf, less the administrative fee, for the year ended June 30, 2022 was approximately $17,448,000. At June 30, 2022, approximately $1,891,000 was owed to Shands under this agreement and is included in prepaid expenses and other current assets in the accompanying consolidated basic statement of net position.

UFSIP provides medical malpractice and general liability occurrence-based coverage to Shands with excess coverage provided by UFHEIC. Expenses related to these coverages were approximately $3,255,000 for the year ended June 30, 2022.

Shands has an investment management agreement with UFICO to manage a portion of its investments. UFICO was created by the UF Board for the purpose of managing assets held by UF and its related corporations. As of June 30, 2022, the fair value of investments managed by UFICO on Shands' behalf was approximately $1,040,572,000. Investment management fees of approximately $1,292,000 were incurred for the year ended June 30, 2022. The balance due to UFICO was approximately $473,000 as of June 30, 2022, of which approximately $161,000 is included in accounts payable and accrued expenses in the accompanying consolidated basic statement of net position and approximately $312,000 is included in other liabilities in the accompanying consolidated basic statement of net position.

**13. Transactions with Related Parties (Continued)**

Shands provides contracted services at cost to SJMC for administrative and information technology support services. The amount for these contracted services was approximately $5,214,000 for the year ended June 30, 2022. At June 30, 2022, approximately $538,000 was owed to Shands under these agreements and is included in prepaid expenses and other current assets in the accompanying consolidated basic statement of net position.

SJMC provides organ procurement services for Shands. Expenses related to these services were approximately $591,000 for the year ended June 30, 2022.

At June 30, 2022, Shands had a note receivable of approximately $11,314,000 due from SJMC. Shands receives quarterly payments of approximately $402,000, including interest of 4.5%. The note matures on October 1, 2030. The current portion of the note receivable of approximately $1,119,000 at June 30, 2022 is included in prepaid expenses and other current assets in the accompanying consolidated basic statement of net position. The long-term portion of the note receivable of approximately $10,195,000 at June 30, 2022 is included in other assets in the accompanying consolidated basic statement of net position.

GCHMC collects funds from Shands to pay health and pharmaceutical claims and expenses for eligible employees. GCHMC pays the health and pharmacy claims on behalf of Shands. Funds provided by Shands to GCHMC for the year ended June 30, 2022 were approximately $113,869,000. At June 30, 2022, approximately $10,227,000 was due from GCHMC and is included in other assets in the accompanying consolidated basic statement of net position.

Shands provides administrative, payroll and accounts payable services to GCHMC. The amount for these contracted services for the year ended June 30, 2022 was approximately $1,866,000. At June 30, 2022, approximately $602,000 was owed to Shands and is included in prepaid expenses and other current assets in the accompanying consolidated basic statement of net position.

Shands and the University of Florida Development Corporation ("UFDC") were previously members in Innovation Square, LLC ("Innovation Square"), a planned mixed-use research neighborhood that advances the national and global profile of UF with Shands and the local biotech industry. Shands' interest in Innovation Square resulted from assets transferred to Innovation Square, net of amounts received from UFDC. In December 2018, Shands sold its interest in Innovation Square to UFDC for an amount equal to its membership value, to be paid over time based on an agreed upon formula. For the year ended June 30, 2022, an impairment loss of

## 13. Transactions with Related Parties (Continued)

approximately $5,076,000 was recognized for the full amount of the outstanding receivable resulting from the sale agreement due to uncertainty surrounding UFDC's ability to make the necessary payments under the sale agreement. The impairment loss is included in other nonoperating revenues, net in the accompanying consolidated basic statement of revenues, expenses, and changes in net position.

Shands leases medical space from Innovation Square. Expenses associated with the leased space were approximately $176,000 for the year ended June 30, 2022.

## 14. Concentrations of Credit Risk

Shands grants credit without collateral to its patients, many of whom are local residents and are insured under third-party payor agreements. The composition of receivables from third-party payors at June 30, 2022, is as follows:

| | |
|---|---|
| Medicare (includes HMOs) | 30.5% |
| Medicaid (includes HMOs) | 9.1% |
| Blue Cross | 20.2% |
| Commercial | 5.6% |
| Managed Care | 27.6% |
| Other payors | 7.0% |
| | 100.0% |

Concentrations of credit risk with respect to patient accounts receivable are limited to Medicare, Medicaid and various commercial payors.

Shands places its cash and cash equivalents with high-quality financial institutions, which limits its credit exposure. Shands had actual cash balances in bank accounts in excess of Federal Deposit Insurance Corporation limits in the amount of approximately $114,951,000 as of June 30, 2022. Management does not anticipate nonperformance risk by the financial institutions.

## 15. Major Component Unit Information

The following table presents the condensed consolidating statement of net position of STHC's major component units as of June 30, 2022:

| *(in thousands of dollars)* | **Shands (Excluding UFHL and UFHV)** | **UFHL** | **UFHV** | **Total** |
|---|---|---|---|---|
| Cash and cash equivalents | $ 53,030 | $ 40,584 | $ 15,630 | $ 109,244 |
| Short-term investments | 155,540 | – | – | 155,540 |
| Other current assets | 411,555 | 51,433 | 32,176 | 495,164 |
| Capital assets, net | 1,154,552 | 94,579 | 160,072 | 1,409,203 |
| Other assets | 1,092,491 | 237,832 | 44,441 | 1,374,764 |
| Total assets | 2,867,168 | 424,428 | 252,319 | 3,543,915 |
| Deferred outflows of resources | 125,427 | 1,133 | 3,629 | 130,189 |
| Current liabilities | 407,817 | 57,882 | 41,525 | 507,224 |
| Long-term liabilities | 955,234 | 31,680 | 126,205 | 1,113,119 |
| Total liabilities | 1,363,051 | 89,562 | 167,730 | 1,620,343 |
| Deferred inflows of resources | 180,798 | – | 4,861 | 185,659 |
| Net position | | | | |
| Net investment in capital assets | 218,650 | 62,509 | 34,733 | 315,892 |
| Restricted | | | | |
| Nonexpendable | 2,150 | – | – | 2,150 |
| Expendable | 1,904 | – | – | 1,904 |
| Unrestricted | 1,226,042 | 273,490 | 48,624 | 1,548,156 |
| Total net position | $ 1,448,746 | $ 335,999 | $ 83,357 | $ 1,868,102 |

UFHCF is not considered a major component unit of STHC and as such, is included in Shands (Excluding UFHL and UFHV) in the table above. As of June 30, 2022, UFHCF holds investments of approximately $198,306,000, which are included in Other assets in the condensed consolidating statement of net position in the table above.

## 15. Major Component Unit Information (continued)

The following table presents the condensed consolidating statement of revenues, expenses, and changes in net position of STHC's major component units as of June 30, 2022:

| *(in thousands of dollars)* | **Shands (Excluding UFHL and UFHV)** | **UFHL** | **UFHV** | **Total** |
|---|---|---|---|---|
| Net patient service revenue | $ 2,129,278 | $ 223,924 | $ 192,186 | $ 2,545,388 |
| Other operating revenue | 54,316 | 12,162 | 1,603 | 68,081 |
| Total operating revenues | 2,183,594 | 236,086 | 193,789 | 2,613,469 |
| Operating expenses | 1,990,163 | 245,283 | 201,026 | 2,436,472 |
| Operating income (loss) | 193,431 | (9,197) | (7,237) | 176,997 |
| Nonoperating revenues (expenses), net | (196,620) | 3,670 | (2,521) | (195,471) |
| Deficit of revenues over expenses | (3,189) | (5,527) | (9,758) | (18,474) |
| Other changes in net position | | | | |
| Capital contributions | 2,210 | – | – | 2,210 |
| Other changes in net position | (2,554) | 2 | 1,399 | (1,153) |
| Decrease in net position | (3,533) | (5,525) | (8,359) | (17,417) |
| | | | | |
| Net position | | | | |
| Beginning of year | 1,452,279 | 341,524 | 91,716 | 1,885,519 |
| End of year | $ 1,448,746 | $ 335,999 | $ 83,357 | $ 1,868,102 |

## 15. Major Component Unit Information (continued)

The following table presents the condensed consolidating statement of cash flows of STHC's major component units as of June 30, 2022:

| *(in thousands of dollars)* | Shands (Excluding UFHL and UFHV) | UFHL | UFHV | Total |
|---|---|---|---|---|
| **Net cash provided by (used in)** | | | | |
| Operating activities | $ 389,204 | $ (307,103) | $ 21,673 | $ 103,774 |
| Noncapital financing activities | 26,757 | 1,834 | 2,919 | 31,510 |
| Capital and related financing activities | (134,136) | (6,133) | (25,671) | (165,940) |
| Investing activities | (287,157) | 240,827 | (57) | (46,387) |
| Net decrease in cash and cash equivalents | (5,332) | (70,575) | (1,136) | (77,043) |
| **Cash and cash equivalents** | | | | |
| Beginning of year | 58,362 | 111,159 | 16,766 | 186,287 |
| End of year | $ 53,030 | $ 40,584 | $ 15,630 | $ 109,244 |

## 16. COVID-19 Pandemic

Shands' operations and financial condition have been significantly impacted by the continuing effects of COVID-19, which evolved into a global pandemic beginning in early 2020. Shands' patient volumes and related revenues have been adversely impacted by the on-going pandemic.

In response to COVID-19 and its effects on the U.S. economy and the health care delivery system, Congress passed various stimulus bills which have provided certain financial benefits to Shands. Principal among these was the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), enacted on March 27, 2020. The CARES Act authorized $100 billion in direct funding to hospitals and other healthcare providers from Provider Relief Funds, and provided other financial benefits, including the expansion of the Medicare Accelerated and Advance Payment Program. In fiscal years 2020 and 2021, Shands received approximately $42,173,000 and $4,553,000, respectively, from the Provider Relief Fund under the CARES Act. In fiscal year 2022, Shands received approximately $20,878,000 from the Provider Relief Fund. Provider Relief Funds are included in federal and state appropriations in the accompanying consolidated basic statement of revenues, expenses and changes in net position.

**16. COVID-19 Pandemic (continued)**

In fiscal year 2020, Shands also received approximately $229,237,000 as part of the expanded Accelerated and Advance Payment Program under the CARES Act. As of June 30, 2022, Shands has repaid approximately $191,809,000 of Medicare advances. Based on the repayment terms, management estimates that the remaining balance of approximately $37,428,000, as of June 30, 2022, is expected to be repaid within one year and as such, is recorded as Medicare advances, current portion and included in current liabilities in the accompanying consolidated basic statement of net position.

Management anticipates that the extent of COVID-19's adverse impact on Shands' operating results and financial position will be driven by many factors, most of which are beyond management's control and ability to forecast. The ultimate impact on operating results will be a function of the duration and scope of the COVID-19 outbreak in areas served by Shands and its effect on patient volumes and expenses. As a result, at this time, management cannot reasonably estimate the future impact on operations of a prolonged continuation of the COVID-19 pandemic, but such impact could be material.

**17. Subsequent Events**

Shands has assessed the impact of subsequent events through September 28, 2022, the date the consolidated basic financial statements were available to be issued, and has concluded that there were no events that require adjustment to the consolidated basic financial statements or disclosure in the notes to the consolidated basic financial statements.

# Required Supplementary Information

## Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

## Schedule of STHC's Proportionate Share of the Net Pension (Asset) Liability (Unaudited)

*Shands HealthCare Pension Plan II*

June 30, 2014 Through June 30, 2022

*(in thousands of dollars)*

| | Proportion of the net pension (asset) liability | Proportionate share of the net pension (asset) liability | Covered payroll | Proportionate share of the net pension (asset) liability | Plan fiduciary net position as a percentage of the total as a percentage of covered payroll pension liability |
|---|---|---|---|---|---|
| 2014 | 88.5% | $ 43,735 | N/A | N/A | 94.2% |
| 2015 | 96.0% | (54,249) | N/A | N/A | 106.9% |
| 2016 | 85.5% | 36,013 | N/A | N/A | 95.9% |
| 2017 | 84.8% | 35,698 | N/A | N/A | 95.5% |
| 2018 | 99.5% | (47,505) | N/A | N/A | 105.9% |
| 2019 | 98.8% | (23,110) | N/A | N/A | 102.8% |
| 2020 | 95.5% | (117,369) | N/A | N/A | 114.8% |
| 2021 | 93.2% | (108,180) | N/A | N/A | 113.1% |
| 2022 | 92.8% | (204,865) | N/A | N/A | 122.5% |

**Notes to Schedule**

Shands adopted GASB No. 68, *Accounting and Financial Reporting for Pensions, an Amendment of GASB No. 27* ("GASB No. 68"), as of July 1, 2013, the first period the required supplementary information was available. The information contained in this schedule is measured one year in arrears.

Covered payroll information is not provided as the plan is frozen and contributions are not determined by current payroll as benefit accruals ceased July 1, 2013.

*Changes in assumptions 2022:*

The investment return assumption was decreased from 6.10% to 5.10% to reflect the updated capital market outlook.

Retirement rates and withdrawal rates were updated based on the results of an experience study performed in 2020.

## Schedule of STHC's Proportionate Share of the Net Pension (Asset) Liability (Unaudited) (continued)

*Shands HealthCare Pension Plan II*

*Changes in assumptions 2021:*

The investment return assumption was decreased from 6.75% to 6.10% to reflect the updated capital market outlook.

The mortality tables were updated from Pri-2012 no collar tables to Pri-2012 blue collar tables.

The mortality projection scale assumption was updated from Mercer Modified Projection-2018 to Mercer Modified Projection-2019.

*Changes in assumptions 2020:*

The investment return assumption was increased from 6.25% to 6.75% to reflect the updated capital market outlook.

The mortality projection scale assumption was updated from Mercer Modified Projection-2016 to Mercer Modified Projection-2018.

*Changes in assumptions 2019:*

The investment return assumption was reduced from 6.75% to 6.25% to reflect the updated capital market outlook.

*Changes in assumptions 2018:*

The mortality projection scale assumption was updated from Mercer Modified Projection-2007 to Mercer Modified Projection-2016.

*Changes in assumptions 2017:*

The investment return assumption was increased from 6.50% to 6.75% to reflect the updated capital market outlook.

The mortality assumption was updated to the RP-2014 mortality tables adjusted to remove post-2007 improvement projections with future mortality improvement that follows the Mercer Modified Projection-2016 mortality improvement tables.

# Schedule of STHC's Proportionate Share of the Net Pension (Asset) Liability (Unaudited) (continued)

*Shands HealthCare Pension Plan II*

Retirement rates and withdrawal rates were updated based on the results of an experience study performed in 2016.

*Changes in assumptions 2016:*

The interest credit ultimate rate was changed from 7.25% to 6.50%.

*Changes in assumptions 2015:*

The interest credit ultimate rate was changed from 3.83% to 4.10%.

*Changes in assumptions 2014:*

The cost of living assumption ultimate rate was increased from 2.0% to 2.5%.

The interest credit ultimate rate was changed from 4.75% to 3.83%.

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

## Schedule of Employer Contributions (Unaudited)

*Shands HealthCare Pension Plan II*

July 1, 2013 Through June 30, 2022

| | Actuarially determined contribution | Contributions in relation to the actuarially determined contribution | Contribution excess |
|---|---|---|---|
| 2014 | $ - | $ 35,757 | $ 35,757 |
| 2015 | - | 23,736 | 23,736 |
| 2016 | - | 21,863 | 21,863 |
| 2017 | - | 29,036 | 29,036 |
| 2018 | - | 29,279 | 29,279 |
| 2019 | - | 25,346 | 25,346 |
| 2020 | - | 17,529 | 17,529 |
| 2021 | - | 16,210 | 16,210 |
| 2022 | - | 16,116 | 16,116 |

**Notes to Schedule**

Shands adopted GASB No. 68 as of July 1, 2013, the first period the required supplementary information was available. The information contained in this schedule is measured one year in arrears.

Contributions are based on ERISA minimum funding requirements and shown for the plan year.

Covered payroll information is not provided as the plan is frozen and contributions are not determined by current payroll as benefit accruals ceased effective July 1, 2013.

Methods and assumptions used to determine contributions for the years with available information are as follows:

# Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

## Schedule of Employer Contributions (Unaudited) (continued)
*Shands HealthCare Pension Plan II*

### July 1, 2013 Through June 30, 2022

| | 2022 | 2021 | 2020 | 2019 | 2018 |
|---|---|---|---|---|---|
| Valuation date | July 1, 2021 | July 1, 2020 | July 1, 2019 | July 1, 2018 | July 1, 2017 |
| Actuarial cost method | Unit Credit | Unit Credit | Unit Credit | Unit Credit | Unit Credit |
| Asset valuation method | 2-year smoothed value of assets adjusted to be no greater than 110% and no less than 90% of the fair market value, as defined in IRC Section 430 | 2-year smoothed value of assets adjusted to be no greater than 110% and no less than 90% of the fair market value, as defined in IRC Section 430 | 2-year smoothed value of assets adjusted to be no greater than 110% and no less than 90% of the fair market value, as defined in IRC Section 430 | 2-year smoothed value of assets adjusted to be no greater than 110% and no less than 90% of the fair market value, as defined in IRC Section 430 | 2-year smoothed value of assets adjusted to be no greater than 110% and no less than 90% of the fair market value, as defined in IRC Section 430 |
| Inflation | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% |
| Discount rates | PPA segmented yield curve rates of 4.75% for the first 5 years, 5.36% for the next 15 years, and 6.11% thereafter | PPA segmented yield curve rates of 3.64% for the first 5 years, 5.21% for the next 15 years, and 5.94% thereafter | PPA segmented yield curve rates of 3.74% for the first 5 years, 5.35% for the next 15 years, and 6.11% thereafter | PPA segmented yield curve rates of 3.92% for the first 5 years, 5.52% for the next 15 years, and 6.29% thereafter | PPA segmented yield curve rates of 4.16% for the first 5 years, 5.72% for the next 15 years, and 6.48% thereafter |
| Salary increase | N/A | N/A | N/A | N/A | N/A |
| Retirement age | Traditional plan and retirement growth account retirement rates vary by age | Traditional plan and retirement growth account retirement rates vary by age | Traditional plan and retirement growth account retirement rates vary by age | Traditional plan and retirement growth account retirement rates vary by age | Traditional plan and retirement growth account retirement rates vary by age |
| Mortality | IRC Section 430(h)(3) prescribed static annuitant and non-annuitant mortality tables. These tables are based on the RP-2014 mortality tables, with improvements beyond 2006 removed with static mortality improvements based on the Internal Revenue Service methodology and projection scale MP-2019. | IRC Section 430(h)(3) prescribed static annuitant and non-annuitant mortality tables. These tables are based on the RP-2014 mortality tables, with improvements beyond 2006 removed with static mortality improvements based on the Internal Revenue Service methodology and projection scale MP-2018. | IRC Section 430(h)(3) prescribed static annuitant and non-annuitant mortality tables. These tables are based on the RP-2014 mortality tables, with improvements beyond 2006 removed with static mortality improvements based on the Internal Revenue Service methodology and projection scale MP-2017. | IRC Section 430(h)(3) prescribed static annuitant and non-annuitant mortality tables. These tables are based on the RP-2014 mortality tables, with improvements beyond 2006 removed with static mortality improvements based on the Internal Revenue Service methodology and projection scale MP-2016. | IRC Section 430(h)(3) prescribed static annuitant and non-annuitant mortality tables. These tables are based on the RP-2000 mortality tables and projected with improvement to the valuation year plus 7, and 15 years based on Scale AA. |

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Valuation date | July 1, 2016 | July 1, 2015 | July 1, 2014 |
| Actuarial cost method | Projected Unit Credit | Projected Unit Credit | Projected Unit Credit |
| Asset valuation method | Market value including receivables | Market value including receivables | Market value including receivables |
| Inflation | 2.00% | 2.00% | 2.50% |
| Discount rates | 6.50% | 6.50% | 7.25% |
| Salary increase | N/A | N/A | N/A |
| Retirement age | Traditional plan and retirement growth account retirement rates vary by age | Traditional plan and retirement growth account retirement rates vary by age | Traditional plan and retirement growth account retirement rates vary by age |
| Mortality | RP-2014 mortality tables adjusted to remove post-2007 improvement projections with future mortality improvement that follows the Mercer Modified MP-2016 mortality improvement tables. | RP-2014 mortality tables with future mortality improvement that follows the Mercer Modified MP-2014 mortality improvement scale. | RP-2000 Healthy Annuitant Mortality Tables projected with mortality improvement to the valuation year plus 7 and 15 years based on Scale AA. |

## Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

## Schedule of Changes in the Net Pension (Asset) Liability (Unaudited)

*Shands HealthCare Pension Plan II*

June 30, 2021 through June 30, 2022

| *(in thousands of dollars)* | **2022** | **2021** |
|---|---|---|
| Total pension liability: | | |
| Service cost | $ – | $ – |
| Interest | 47,994 | 52,050 |
| Changes of benefit terms | – | – |
| Difference between expected and actual experience | 12,769 | (819) |
| Benefit payments | (58,320) | (55,663) |
| Changes in assumptions | (79,489) | 93,520 |
| Net change in total pension liability | (77,046) | 89,088 |
| Total pension liability – beginning | 970,208 | 881,120 |
| Total pension liability – ending (a) | 893,162 | 970,208 |
| | | |
| Plan fiduciary net position: | | |
| Employer contributions | 16,116 | 16,832 |
| Net investment (loss) income | (226,552) | 238,275 |
| Benefit payments | (58,320) | (55,663) |
| Administrative expense | (4,268) | (5,714) |
| Net change in plan fiduciary net position | (273,024) | 193,730 |
| Plan fiduciary net position – beginning | 1,190,261 | 996,531 |
| Plan fiduciary net position – ending (b) | 917,237 | 1,190,261 |
| Net pension (asset) liability – ending (a)-(b) | $ (24,075) | $ (220,053) |
| Plan fiduciary net position as a percentage of total pension liability | 102.7% | 122.7% |

### Notes to Schedule

Shands adopted GASB No. 67, *Financial Reporting for Pension Plans, an Amendment of GASB No. 25* ("GASB No. 67"), as of July 1, 2020, the first period the required supplementary information was available.

Covered payroll information is not provided as the plan is frozen and contributions are not determined by current payroll as benefit accruals ceased July 1, 2013.

*Changes in assumptions 2022:*

The investment return assumption was increased from 5.10% to 6.10% to reflect the updated capital market outlook.

*Changes in assumptions 2021:*

The investment return assumption was decreased from 6.10% to 5.10% to reflect the updated capital market outlook.

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

# Schedule of Plan Contributions (Unaudited)

*Shands HealthCare Pension Plan II*

June 30, 2021 through June 30, 2022

| *(in thousands of dollars)* | **2022** | **2021** |
|---|---|---|
| Actuarially determined contribution | $ – | $ – |
| Contributions in relation to the actuarially determined contribution | 16,116 | 16,210 |
| Contribution excess | $ (16,116) | $ (16,210) |

**Notes to Schedule**

Shands adopted GASB No. 67 as of July 1, 2020, the first period the required supplementary information was available.

Contributions are based on ERISA minimum funding requirements and shown for the plan year.

Covered payroll information is not provided as the plan is frozen and contributions are not determined by current payroll as benefit accruals ceased effective July 1, 2013.

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Schedule of Plan Investment Returns (Unaudited)
*Shands HealthCare Pension Plan II*

June 30, 2021 through June 30, 2022

| | **2022** | **2021** |
|---|---|---|
| Annual money-weighted rate of return, net of investment expense | -19.4% | 24.5% |

**Notes to Schedule**

Shands adopted GASB No. 67 as of July 1, 2020, the first period the required supplementary information was available.

# Supplementary Consolidating Information

# Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

## Consolidating Basic Statement of Net Position

### June 30, 2022

| *(in thousands of dollars)* | **UF Health Shands Hospital Division** | **UF Health Shands Obligated Group Other** | **UF Health Shands Obligated Group** | **UF Health Shands Other** | **Total UF Health Shands** | **UF Health Central Florida Obligated Group** | **UF Health Central Florida Other** | **Total UF Health Central Florida** | **Consolidated Total** |
|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | |
| Current assets | | | | | | | | | |
| Cash and cash equivalents | $ 29,812 | $ 1,774 | $ 31,586 | $ 16,987 | $ 48,573 | $ 57,451 | $ 3,220 | $ 60,671 | $ 109,244 |
| Short-term investments | 155,483 | – | 155,483 | 57 | 155,540 | – | – | – | 155,540 |
| Patient accounts receivable, net | 283,016 | 4,739 | 287,755 | 1,172 | 288,927 | 59,767 | 489 | 60,256 | 349,183 |
| Inventories | 48,635 | 48 | 48,683 | – | 48,683 | 12,966 | 32 | 12,998 | 61,681 |
| Prepaid expenses and other current assets | 71,192 | 330 | 71,522 | 964 | 72,486 | 10,876 | 938 | 11,814 | 84,300 |
| Total current assets | 588,138 | 6,891 | 595,029 | 19,180 | 614,209 | 141,060 | 4,679 | 145,739 | 759,948 |
| Assets whose use is limited | 842,210 | – | 842,210 | – | 842,210 | 198,306 | 4,491 | 202,797 | 1,045,007 |
| Assets whose use is restricted | 14,098 | – | 14,098 | – | 14,098 | 13,118 | 2,917 | 16,035 | 30,133 |
| Capital assets, net | 1,107,429 | 45,473 | 1,152,902 | 367 | 1,153,269 | 255,375 | 559 | 255,934 | 1,409,203 |
| Due from (to) affiliates, net | 9,503 | – | 9,503 | (9,329) | 174 | 7,699 | (7,873) | (174) | – |
| Other assets | 274,163 | – | 274,163 | 369 | 274,532 | 25,087 | 5 | 25,092 | 299,624 |
| Total assets | 2,835,541 | 52,364 | 2,887,905 | 10,587 | 2,898,492 | 640,645 | 4,778 | 645,423 | 3,543,915 |
| **Deferred outflows of resources** | | | | | | | | | |
| Accumulated decrease in fair value of hedging derivatives | 11,874 | – | 11,874 | – | 11,874 | 4,124 | – | 4,124 | 15,998 |
| Deferred loss on debt refunding | 23,339 | – | 23,339 | – | 23,339 | 638 | – | 638 | 23,977 |
| Deferred outflows on pension | 90,214 | – | 90,214 | – | 90,214 | – | – | – | 90,214 |
| Total deferred outflows of resources | 125,427 | – | 125,427 | – | 125,427 | 4,762 | – | 4,762 | 130,189 |
| **Liabilities** | | | | | | | | | |
| Current liabilities | | | | | | | | | |
| Long-term debt, current portion | 17,267 | – | 17,267 | – | 17,267 | 7,397 | – | 7,397 | 24,664 |
| Lease obligations, current portion | 2,895 | 175 | 3,070 | 369 | 3,439 | 838 | – | 838 | 4,277 |
| Accounts payable and accrued expenses | 164,387 | 1,159 | 165,546 | 4,547 | 170,093 | 41,474 | 795 | 42,269 | 212,362 |
| Accrued salaries and leave payable | 78,876 | 12 | 78,888 | 63 | 78,951 | 16,004 | – | 16,004 | 94,955 |
| Estimated third-party payor settlements | 119,464 | – | 119,464 | – | 119,464 | 14,074 | – | 14,074 | 133,538 |
| Medicare advances, current portion | 17,793 | – | 17,793 | – | 17,793 | 19,635 | – | 19,635 | 37,428 |
| Total current liabilities | 400,682 | 1,346 | 402,028 | 4,979 | 407,007 | 99,422 | 795 | 100,217 | 507,224 |
| Long-term liabilities | | | | | | | | | |
| Long-term debt, less current portion | 916,338 | – | 916,338 | – | 916,338 | 142,381 | – | 142,381 | 1,058,719 |
| Lease obligations, less current portion | 19,365 | 600 | 19,965 | – | 19,965 | 5,881 | – | 5,881 | 25,846 |
| Other liabilities | 18,919 | – | 18,919 | – | 18,919 | 9,635 | – | 9,635 | 28,554 |
| Total long-term liabilities | 954,622 | 600 | 955,222 | – | 955,222 | 157,897 | – | 157,897 | 1,113,119 |
| Total liabilities | 1,355,304 | 1,946 | 1,357,250 | 4,979 | 1,362,229 | 257,319 | 795 | 258,114 | 1,620,343 |
| **Deferred inflows of resources** | | | | | | | | | |
| Deferred inflows on pension | 153,120 | – | 153,120 | – | 153,120 | – | – | – | 153,120 |
| Deferred inflows on leases | 25,554 | – | 25,554 | 411 | 25,965 | 4,861 | – | 4,861 | 30,826 |
| Deferred gain on debt refunding | 1,713 | – | 1,713 | – | 1,713 | – | – | – | 1,713 |
| Total deferred inflows of resources | 180,387 | – | 180,387 | 411 | 180,798 | 4,861 | – | 4,861 | 185,659 |
| **Net position** | | | | | | | | | |
| Net investment in capital assets | 172,671 | 44,698 | 217,369 | (2) | 217,367 | 97,966 | 559 | 98,525 | 315,892 |
| Restricted | | | | | | | | | |
| Nonexpendable | 967 | – | 967 | – | 967 | – | 1,183 | 1,183 | 2,150 |
| Expendable | 571 | – | 571 | 275 | 846 | – | 1,058 | 1,058 | 1,904 |
| Unrestricted | 1,251,068 | 5,720 | 1,256,788 | 4,924 | 1,261,712 | 285,261 | 1,183 | 286,444 | 1,548,156 |
| Total net position | $ 1,425,277 | $ 50,418 | $ 1,475,695 | $ 5,197 | $ 1,480,892 | $ 383,227 | $ 3,983 | $ 387,210 | $ 1,868,102 |

*The accompanying notes are an integral part of these consolidating basic financial statements.*

# Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

## Consolidating Basic Statement of Revenues, Expenses and Changes in Net Position

### Year Ended June 30, 2022

| *(in thousands of dollars)* | **UF Health Shands Hospital Division** | **UF Health Shands Obligated Group Other** | **UF Health Shands Obligated Group** | **UF Health Shands Other** | **Total UF Health Shands** | **UF Health Central Florida Obligated Group** | **UF Health Central Florida Other** | **Total UF Health Central Florida** | **Consolidated Total** |
|---|---|---|---|---|---|---|---|---|---|
| **Operating revenues** | | | | | | | | | |
| Net patient service revenue, net of provision for bad debts | $ 2,110,856 | $ 8,932 | $ 2,119,788 | $ 9,490 | $ 2,129,278 | $ 416,110 | $ – | $ 416,110 | $ 2,545,388 |
| Other operating revenue | 35,253 | 10,056 | 45,309 | 4,574 | 49,883 | 13,765 | 4,433 | 18,198 | 68,081 |
| Total operating revenues | 2,146,109 | 18,988 | 2,165,097 | 14,064 | 2,179,161 | 429,875 | 4,433 | 434,308 | 2,613,469 |
| **Operating expenses** | | | | | | | | | |
| Salaries and benefits | 804,503 | 7,488 | 811,991 | 4,809 | 816,800 | 229,415 | 1,543 | 230,958 | 1,047,758 |
| Supplies and services | 1,059,628 | 8,367 | 1,067,995 | 6,732 | 1,074,727 | 186,627 | 3,147 | 189,774 | 1,264,501 |
| Depreciation and amortization | 91,402 | 1,855 | 93,257 | 365 | 93,622 | 30,470 | 121 | 30,591 | 124,213 |
| Total operating expenses | 1,955,533 | 17,710 | 1,973,243 | 11,906 | 1,985,149 | 446,512 | 4,811 | 451,323 | 2,436,472 |
| Operating income (loss) | 190,576 | 1,278 | 191,854 | 2,158 | 194,012 | (16,637) | (378) | (17,015) | 176,997 |
| **Nonoperating revenues (expenses)** | | | | | | | | | |
| Federal grants and state appropriations | 24,575 | – | 24,575 | – | 24,575 | 3,353 | – | 3,353 | 27,928 |
| Interest expense | (36,707) | (47) | (36,754) | (21) | (36,775) | (5,613) | – | (5,613) | (42,388) |
| Net investment income (loss), including change in fair value | (147,016) | – | (147,016) | 7 | (147,009) | (39,508) | (114) | (39,622) | (186,631) |
| Gain on disposal of capital assets, net | 200 | – | 200 | – | 200 | 2,074 | – | 2,074 | 2,274 |
| Other nonoperating revenues, net | 2,087 | 131 | 2,218 | 76 | 2,294 | 1,052 | – | 1,052 | 3,346 |
| Total nonoperating revenues (expenses), net | (156,861) | 84 | (156,777) | 62 | (156,715) | (38,642) | (114) | (38,756) | (195,471) |
| Excess (deficit) of revenues over expenses before transfers, capital contributions, and other changes in net position | 33,715 | 1,362 | 35,077 | 2,220 | 37,297 | (55,279) | (492) | (55,771) | (18,474) |
| Transfers | 3,647 | (1,366) | 2,281 | (2,281) | – | – | – | – | – |
| Capital contributions | 2,210 | – | 2,210 | – | 2,210 | – | – | – | 2,210 |
| Other changes in net position | (943) | – | (943) | 42 | (901) | 1,401 | (1,653) | (252) | (1,153) |
| Increase (decrease) in net position | 38,629 | (4) | 38,625 | (19) | 38,606 | (53,878) | (2,145) | (56,023) | (17,417) |
| **Net position** | | | | | | | | | |
| Beginning of year | 1,386,648 | 50,422 | 1,437,070 | 5,216 | 1,442,286 | 437,105 | 6,128 | 443,233 | 1,885,519 |
| End of year | $ 1,425,277 | $ 50,418 | $ 1,475,695 | $ 5,197 | $ 1,480,892 | $ 383,227 | $ 3,983 | $ 387,210 | $ 1,868,102 |

*The accompanying notes are an integral part of these consolidating basic financial statements.*

**Purpose of Consolidating Information**

The accompanying consolidating information presents the financial position and the changes in financial position of each of the significant operating units and affiliates of Shands as of June 30, 2022, and for the year then ended, in conformity with accounting principles generally accepted in the United States, including applicable statements of the GASB, on the accrual basis of accounting. The accompanying consolidating information is presented for purposes of additional analysis of the consolidated basic financial statements rather than to present the financial position and the changes in financial position of the individual companies and is not a required part of the consolidated basic financial statements.

# Other Supplementary Information

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

# Consolidated Statement of Cash Flows for the UFHCF Obligated Group

*(in thousands of dollars)*

Year Ended June 30, 2022

| | |
|---|---|
| **Cash flows from operating activities** | |
| Cash received from patients and third-party payors | $ 364,592 |
| Other receipts from operations | 9,383 |
| Payments for salaries and benefits | (227,975) |
| Payments to suppliers and vendors | (192,534) |
| Net cash used in operating activities | (46,534) |
| **Cash flows from noncapital financing activities** | |
| Federal grants and state appropriations | 3,353 |
| Other noncapital financing activities | 1,400 |
| Net cash provided by noncapital financing activities | 4,753 |
| **Cash flows from capital and related financing activities** | |
| Purchase of capital assets | (24,475) |
| Proceeds from sale of capital assets | 6,182 |
| Principal payments on long-term debt | (6,820) |
| Principal payments on lease obligations | (885) |
| Interest payments | (5,806) |
| Net cash used in capital and related financing activities | (31,804) |
| **Cash flows from investing activities** | |
| Investment income received | 2,266 |
| Distributions from unconsolidated affiliates | 2,155 |
| Purchase of short-term investments, assets whose use is limited, and assets whose use is restricted | (248,408) |
| Sale of short-term investments, assets whose use is limited, and assets whose use is restricted | 245,696 |
| Other investing activities | 168 |
| Net cash provided by investing activities | 1,877 |
| Net decrease in cash and cash equivalents | (71,708) |
| **Cash and cash equivalents** | |
| Beginning of year | 129,159 |
| End of year | $ 57,451 |

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Consolidated Statement of Cash Flows for the UFHCF Obligated Group (continued)
*(in thousands of dollars)*

Year Ended June 30, 2022

| | |
|---|---|
| **Reconciliation of operating loss to net cash used in operating activities** | |
| Operating loss | $ (16,637) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | |
| Depreciation and amortization | 30,470 |
| Provision for bad debts | 37,740 |
| Changes in: | |
| Patient accounts receivable | (51,445) |
| Inventories | (7) |
| Prepaid expenses and other current assets | (5,000) |
| Other assets | (3,697) |
| Accounts payable and accrued expenses | 3,000 |
| Accrued salaries and leave payable | 300 |
| Estimated third-party payor settlements | 3,647 |
| Medicare advances | (41,885) |
| Other liabilities | (3,020) |
| Total adjustments | (29,897) |
| Net cash used in operating activities | $ (46,534) |
| **Supplemental noncash investing, capital and financing activities** | |
| Accrued purchases of capital assets | $ 1,552 |
| Amortization of lease asset | 1,029 |
| Amortization of lease receivable | 4,359 |

# Accompanying Internal Control Over Financial Reporting and Compliance Report

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# Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Management and The Board of Directors
Shands Teaching Hospital and Clinics, Inc.

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the business-type activities and fiduciary activities of Shands Teaching Hospital and Clinics, Inc. and Subsidiaries (the Company), a component unit of the University of Florida, which comprise the consolidated basic statement of net position as of June 30, 2022, and the related consolidated basic statements of revenues, expenses and changes in net position and cash flows for the year then ended, the statement of fiduciary net position – defined benefit pension plan as of June 30, 2022, and the related statement of changes in fiduciary net position – defined benefit pension plan for the year then ended, and the related notes to the consolidated basic financial statements, and have issued our report thereon dated September 28, 2022.

## Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Company's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements, on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Company's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst & Young LLP

September 28, 2022



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