

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

**Consolidated Basic Financial Statements,  
Required Supplementary Information and  
Supplemental Consolidating Information  
June 30, 2018 and 2017**

# Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

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# Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

## Management's Discussion and Analysis (Unaudited)

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#### Introduction

This section of the Shands Teaching Hospital and Clinics, Inc. and Subsidiaries' ("Shands") annual financial report presents Shands' analysis of its financial performance as of and for the year ended June 30, 2018 with comparative information as of and for the years ended June 30, 2017 and 2016. 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 is an affiliate of the University of Florida ("UF") where, by statute, the President of UF has the authority to appoint and remove members of the Shands Board of Directors. In addition, there is a significant presence of both UF Board of Trustees and senior management personnel on the Shands Board. Governance oversight protocols closely align UF and Shands on material Shands transactional and budgetary decisions. Shands controls or owns various affiliated entities that operate facilities and provide services that are part of Shands.

Shands and certain of its affiliated entities, along with the UF Health Science Center, operate under various names beginning with "UF Health." The following identifies the significant component operating units and affiliates of Shands and their respective primary operations:

**UF Health Shands Hospital** is a major academic medical center located in Gainesville, Florida, licensed to operate a 1,041-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, Florida, licensed to operate 81 beds, of which 63 are psychiatric and 18 are substance abuse.

**UF Health Shands Rehab Hospital** is a 40-bed rehabilitation hospital located in Gainesville, Florida.

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

**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.

**Property Management** leases properties in Gainesville, Florida.

**Elder Care of Alachua County, Inc. ("Elder Care")**, a Florida not-for-profit corporation, provides social and health care related services to the elderly in Alachua County, Florida, through the operation of a Senior Recreation Center and programs supporting home delivered meals and Alzheimer's disease initiatives. Shands is the sole corporate member of Elder Care.

**Southeastern Healthcare Foundation, Inc. ("Foundation")**, a Florida not-for-profit corporation, provides charitable aid to UF and to Shands and owns and leases various rental properties in Florida. Shands is the sole corporate member of the Foundation.

**Joint Ventures:** Shands has a 40% minority ownership interest in **Lake Shore HMA, LLC, Starke HMA, LLC, and Live Oak HMA, LLC** which own or lease three rural community hospitals - Shands Lake Shore located in Lake City, Florida; Shands Starke located in Starke, Florida; and Shands Live Oak located in Live Oak, Florida (the "Rural Hospitals"). Community Health Systems, Inc. ("CHS") is the majority partner and manages the operations of the three facilities. Shands has a 5% minority interest in **Munroe HMA**

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**Holdings, LLC (d/b/a "Munroe Regional Medical Center")** which owns a regional medical center located in Ocala, Florida. CHS manages the operations of the facility and is the majority partner (see "CHS Joint Ventures" on page 9).

Shands has a 49.9% minority interest in **Shands/Solantic Joint Venture, LLC (d/b/a "CareSpot")** which owns three walk-in urgent care centers located in Gainesville, Florida. CareSpot manages the operations of all facilities. Solantic of Orlando, LLC, owns the remaining 50.1% majority interest.

Shands and the University of Florida Development Corporation ("UFDC") are members in **Innovation Square, LLC ("Innovation Square")**. Shands has an 83.5% interest in Innovation Square. Situated between the UF campus and downtown Gainesville, Innovation Square is a planned mixed-use research neighborhood that advances the national and global profile of UF with Shands and the local biotech industry. Shands' financial interest results from assets transferred to Innovation Square, net of amounts received from UFDC representing their financial interest.

In July 2016, Shands acquired a 49% minority ownership interest in **Select Specialty Hospital – Gainesville, LLC ("SSH")** from Select Specialty Hospitals, Inc. ("Select"), an affiliate of Select Medical Corporation ("SMC"). SSH owns and operates a 44 bed long-term acute care hospital ("LTACH") located in Gainesville, Florida. SSH leases the building where the LTACH is located from an affiliate of SSH. Select Unit Management, Inc., a wholly owned subsidiary of SMC, provides management services to SSH.

In December 2016, **UF Health South Central, LLC ("South Central")**, a single member entity owned by Shands, acquired property in Marion County, Florida, consisting of two medical office buildings, two vacant lots, and certain medical equipment. On March 15, 2017, Florida Clinical Practice Association, Inc. ("FCPA"), a component unit of UF, acquired a 50% membership interest in South Central. South Central subleases the medical office buildings and equipment to FCPA, which operates various clinical practices therein.

#### Required Financial Statements

The required statements are the consolidated basic statements of net position, the consolidated basic statements of revenues, expenses and changes in net position and the consolidated basic statements of cash flows. These statements offer short and long-term financial information about Shands' activities.

The consolidated basic statements of net position reflect all of Shands' assets, liabilities, deferred inflows and outflows and provide 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 statements of revenues, expenses and changes in net position present 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 statements of cash flows report cash receipts, cash payments, and net changes in cash resulting from operating, financing (capital and non-capital), and investing activities. The purpose of the statements is to reflect the key sources and uses of cash during the reporting period.

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#### Financial Analysis of Shands

#### Statements of Net Position

The condensed consolidated basic statements of net position present the financial position of Shands as of June 30, 2018, 2017 and 2016 and include all assets, liabilities and deferred inflows and outflows. 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, 2018, 2017 and 2016:

<i>(in thousands of dollars)</i>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 37,322	\$ 28,049	\$ 52,930
Short-term investments	122,200	154,768	155,191
Other current assets	339,481	346,018	312,046
Capital assets, net	1,065,697	981,161	848,106
Other assets	669,793	651,486	681,653
Total assets	<u>2,234,493</u>	<u>2,161,482</u>	<u>2,049,926</u>
Deferred outflows of resources	<u>83,471</u>	<u>137,722</u>	<u>160,097</u>
Current liabilities	313,681	299,461	273,255
Long-term liabilities	853,127	918,224	967,975
Total liabilities	<u>1,166,808</u>	<u>1,217,685</u>	<u>1,241,230</u>
Deferred inflows of resources	<u>46,059</u>	<u>29,364</u>	<u>34,355</u>
Net position			
Net investment in capital assets	238,631	136,616	99,370
Restricted			
Nonexpendable	243	253	97
Expendable	4,620	9,038	9,959
Unrestricted	<u>861,603</u>	<u>906,248</u>	<u>825,012</u>
Total net position	<u>\$ 1,105,097</u>	<u>\$ 1,052,155</u>	<u>\$ 934,438</u>

#### *Assets and Deferred Outflows of Resources*

In 2018, cash and cash equivalents increased by \$9.3 million, or 33.1%. Cash provided by operating activities was \$181.6 million. Other significant sources of cash included \$57.4 million from the sale (net of purchases) of short-term investments, assets whose use is limited, and assets whose use is restricted, \$15.9 million from the receipt of collateral (net of postings) held as security for certain interest rate swap contracts, \$11.1 million of donations and pledge receipts, \$10.5 million of capital contributions, \$2.9 million in investment income received, and the receipt of \$1.4 million in distributions from joint venture investments. Significant cash uses included \$68.1 million in support of UF and its health science colleges, capital spending of \$153.2 million, and principal and interest payments of \$49.4 million on outstanding debt and capital lease obligations. Short-term investments decreased by \$32.6 million, or

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21.0%, due in part to the net sale of short-term investments to support the completion of the new UF Health Heart and Vascular and Neuromedicine Hospitals, which opened in December 2017 (see "New Hospitals Project" on page 10). In 2017, cash and cash equivalents decreased by \$24.9 million, or 47.0%. Cash provided by operating activities was \$204.7 million. Other significant sources of cash included \$108.8 million from a trustee-held project fund for reimbursement of construction requisitions, \$10.4 million of donations and pledge receipts, \$3.3 million in investment income received, and a net receipt of \$8.6 million of collateral (net of postings) held as security for certain interest rate swap contracts. Significant cash uses included payments of \$66.3 million in support of UF and its health science colleges, capital spending of \$180.5 million, principal and interest payments of \$49.5 million on outstanding debt and capital lease obligations, the transfer of \$50.0 million in excess cash flows into the Strategic Capital Fund (a component of assets whose use is limited), and \$10.8 million for investments in joint ventures, including the purchase of Shands' interests in SSH and South Central. Short-term investments decreased by \$0.4 million, or 0.3%.

Other current assets, including net patient accounts receivable, inventories, and prepaid expenses and other current assets, and assets whose use is limited, current portion decreased in 2018 by \$6.5 million, or 1.9%. Patient accounts receivable, net decreased by \$17.4 million due to certain revenue cycle process improvements implemented by management, resulting in a decrease in the average time to collect on patient accounts, and increased collections. Inventory balances increased by \$5.1 million due to the inventory stock requirements of the new hospitals. Prepaid expenses and other current assets increased by \$11.3 million due to the timing of payments made on prepaid contracts and payments received on non-patient accounts receivable. Assets whose use is limited, current portion decreased by \$5.6 million due to a decrease in retainage and construction accounts payable related to the completion of the new hospitals, and a decrease in current debt service requirements. In 2017, other current assets increased by \$34.0 million, or 10.9%. Patient accounts receivable, net increased by \$31.7 million primarily due to volume growth, increased payment rates for certain payors, and an increase in the average time to collect on patient accounts. Inventories increased by \$2.4 million due to an increase in surgical and endoscopy inventory. Prepaid expenses and other current assets decreased by \$2.9 million due to a decrease in non-patient receivables, and assets whose use is limited, current portion increased by \$2.8 million.

Capital assets, net, increased in 2018 by \$84.5 million, or 8.6%, reflecting spending of \$153.2 million, which included \$110.6 million in construction costs for the new hospitals. Other significant capital activity included \$5.7 million in capitalized interest, partially offset by a decrease of \$2.9 million in retainage and construction payables and depreciation expense of \$71.5 million. In 2017, capital assets, net, increased by \$133.1 million, or 15.7%, reflecting spending of \$180.5 million, partially offset by depreciation expense of \$55.8 million. Other significant capital activity included assets acquired through installment debt financing of \$4.1 million, assets acquired through capital lease obligations of \$1.5 million, and \$9.9 million in capitalized interest, partially offset by a decrease of \$7.5 million in retainage and construction payables.

In 2018, other assets increased by \$18.3 million, or 2.8%, primarily due to an increase of \$32.4 million in other assets, partially offset by a decrease in assets whose use is restricted of \$11.7 million and a decrease in assets whose use is limited, less current portion of \$2.4 million. The increase in other assets is primarily due to an increase of \$47.5 million in the pension asset associated with the defined benefit ("DB") pension plan, partially offset by a \$9.2 million decrease in investments in joint ventures, a \$6.3 million decrease in amounts due from Shands' self-insured employee health plan - GatorCare Health Management Corporation, and a \$3.0 million decrease in goodwill. The decrease in investments in joint ventures is primarily due to the recognition of distributions of \$4.7 million and impairment losses of \$4.7 million (see "CHS Joint Ventures" on page 9). The decrease in assets whose use is restricted is primarily due to the reduction in collateral held as security for certain interest rate swap contracts. In 2017, other assets decreased by \$30.2 million, or 4.4%, primarily due to a decrease of \$119.2 million in assets whose use is restricted partially offset by an increase of \$84.6 million in assets whose use is limited, less current portion. The decrease in assets whose use is restricted is primarily associated with \$108.8 million of

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payments from the trustee-held project fund as reimbursement for certain capital purchases and a \$8.1 million decrease in collateral held as security for certain interest rate swap contracts. The increase in assets whose use is limited, less current portion is due to a \$87.6 million increase in board designated funds for capital needs and other health programs partially offset by a \$3.0 million decrease in board designated funds for post-retirement benefits resulting from the termination of a Shands' sponsored retiree medical plan, effective December 31, 2016.

Deferred outflows of resources decreased in 2018 by \$54.3 million, or 39.4%, primarily due to a \$40.3 million decrease in deferred outflows on pension and a \$13.9 million decrease in the accumulated decrease in fair value of hedging derivatives. The decrease in deferred outflows on pension is due to the net differences between projected and actual earnings on plan investments (\$21.7 million) and the impact of changes in actuarial assumptions (\$21.6 million), partially offset by differences in projected and actual actuarial experience (\$2.8 million). The change in the accumulated decrease in fair value of hedging derivatives is due to a \$13.9 million improvement 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. In 2017, deferred outflows of resources decreased by \$22.4 million, or 14.0%. The decrease is attributable to a \$23.2 million improvement in the fair value (decrease in liability) of the hedged interest rate swaps, partially offset by a \$0.9 million increase in deferred outflows on pension due to the net differences between projected and actual earnings on pension plan investments and the net impact of changes in actuarial assumptions, actuarial experience and plan contribution levels.

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

Current liabilities increased in 2018 by \$14.2 million, or 4.7%, primarily due to a \$22.4 million increase in accounts payable and accrued expenses, partially offset by a \$4.2 million decrease in accrued salaries and leave payable, a \$2.9 million decrease in long-term debt, current portion, and a \$1.0 million decrease in estimated third-party payor settlements. The increase in accounts payable and accrued expenses is primarily due to a \$25.4 million increase in accounts payable due to the timing of the vendor invoice and payment cycles, partially offset by a \$2.9 million decrease in retainage and construction payable. The decrease in accrued salaries and leave payable was primarily due to the timing of the payroll payment cycle. The decrease in long-term debt, current portion is due to decreases in principal currently due on the Series 2012A and Series 2012B Bonds (\$6.4 million combined), partially offset by an increase in principal currently due on the Series 2016A Bonds (\$3.9 million). The decrease in estimated third-party settlements is due to settlement activity to/from certain third-party payors and changes in settlement estimates. In 2017, current liabilities increased by \$26.2 million, or 9.6%, primarily due to a \$32.8 million increase in estimated third-party payor settlements and a \$5.4 million increase in accrued salaries and leave payable partially offset by a decrease of \$12.2 million in accounts payable and accrued expenses. The increase in estimated third-party payor settlements is primarily due to changes in estimates to prior year settlement amounts based on recent third-party payor cost report audits, resulting in increased liabilities. The increase in accrued salaries and leave payable and the decrease in accounts payable and accrued expenses are due to the timing of the regular payment cycles for employee and vendor payments.

Long-term liabilities decreased in 2018 by \$65.1 million, or 7.1%, primarily due to a decrease of \$35.7 million in the net pension liability for Shands' DB pension plan, principal payments on debt and capital lease obligations of \$16.5 million, and a \$13.9 million improvement in the fair value of interest rate swaps in a liability position. In 2017, long-term liabilities decreased by \$49.8 million, or 5.1%, due to an improvement of \$23.2 million in the fair value of interest rate swaps in a liability position, the termination of an interest rate swap in a liability position (fair value of \$10.7 million), principal payments on debt of \$16.3 million including both current and long-term portions, and a decrease of \$3.3 million in other post-retirement benefits liability (due to the termination of the retiree medical plan previously mentioned).

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Deferred inflows of resources increased in 2018 by \$16.7 million, or 56.9%, primarily due to an increase in the deferred inflows on pension of \$16.9 million due to the net differences in projected and actual earnings on plan investments. In 2017, deferred inflows of resources decreased by \$5.0 million, or 14.5%, primarily due to a decrease of \$4.8 million in deferred inflows on pension due to the net differences between projected and actual earnings on pension plan investments and the net impact of changes in actuarial assumptions and experience.

Total net position increased in 2018 by \$52.9 million, or 5.0%, due to an excess margin of \$114.8 million, and capital contributions of \$10.5 million, partially offset by transfers and expenditures in support of UF and its health science colleges of \$68.1 million and other changes in net position of \$4.3 million. In 2017, total net position increased by \$117.7 million, or 12.6%, due to an excess margin of \$178.6 million and capital contributions of \$6.2 million partially offset by transfers and expenditures in support of UF and its health science colleges of \$66.3 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, 2018, 2017 and 2016:

<i>(in thousands of dollars)</i>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Net patient service revenue	\$ 1,467,088	\$ 1,404,889	\$ 1,337,704
Other operating revenue	22,659	19,702	20,452
Total operating revenues	<u>1,489,747</u>	<u>1,424,591</u>	<u>1,358,156</u>
Operating expenses	<u>1,386,019</u>	<u>1,269,336</u>	<u>1,219,170</u>
Operating income	103,728	155,255	138,986
Nonoperating revenues, net	<u>11,080</u>	<u>23,355</u>	<u>3,148</u>
Excess of revenues over expenses	114,808	178,610	142,134
Other changes in net position			
Transfers and expenditures in support of the University of Florida and its health science colleges	(68,062)	(66,328)	(63,416)
Other transfers	-	-	(17,688)
Capital contributions	10,544	6,200	654
Other changes in net position	<u>(4,348)</u>	<u>(765)</u>	<u>2,313</u>
Increase in net position	52,942	117,717	63,997
Net position			
Beginning of year	<u>1,052,155</u>	<u>934,438</u>	<u>870,441</u>
End of year	<u>\$ 1,105,097</u>	<u>\$ 1,052,155</u>	<u>\$ 934,438</u>

### Operating Revenues

Total operating revenues increased in 2018 and 2017 by \$65.2 million, or 4.6%, and \$66.4 million, or 4.9%, respectively. The increases in both years were primarily due to increased net patient service revenue.



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During 2018, net patient service revenue increased by \$62.2 million, or 4.4%, reflecting increases in admissions (0.1%), outpatient visits (3.3%), case mix intensity (3.7%), and payment rates across various third-party payors. In 2017, net patient service revenue increased by \$67.2 million, or 5.0%, reflecting increases in admissions (0.4%), outpatient visits (3.2%), and payment rates across various third-party payors.

#### *Operating Expenses*

Operating expenses increased in 2018 by \$116.7 million, or 9.2%. Salaries and benefits increased by \$34.2 million, or 5.6%. Salaries expense increased by \$37.2 million, or 7.9%, reflecting a 6.3% increase in staffing levels due to volume increases and increased labor required to support various functions within the new hospitals, and a 1.5% increase in average hourly wages. Benefits expense decreased by \$3.0 million, or 2.1%, primarily due to a \$19.8 million decrease in DB pension plan expense, partially offset by the non-recurrence of a one-time expense reduction in 2017 of \$3.3 million, due to the termination of a retiree medical plan, a \$7.6 million increase in employee health insurance due to increased staffing levels and claims experience, and a \$5.8 million increase in all other benefits expense, consistent with the growth in salaries. Supplies and services increased by \$63.7 million, or 10.6%, with increases in volume and length of stay, due to the increased severity of illness, resulting in increased utilization of drugs and medical supplies. In addition, expenses were impacted by inflationary cost increases associated with certain medical supplies and the opening of the new hospitals. Depreciation and amortization expense increased by \$18.7 million, or 33.6%, due primarily to the opening of the new hospitals, and the amortization of goodwill of \$3.0 million. In 2017, operating expenses increased by \$50.2 million, or 4.1%. Salaries and benefits increased by \$26.6 million, or 4.5%. Salaries expense increased by \$24.6 million, or 5.5%, reflecting a 3.2% increase in staffing levels due to volume increases, and a 2.5% increase in average wages. Benefits expense increased by \$2.0 million, or 1.4%, primarily due to increases in benefits expense related to staffing level increases (\$5.3 million), partially offset by a one-time expense reduction of \$3.3 million resulting from the termination of the retiree medical plan previously mentioned. Supplies and services increased by \$25.2 million, or 4.4%, resulting from the increased patient volume, including an increase in surgical cases, and inflationary cost increases associated with certain drugs and other medical supplies. Depreciation and amortization expense decreased by \$1.6 million, or 2.7%, due to timing of capital purchases and the increase in construction in progress related to the new hospitals.

#### *Nonoperating Revenues, net*

In 2018, nonoperating revenues, net decreased by \$12.3 million and includes net investment income (including changes in the fair value of investments and non-hedging interest rate swaps), interest expense and other nonoperating (expenses) revenues, net. Net investment income decreased by \$5.7 million primarily due to a \$9.2 million decrease in investment income from Shands' pooled investment program and a \$6.2 million decrease in the change in fair value of investments partially offset by a \$5.6 million increase in realized capital gains on investments and a \$4.5 million increase in the change in fair value of non-hedging interest rate swaps. The fair value of investments can vary significantly from year to year due to variability in the financial markets. Interest expense increased by \$4.4 million, largely due to the discontinuance of capitalized interest once the new hospitals opened in December 2017. Other nonoperating (expenses) revenues, net decreased by \$2.0 million due to a \$3.9 million increase in loss from joint ventures, partially offset by a \$1.9 million increase in other miscellaneous nonoperating revenues. The increase in loss from joint ventures was primarily due to the \$4.7 million impairment loss recognized in 2018 (see "CHS Joint Ventures" on page 9). In 2017, nonoperating revenues, net increased by \$20.2 million. Net investment income increased by \$13.8 million primarily due to an increase of \$27.7 million in investment income from Shands' pooled investment program partially offset by a \$2.6 million decrease in the change in fair value of investments, a \$1.5 million decrease in dividends, interest, and other income and a \$10.1 million decrease in the change in fair value of non-hedging interest rate swaps. Interest expense decreased by \$1.2 million, largely due to current savings associated with the May 2016 advance refunding of the Series 2008 D1 Bonds and Series 2008 D2

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Bonds through the issuance of the Series 2016A Bonds (See "Advance Refunding" on page 10). All other nonoperating revenues, net increased by \$5.3 million. The increase in other nonoperating revenues, net was primarily due to improved joint venture results as the 2016 amount was negatively impacted by a non-recurring adjustment of \$6.6 million.

#### *Other Changes in Net Position*

In 2018, transfers and expenditures in support of UF and its health science colleges increased by \$1.7 million, or 2.6%. Capital contributions increased by \$4.3 million reflecting the release of restrictions on \$7.8 million of capital donations previously reflected as temporarily restricted compared to \$3.8 million in 2017. Other changes in net position decreased by \$3.6 million primarily due to the increase in the release of temporarily restricted capital donations received. In 2017, transfers and expenditures in support of UF and its health science colleges increased by \$2.9 million, or 4.6%. Other transfers decreased by \$17.7 million due to the partial forgiveness of a note receivable from Shands Jacksonville Medical Center, Inc. in 2016 not recurring in 2017. Capital contributions increased by \$5.5 million reflecting the release of restrictions in 2017 on \$6.2 million of capital donations previously reflected as temporarily restricted donations. Other changes in net position decreased by \$3.1 million primarily due to the release of the temporarily restricted capital donations, partially offset by additional temporarily restricted donations received and increased pledges of \$3.1 million.

#### *Patient Volumes*

The following tables present the associated volumes of each facility on a comparative basis for the years ended 2018, 2017 and 2016:

	2018	2017	Net Change	% Change	2016	Net Change	% Change
<b>Inpatient Admissions (1)</b>							
UF Health Shands Hospital	50,648	50,734	(86)	-0.2%	50,672	62	0.1%
UF Health Shands Psychiatric Hospital	3,734	3,555	179	5.0%	3,398	157	4.6%
UF Health Shands Rehab Hospital	991	1,014	(23)	-2.3%	1,021	(7)	-0.7%
Total	55,373	55,303	70	0.1%	55,091	212	0.4%
<b>Outpatient Visits (2)</b>							
UF Health Shands Hospital	1,001,511	966,450	35,061	3.6%	933,532	32,918	3.5%
UF Health Shands Psychiatric Hospital	1,723	1,378	345	25.0%	1,236	142	11.5%
UF Health Shands Rehab Hospital	543	293	250	85.3%	1,131	(838)	-74.1%
UF Health Florida Recovery Center	20,741	23,746	(3,005)	-12.7%	25,381	(1,635)	-6.4%
Total	1,024,518	991,867	32,651	3.3%	961,280	30,587	3.2%

(1) Includes inpatient and observation cases

(2) Includes emergency room and trauma visits

During 2018, total admissions increased by 0.1%, inpatient admissions increased by 4.1% while observation admissions decreased by 23.6%. Outpatient visits increased by 3.3%. During 2017, total admissions increased by 0.4% and outpatient visits increased by 3.2%.

#### **Statements of Cash Flows**

The consolidated basic statements of cash flows provide additional information concerning Shands' financial results by reporting the major sources and uses of cash. During 2018, cash and cash equivalents increased by \$9.3 million, or 33.1%. Cash provided by operating activities was \$181.6 million. Other significant sources of cash included \$57.4 million from the sale (net of purchases) of short-term investments, assets whose use is limited, and assets whose use is restricted, \$15.9 million from the receipt of collateral (net of postings) held as security for certain interest rate swap contracts, \$11.1 million of donations and pledge receipts, \$10.5 million of capital contributions, \$2.9 million in investment income

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received, and the receipt of \$1.4 million in distributions from joint venture investments. Significant cash uses included \$68.1 million in support of UF and its health science colleges, capital spending of \$153.2 million, and principal and interest payments of \$49.4 million on outstanding debt and capital lease obligations. Shands also funded the DB pension plan by \$26.0 million in excess of pension expense.

During 2017, cash and cash equivalents decreased by \$24.9 million, or 47.0%. Cash provided by operating activities was \$204.7 million. Other significant sources of cash included \$108.8 million from a trustee-held project fund for reimbursement of construction requisitions, \$10.4 million of donations and pledge receipts, \$3.3 million in investment income received, and a receipt of \$8.6 million of collateral (net of postings) held as security for certain interest rate swap contracts. Significant cash uses included payments of \$66.3 million in support of UF and its health science colleges, capital spending of \$180.5 million, principal and interest payments of \$49.5 million on outstanding debt and capital lease obligations, the transfer of \$50.0 million in excess cash flows into the Strategic Capital Fund (a component of assets whose use is limited), and \$10.8 million for investments in joint ventures, including the purchase of Shands' interests in SSH and South Central. Shands also funded the DB pension plan by \$6.0 million in excess of pension expense as management proactively works toward improving the plan's funded status.

#### Defined Benefit Pension Plan Funded Status

As of June 30, 2018, the funded status (as measured under ERISA funding rules) was 81.5%, an increase from 75.8% as of June 30, 2017. The increase in the funded status is largely due to improved financial market conditions and rising interest rates. In June 2018, to improve the funded status of the plan and to decrease the cost of plan administration, the Plan Administrator took several actions resulting in lump-sum payments for 1,561 plan participants. These actions resulted in the reduction in actuarially determined plan obligations of \$41.9 million and a reduction in plan assets of \$36.3 million. As of June 30, 2017, the funded status was 75.8%, an increase from 65.0% as of June 30, 2016. The increase in the funded status is largely due to improved financial market conditions and rising interest rates.

#### CHS Joint Ventures

Shands has various joint venture relationships with CHS, successor organization to Health Management Associates, Inc. ("HMA").

Shands acquired its 5% minority interest in Munroe HMA Holdings, LLC ("Munroe") for \$10.0 million on April 1, 2014. On April 18, 2018, Munroe entered into an asset purchase agreement with the Adventist Health System Sunbelt Healthcare Corporation to sell substantially all of the assets of Munroe for \$130.0 million and a capital investment obligation of approximately \$125.0 million. The sale subsequently closed on August 1, 2018. Shands' share of the purchase price is estimated to be \$6.5 million. Accordingly, at June 30, 2018, Shands recognized a \$3.5 million impairment loss on its investment in Munroe. Separately, in May 2018, Shands received a distribution of \$0.8 million from its investment in Munroe. The net effect of the impairment loss and distribution was \$2.7 million and is included in other nonoperating (expenses) revenues, net, in the consolidated basic statement of revenues, expenses and changes in net position for the year ended June 30, 2018.

Shands acquired its 40% minority interests in the Rural Hospitals on May 26, 2010. At June 30, 2017, the book value of Shands' investment in the Rural Hospitals was \$5.6 million. During 2018, Shands recognized a distribution from the Rural Hospitals totaling \$3.2 million, with \$2.8 million recorded as a reduction in the investment in the Rural Hospitals and \$0.4 million recognized in nonoperating revenue. Also during 2018, Shands recorded its share of the Rural Hospitals net losses totaling \$1.6 million. At June 30, 2018, Shands determined that its investment in the Rural Hospitals was impaired and recognized a loss of \$1.2 million, eliminating the remaining book value of its investment. The net effect of the impairment loss and all other activity was \$2.4 million and is included in other nonoperating

# Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

## Management's Discussion and Analysis (Unaudited)

### June 30, 2018 and 2017

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(expenses) revenues, net, in the consolidated basic statement of revenues, expenses and changes in net position for the year ended June 30, 2018.

#### Advance Refunding

In May 2016, the Alachua County Health Facilities Authority ("Authority") issued the Series 2016A Bonds in the amount of \$46.6 million on behalf of Shands, to advance refund the Series 2008D1 Bonds of \$21.7 million and Series 2008D2 Bonds of \$22.6 million. The proceeds of the Series 2016A Bonds and debt service reserve funds of \$4.4 million were used to purchase U.S. government securities, to be held in an irrevocable trust to meet the debt service on the refunded bonds through December 1, 2018, and to pay issuance costs of \$0.2 million. In connection with the transaction, a deferred outflow of \$7.0 million was recorded (to be amortized over the life of the new debt) which includes the unamortized bond discount of \$0.5 million related to the refunded debt. Shands advance refunded the Series 2008D1 Bonds and Series 2008D2 Bonds to reduce its total debt service payments over the next 14.5 years by \$10.9 million and to obtain an economic gain (difference between the present value of the debt service on the new debt and the refunded debt) of \$9.2 million.

#### Debt Outstanding

As of June 30, 2018, Shands had \$825.2 million in debt outstanding compared to \$842.4 million at June 30, 2017. 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 variable rate bonds to fixed rates. Including the effect of the interest rate swaps, 86.9% of Shands' bonds and notes outstanding are fixed while 13.1% are variable. The Series 1996A Bonds reached final maturity in December 2016. The Series 2007A Bonds, Series 2007B Bonds, Series 2008A Bonds, and Series 2008C Bonds are variable rate bonds with fixed rate payor interest rate swaps, which synthetically convert the interest rates on the bonds to fixed rates. The Series 2014A Bonds, Series 2014B Bonds, and Series 2016A Bonds are unenhanced fixed rate bonds. The Series 2010A Bonds, Series 2012A Bonds and Series 2012B Bonds are variable rate bonds. The Series 2013A Taxable Notes and the 2012 Bank Note are taxable fixed rate notes.

As of June 30, 2017, Shands had \$842.4 million in debt outstanding compared to \$855.6 million at June 30, 2016.

#### New Hospitals Project

On December 10, 2017, Shands' opened the UF Health Heart and Vascular Hospital and the UF Health Neuromedicine Hospital culminating a three-year, \$400 million campus expansion project that significantly expands Shands' service capabilities in the Cardiovascular and Neuromedicine specialties and provides state-of-the-art facilities to support these and other programs. The new hospitals were constructed on property adjacent to the UF Health Cancer Hospital on the campus of UF Health Shands Hospital in Gainesville, Florida. This project includes a new 9-floor building with 538,000 gross square feet of space. The building houses the following facilities and services:

- 216 private patient beds, including 120 ICU/IMC beds and 96 acute care beds. A six-bay inpatient dialysis suite, rehab therapy gym, CT scanner, satellite pharmacy, and a blood gas lab are located on patient floors.
- An operating suite with 10 general ORs, 5 hybrid ORs, 1 intraoperative MRI, 5 Cath labs, 16 recovery bays, 38 pre/post-op rooms, a blood dispensing station, and a gross pathology lab.

## **Shands Teaching Hospital and Clinics, Inc. and Subsidiaries Management's Discussion and Analysis (Unaudited) June 30, 2018 and 2017**

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- Ambulatory clinic space for Cardiovascular services and Neuromedicine services, a pre-operative clinic, a blood draw station, neurodiagnostic testing and heart and vascular ancillary services.
- A new radiology department with 3 CT scanners (1 located in neuro ICU), 2 MRIs, 2 general radiology rooms, 1 ultrasound room, and 1 fluoroscopy room.

The total project costs incurred as of June 30, 2018, excluding financing costs and capitalized interest, was \$381.3 million.

### **Credit Ratings**

In March 2018, Standard & Poor's upgraded their previous underlying credit rating from A- to A and indicated a "Stable" outlook on all of Shands' rated debt. In December 2017, Moody's Investor Services affirmed their previous underlying credit rating of A3 but improved its outlook on all of Shands' rated debt from "Stable" to "Positive."



## Report of Independent Auditors

To the Board of Directors of  
Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

We have audited the accompanying consolidated basic financial statements of Shands Teaching Hospital and Clinics, Inc. and its subsidiaries (the "Company"), a component unit of the University of Florida, which comprise the consolidated basic statements of net position as of June 30, 2018 and 2017, and the related consolidated basic statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the consolidated basic financial statements.

### ***Management's Responsibility for the Consolidated Basic Financial Statements***

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

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on the consolidated basic financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated basic financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated basic financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated basic financial statements 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated basic financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



### ***Opinion***

In our opinion, the consolidated basic financial statements referred to above present fairly, in all material respects, the financial position of Shands Teaching Hospital and Clinics, Inc. and its subsidiaries as of June 30, 2018 and 2017, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### *Required Supplementary Information*

The accompanying management's discussion and analysis (unaudited) ("MD&A") on pages 1 through 11, the schedule of changes in the net pension (asset) liability and related ratios (unaudited) on page 53, and the schedule of employer contributions (unaudited) on page 54 are required by accounting principles generally accepted in the United States of America to supplement the consolidated basic financial statements. Such information, although not a part of the consolidated basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the consolidated 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 consolidated basic financial statements, and other knowledge we obtained during our audits of the consolidated 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 audits were conducted for the purpose of forming an opinion on the consolidated basic financial statements taken as a whole. The supplemental consolidating information on pages 55 through 58 is presented for purposes of additional analysis and is not a required part of the consolidated basic financial statements. The supplemental consolidating information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated basic financial statements. The supplemental consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated 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 consolidated basic financial statements or to the consolidated basic financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental consolidating information is fairly stated, in all material respects, in relation to the consolidated basic financial statements taken as a whole.

*PricewaterhouseCoopers L.L.P.*

Certified Public Accountants  
Tampa, Florida  
September 26, 2018

**Shands Teaching Hospital and Clinics, Inc. and Subsidiaries**  
**Consolidated Basic Statements of Net Position**  
**June 30, 2018 and 2017**

(In thousands of dollars)

	<u>2018</u>	<u>2017</u>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 37,322	\$ 28,049
Short-term investments	122,200	154,768
Patient accounts receivable, net of allowance for uncollectibles of \$40,465 and \$53,276, respectively	225,358	242,734
Inventories	22,577	17,511
Prepaid expenses and other current assets	59,077	47,750
Assets whose use is limited, current portion	32,469	38,023
Total current assets	<u>499,003</u>	<u>528,835</u>
Assets whose use is limited, less current portion	515,538	517,902
Assets whose use is restricted	28,180	39,910
Capital assets, net	1,065,697	981,161
Other assets	126,075	93,674
Total assets	<u>2,234,493</u>	<u>2,161,482</u>
<b>Deferred outflows of resources</b>		
Accumulated decrease in fair value of hedging derivatives	35,073	49,013
Deferred loss on debt refunding	336	376
Deferred outflows on pension	48,062	88,333
Total deferred outflows of resources	<u>83,471</u>	<u>137,722</u>
<b>Liabilities</b>		
Current liabilities		
Long-term debt, current portion	14,341	17,200
Capital lease obligations, current portion	203	271
Accounts payable and accrued expenses	132,602	110,177
Accrued salaries and leave payable	57,804	62,050
Estimated third-party payor settlements	108,731	109,763
Total current liabilities	<u>313,681</u>	<u>299,461</u>
Long-term liabilities		
Long-term debt, less current portion	810,881	825,222
Capital lease obligations, less current portion	1,642	1,852
Other liabilities	40,604	91,150
Total long-term liabilities	<u>853,127</u>	<u>918,224</u>
Total liabilities	<u>1,166,808</u>	<u>1,217,685</u>
<b>Deferred inflows of resources</b>		
Deferred gain on debt refunding	2,528	2,732
Deferred inflows on pension	43,531	26,632
Total deferred inflows of resources	<u>46,059</u>	<u>29,364</u>
<b>Net position</b>		
Net investment in capital assets	238,631	136,616
Restricted		
Nonexpendable	243	253
Expendable	4,620	9,038
Unrestricted	861,603	906,248
Total net position	<u>\$ 1,105,097</u>	<u>\$ 1,052,155</u>

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



**Shands Teaching Hospital and Clinics, Inc. and Subsidiaries**  
**Consolidated Basic Statements of Revenues, Expenses and Changes in Net**  
**Position**  
**Years Ended June 30, 2018 and 2017**

*(In thousands of dollars)*

	<u>2018</u>	<u>2017</u>
<b>Operating revenues</b>		
Net patient service revenue, net of provision for bad debts of \$142,562 and \$84,644, respectively	\$ 1,467,088	\$ 1,404,889
Other operating revenue	22,659	19,702
Total operating revenues	<u>1,489,747</u>	<u>1,424,591</u>
<b>Operating expenses</b>		
Salaries and benefits	648,221	614,001
Supplies and services	663,278	599,540
Depreciation and amortization	74,520	55,795
Total operating expenses	<u>1,386,019</u>	<u>1,269,336</u>
Operating income	<u>103,728</u>	<u>155,255</u>
<b>Nonoperating revenues (expenses)</b>		
State appropriations	7,050	7,050
Interest expense	(26,080)	(21,728)
Net investment income, including change in fair value	31,039	36,758
Gain on disposal of capital assets, net	184	363
Other nonoperating (expenses) revenues, net	(1,113)	912
Total nonoperating revenues, net	<u>11,080</u>	<u>23,355</u>
Excess of revenues over expenses before transfers, capital contributions, and other changes in net position	114,808	178,610
Transfers and expenditures in support of the University of Florida and its health science colleges	(68,062)	(66,328)
Capital contributions	10,544	6,200
Other changes in net position	(4,348)	(765)
Increase in net position	<u>52,942</u>	<u>117,717</u>
<b>Net position</b>		
Beginning of year	<u>1,052,155</u>	<u>934,438</u>
End of year	<u>\$ 1,105,097</u>	<u>\$ 1,052,155</u>

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

**Shands Teaching Hospital and Clinics, Inc. and Subsidiaries**  
**Consolidated Basic Statements of Cash Flows**  
**Years Ended June 30, 2018 and 2017**

(In thousands of dollars)

	<u>2018</u>	<u>2017</u>
<b>Cash flows from operating activities</b>		
Cash received from patients and third-party payors	\$ 1,483,344	\$ 1,406,467
Other receipts from operations	11,867	21,306
Salaries and benefits paid to employees	(678,499)	(617,868)
Payments to suppliers and vendors	(635,076)	(605,183)
Net cash provided by operating activities	<u>181,636</u>	<u>204,722</u>
<b>Cash flows from noncapital financing activities</b>		
Payments received on notes receivable	1,678	1,674
Payments in support of the University of Florida and its health science colleges	(68,062)	(66,328)
Donations and pledge receipts	11,067	10,388
Other noncapital financing activities	(8,024)	(8,871)
Net cash used in noncapital financing activities	<u>(63,341)</u>	<u>(63,137)</u>
<b>Cash flows from capital and related financing activities</b>		
Purchase of capital assets	(153,170)	(180,545)
Proceeds from sale of capital assets	17	2
Principal payments on long-term debt	(16,189)	(16,316)
Principal payments on capital lease obligations	(278)	(315)
Interest payments	(32,900)	(32,831)
Receipt of collateral on interest rate swaps	15,853	8,584
Capital contributions	10,548	6,200
Reimbursement from trustee-held project fund	-	108,828
Net cash used in capital and related financing activities	<u>(176,119)</u>	<u>(106,393)</u>
<b>Cash flows from investing activities</b>		
Investment income received	2,936	3,330
Investment in joint ventures	-	(10,806)
Distributions from joint ventures	1,438	738
Purchase of short-term investments, assets whose use is limited, and assets whose use is restricted	(378,702)	(273,448)
Sale of short-term investments, assets whose use is limited, and assets whose use is restricted	436,145	221,236
Other investing activity	5,280	(1,123)
Net cash provided by (used in) investing activities	<u>67,097</u>	<u>(60,073)</u>
Net increase (decrease) in cash and cash equivalents	9,273	(24,881)
<b>Cash and cash equivalents</b>		
Beginning of year	<u>28,049</u>	<u>52,930</u>
End of year	<u>\$ 37,322</u>	<u>\$ 28,049</u>

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

**Shands Teaching Hospital and Clinics, Inc. and Subsidiaries**  
**Consolidated Basic Statements of Cash Flows (continued)**  
**Years Ended June 30, 2018 and 2017**

*(In thousands of dollars)*

	<u>2018</u>	<u>2017</u>
<b>Reconciliation of operating income to net cash provided by operating activities</b>		
Operating income	\$ 103,728	\$ 155,255
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	74,520	55,795
Provision for bad debts	142,562	84,644
Changes in:		
Patient accounts receivable	(125,274)	(115,830)
Inventories	(5,066)	(2,358)
Prepaid expenses and other current assets	6,682	9,626
Other assets	(11,738)	(6,529)
Accounts payable and accrued expenses	21,412	(5,510)
Accrued salaries and leave payable	(4,245)	5,372
Estimated third-party payor settlements	(1,031)	32,763
Other liabilities	(19,914)	(8,506)
Total adjustments	<u>77,908</u>	<u>49,467</u>
Net cash provided by operating activities	<u>\$ 181,636</u>	<u>\$ 204,722</u>
<b>Supplemental noncash investing, capital and financing activities</b>		
Capital assets financed through installment debt	\$ -	\$ 4,062
Capital assets financed through capital lease obligations	-	1,469
Accrued purchases of capital assets	16,939	20,253

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

# Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

## Notes to Consolidated Basic Financial Statements

### June 30, 2018 and 2017

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#### 1. Organization

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries (“Shands”) was incorporated on October 15, 1979 as a Florida not-for-profit corporation. The President of the University of Florida (“UF”), or his designee, serves as the President of Shands’ Board of Directors (the “Board”) and retains appointment and termination rights over a majority of the members of the Board. The President of UF is deemed a state official as the position is appointed by a Board of Trustees that govern UF (the “UF Board”), and the members of the UF Board are appointed by the Governor and the Board of Governors of the State of Florida. Shands is a component unit of UF.

University of Florida Health or “UF Health” encompasses the UF Health Science Center and Shands. Shands and certain of its affiliated entities operate under names beginning with “UF Health.”

The accompanying consolidated basic financial statements include the accounts of Shands and its subsidiaries. The following identifies the significant affiliates of Shands and their respective primary operations:

- **UF Health Shands Hospital** is a major academic medical center located in Gainesville, Florida, licensed to operate a 1,041-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, Florida, licensed to operate 81 beds, of which 63 are psychiatric and 18 are substance abuse.
- **UF Health Shands Rehab Hospital** is a 40-bed rehabilitation hospital located in Gainesville, Florida.
- **UF Health Shands HomeCare** is a hospital-based home care agency providing home care services to the residents of north central Florida.
- **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.
- **Property Management** leases properties in Gainesville, Florida.
- **Elder Care of Alachua County, Inc. (“Elder Care”)**, a Florida not-for-profit corporation, provides social and health care related services to the elderly in Alachua County, Florida, through the operation of a Senior Recreation Center and programs supporting home delivered meals and Alzheimer’s disease initiatives. Shands is the sole corporate member of Elder Care.
- **Southeastern Healthcare Foundation, Inc. (“Foundation”)**, a Florida not-for-profit corporation, provides charitable aid to UF and to Shands and owns and leases various rental properties in Florida. Shands is the sole corporate member of the Foundation.

Shands has interests in various joint ventures, fully described in Note 2.

# Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

## Notes to Consolidated Basic Financial Statements

### June 30, 2018 and 2017

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## 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 Governmental Accounting Standards Board ("GASB"), on the accrual basis of accounting and include the accounts of Shands and its subsidiaries. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Significant intercompany accounts and transactions have been eliminated.

### **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.

### **Tax Status**

Shands and its subsidiaries 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 of the Florida Statutes.

### **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 statements of net position.

### **Investments**

Shands participates in a pooled investment program which consists of various limited liability companies and a limited partnership established for the purpose of investing in specific types of investment securities. These entities are referred to as "Pooled Investment Fund(s)" and are recorded on the equity method of accounting, with Shands' share of the income and losses included in net investment income, including change in fair value, in the accompanying consolidated basic statements of revenues, expenses, and changes in net position.

Shands' direct investments primarily consist of fixed income mutual funds, a fixed income high yield fund, Florida Treasury Investment Pool Special Purpose Investment Account, 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, when earned in the accompanying consolidated basic statements 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. Amounts required to meet current liabilities are reported as current assets.

### **Assets Whose Use is Restricted**

Assets whose use is restricted primarily include assets held by trustees under indenture agreements and collateral held by an interest rate swap counterparty.

# Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

## Notes to Consolidated Basic Financial Statements

### June 30, 2018 and 2017

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#### **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 capital construction projects at Shands and are generally due over the next three years. Pledges receivable are recorded net of an estimated reserve for uncollectible pledges. The current portion of pledges receivable is reported in prepaid expenses and other current assets in the accompanying consolidated basic statements of net position. The long-term portion of pledges receivable is reported in other assets in the accompanying consolidated basic statements of net position. For the years ended June 30, 2018 and 2017, pledge discount rates range from 0.6% to 2.8% and 0.6% to 4.8%, respectively.

#### **Capital Assets**

Capital assets are recorded at historical cost at date of purchase or at the acquisition value at date of donation. Buildings and equipment under capital leases 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. Interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets. 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. Buildings and equipment under capital leases are amortized using the straight-line method over the shorter period 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 statements of revenues, expenses and changes in net position. Gains and losses on disposition are recorded in the year of disposal and are reported as nonoperating revenues (expenses) in the accompanying consolidated basic statements of revenues, expenses and changes in net position.

#### **Joint Ventures**

Shands has a 40% minority interest in Lake Shore HMA, LLC, Starke HMA, LLC, and Live Oak HMA, LLC which own or lease three rural community hospitals - Shands Lake Shore located in Lake City, Florida; Shands Starke located in Starke, Florida; and Shands Live Oak located in Live Oak, Florida (the "Rural Hospitals"). Community Health Systems, Inc. ("CHS") is the majority partner and manages the operations of the Rural Hospitals. Shands accounts for the investment in the Rural Hospitals under the equity method of accounting.

In June 2018, the Rural Hospitals approved a distribution, which was paid in July 2018. As such, a distribution receivable of approximately \$3,213,000 was recorded in prepaid expenses and other current assets in the accompanying consolidated basic statement of net position as of June 30, 2018. Of the distribution amount, approximately \$2,814,000 was recorded as a reduction in other assets in the accompanying consolidated basic statement of net position as of June 30, 2018, and approximately \$399,000 was recorded in other nonoperating (expenses) revenues, net, in the accompanying consolidated basic statement of revenues, expenses and changes in net position for the year ended June 30, 2018.

At June 30, 2018, management determined that Shands' investment in the Rural Hospitals was impaired and recognized an impairment loss for the remaining book value of the investment. At June 30, 2017, Shands investment in the Rural Hospitals was approximately \$5,573,000, which was recorded in other assets in the accompanying consolidated basic statement of net position. Income and losses from Shands' investment in the Rural Hospitals are included in other

**Shands Teaching Hospital and Clinics, Inc. and Subsidiaries**  
**Notes to Consolidated Basic Financial Statements**  
**June 30, 2018 and 2017**

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nonoperating (expenses) revenues, net, in the accompanying consolidated basic statements of revenues, expenses and changes in net position for the years ended June 30, 2018 and 2017 as follows:

<i>(in thousands of dollars)</i>	<u>2018</u>	<u>2017</u>
Loss from equity investment	\$ (1,590)	\$ (972)
Income from distributions earned	399	-
Loss on impairment of equity investment	(1,169)	-
	<u>\$ (2,360)</u>	<u>\$ (972)</u>

Shands has a 5% minority interest in Munroe HMA Holdings, LLC d/b/a Munroe Regional Medical Center (“Munroe”), which owns a regional medical center located in Ocala, Florida. CHS manages the operations of Munroe and is the majority owner. Shands accounts for the investment under the cost method of accounting. At June 30, 2018 and 2017, an investment of \$6,500,000 and \$10,000,000, respectively, was recorded in other assets in the accompanying consolidated basic statements of net position. On April 18, 2018, Munroe entered into an asset purchase agreement with the Adventist Health System Sunbelt Healthcare Corporation to sell substantially all of the assets of Munroe for \$130,000,000 and other consideration. The sale subsequently closed on August 1, 2018.

Shands’ share of the purchase price is estimated to be \$6,500,000. Accordingly, Shands recognized a \$3,500,000 impairment loss on its investment in Munroe for the year ended June 30, 2018. In addition, for the years ended June 30, 2018 and 2017, Shands received cash distributions of approximately \$784,000 and \$338,000, respectively, as a result of its investment in Munroe. The net effect of the impairment loss and distribution for the year ended June 30, 2018 was approximately \$2,716,000 which is included in the consolidated basic statement of revenues, expenses and changes net position for the year ended June 30, 2018.

Shands has a 49.9% minority interest in Shands/Solantic Joint Venture, LLC (d/b/a “CareSpot”) which owns three walk-in urgent care centers located in Gainesville, Florida. CareSpot manages the operations of the three facilities. Solantic of Orlando, LLC, owns the remaining 50.1% majority interest. Shands accounts for the investment in CareSpot under the equity method of accounting. At June 30, 2018 and 2017, an investment of approximately \$1,839,000 and \$1,642,000, respectively, was recorded in other assets in the accompanying consolidated basic statements of net position. For the years ended June 30, 2018 and 2017, an investment gain of approximately \$496,000 and \$276,000, respectively, was recorded in other nonoperating (expenses) revenues, net, in the accompanying consolidated basic statements of revenues, expenses and changes in net position. In addition, cash distributions of approximately \$299,000 and \$400,000 were received for the years ended June 30, 2018 and 2017, respectively.

In July 2016, Shands acquired a 49% minority ownership interest in Select Specialty Hospital – Gainesville, LLC (“SSH”) from Select Specialty Hospitals, Inc. (“Select”), and an affiliate of Select Medical Corporation (“SMC”) for \$2,971,000. SSH owns and operates a 44-bed long-term acute care hospital (“LTACH”) located in Gainesville, Florida. SSH leases the building where the LTACH is located from an affiliate of SSH. Select Unit Management, Inc., a wholly owned subsidiary of SMC, provides management services to SSH. Shands accounts for the investment in SSH under the equity method of accounting. At June 30, 2018 and 2017, an investment of approximately \$2,688,000 and \$3,213,000, respectively, was recorded in other assets in the accompanying consolidated basic statements of net position. For the years ended June 30, 2018 and 2017, an investment (loss) gain of approximately (\$171,000) and \$242,000, respectively, was recorded in other nonoperating (expenses) revenues, net, in the accompanying consolidated basic statements

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of revenues, expenses and changes in net position. In addition, a cash distribution of approximately \$354,000 was received for the year ended June 30, 2018.

In December 2016, UF Health South Central, LLC (“South Central”), a single member entity owned by Shands, acquired property in Marion County, Florida, consisting of two medical office buildings, two vacant lots, and certain medical equipment. On March 15, 2017, Florida Clinical Practice Association, Inc. (“FCPA”), a component unit of UF, acquired a 50% membership interest in South Central. Shands accounts for the investment in South Central under the equity method of accounting. South Central subleases the medical office buildings and equipment to FCPA. At June 30, 2018 and 2017, an investment of approximately \$8,135,000 and \$7,885,000, respectively, was recorded in other assets in the accompanying consolidated basic statements of net position.

Shands and the University of Florida Development Corporation (“UFDC”) are members in Innovation Square, LLC (“Innovation Square”). Shands has an 83.5% membership interest in Innovation Square. Situated between the UF campus and downtown Gainesville, Innovation Square is a planned mixed-use research neighborhood that advances the national and global profile of UF with Shands and the local biotech industry. Shands accounts for the investment under the cost method of accounting as UFDC controls and manages the operations of Innovation Square. At June 30, 2018 and 2017, an investment of approximately \$8,158,000 was recorded in other assets in the accompanying consolidated basic statements of 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 \$39,608,000 and \$37,553,000 as of June 30, 2018 and 2017, respectively, and is included in accrued salaries and leave payable in the accompanying consolidated basic statements of net position.

#### **Bond Issuance Costs**

Bond issuance costs are expensed at time of issuance.

#### **Bond Premiums and Discounts**

Bond premiums and discounts are amortized over the period the bonds are outstanding using the effective interest method.

#### **Long-Term Debt**

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

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

Deferred outflows of resources represent a consumption of net assets that is applicable to a future reporting period. Deferred inflows of resources represent an acquisition of net assets that is 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 statements of net position, but rather, are separately reported.

#### **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



# Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

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to lower its overall borrowing costs. Shands entered into floating to fixed 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 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 recognized as an asset or liability with a corresponding deferred outflow or inflow in the accompanying consolidated basic statements of net position. Deferred outflows or inflows 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 consolidated basic statements of net position; and the change in fair value is recognized within net investment income in the accompanying consolidated basic statements 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 and deferred inflows of resources related to the defined benefit plan, and defined benefit pension expense, information about the fiduciary net position of the Shands HealthCare Pension Plan II (the "Plan") and additions to /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 outstanding balances due on borrowings used to finance the purchase or construction of those assets. Unspent debt proceeds are excluded from the calculation of 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 limited 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 third-party restrictions on use.

#### **Revenues and Expenses**

Shands' consolidated basic statements of revenues, expenses and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, Shands' principal activity. Operating expenses are all expenses incurred to provide health care services. State appropriations, interest expense, net investment income, and gain on disposal of capital assets are reported as nonoperating revenues (expenses). Donations received for the purpose of acquiring or constructing capital assets are recorded below nonoperating revenues as capital contributions.

#### **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

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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. For the years ended June 30, 2018 and 2017, net patient service revenue increased (decreased) by approximately \$622,000 and (\$16,086,000), respectively, due to such adjustments.

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 basic statements of net position, represent the best estimate to date of the estimated liability for settlements of outstanding Medicare and Medicaid cost reports.

#### **Medicare**

Shands participates in the federal Medicare program. Approximately 34% and 32% of Shands' net patient service revenue for the years ended June 30, 2018 and 2017, respectively, 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 fiscal intermediary. Shands' classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review. As of June 30, 2018, the Medicare cost reports were final settled by Shands' Medicare fiscal intermediary through June 30, 2008.

#### **Medicaid**

Shands participates in the State of Florida Medicaid program. The Agency for Health Care Administration is the administrator of the Statewide Medicaid Managed Care Managed Medical Assistance ("MMA") Program in the State of Florida. The MMA program is comprised of several types of managed care plans including Health Maintenance Organizations, Provider Service Networks, and Children's Medical Services Network. The majority of Medicaid beneficiaries are required to enroll in the MMA program. Approximately 18% and 20% of Shands' net patient service revenue for the years ended June 30, 2018 and 2017, respectively, 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"). Prior to July 1, 2017, outpatient services were reimbursed based upon a cost reimbursement methodology subject to certain ceilings.

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 statements of revenues, expenses and changes in net position. As of June 30, 2018, the Medicaid cost reports have been audited by the Medicaid fiscal intermediary through June 30, 2015.

# Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

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#### **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. 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 November 2016, the GASB issued GASB Statement No. 83, *Certain Asset Retirement Obligations* ("GASB No. 83"). GASB No. 83 addresses accounting and financial reporting for certain asset retirement obligations which are legally enforceable liabilities associated with the retirement of a tangible capital asset. GASB No. 83 is effective for fiscal years beginning after June 15, 2018. Shands is currently evaluating the impact GASB No. 83 will have on its consolidated basic financial statements.

In January 2017, the GASB issued GASB Statement No. 84, *Fiduciary Activities* ("GASB No. 84"). The principal objective of GASB No. 84 is to enhance the consistency and comparability of fiduciary activity reporting by state and local governments. GASB No. 84 is effective for fiscal years beginning after December 15, 2018. Shands is currently evaluating the impact GASB No. 84 will have on its consolidated basic financial statements.

In March 2017, the GASB issued GASB Statement No. 85, *Omnibus 2017* ("GASB No. 85"). GASB No. 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and pensions and other postemployment benefits. Shands adopted GASB No. 85 in the consolidated basic financial statements for the year ended June 30, 2018. The adoption of this statement did not have a material impact on the consolidated basic financial statements.

In addition, Shands adopted GASB Statement No. 81, *Irrevocable Split Interest Agreements* and GASB Statement No. 86, *Certain Debt Extinguishment Issues*, for the year ended June 30, 2018. The adoption of such statements did not have a material impact on the consolidated basic financial statements.

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 will require 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. GASB No. 87 is effective for fiscal years beginning after December 15, 2019. Shands is currently evaluating the impact GASB No. 87 will have on its consolidated basic financial statements.

# Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

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In April 2018, the GASB issued GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements* ("GASB No. 88"). GASB No. 88 requires additional information related to debt to be disclosed in notes to the financial statements. GASB No. 88 is effective for fiscal years beginning after June 15, 2018. Shands is currently evaluating the impact GASB No. 88 will have on its consolidated basic financial statements.

In June 2018, the GASB issued GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* ("GASB No. 89"). Upon adoption of GASB No. 89, interest cost incurred before the end of a construction period will be recognized as an expense in the period in which the cost is incurred. GASB No. 89 is effective for fiscal years beginning after December 15, 2019. Shands is currently evaluating when it will adopt GASB No. 89.

#### **Reclassification of Previously Issued Consolidated Basic Financial Statements**

Shands reclassified certain cash flows in the consolidated basic statement of cash flows for the year ended June 30, 2017 to conform to the presentation of the consolidated basic statement of cash flows for the year ended June 30, 2018. Management believes that these reclassifications are not material to the previously issued consolidated basic financial statements.

### **3. Un-sponsored 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 implies 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, 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 years ended June 30, 2018 and 2017 were approximately 4.4% and 4.1%, respectively.

In addition to financial assistance, Shands 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.
- 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.

**Shands Teaching Hospital and Clinics, Inc. and Subsidiaries**  
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- 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 for the years ended June 30, 2018 and 2017 is as follows:

<i>(in thousands of dollars)</i>	<u>2018</u>	<u>2017</u>
Financial assistance provided	\$ 62,423	\$ 52,510
Government support applied to charity care	<u>(1,000)</u>	<u>(1,000)</u>
Net unreimbursed financial assistance	<u>61,423</u>	<u>51,510</u>
Benefits for the broader community		
Community health services	8,613	6,950
Health professions education	38,467	37,991
Research	18,379	18,343
Donations	<u>2,364</u>	<u>3,865</u>
Total quantifiable benefits for the broader community	<u>67,823</u>	<u>67,149</u>
Total unsponsored community benefits	<u>\$ 129,246</u>	<u>\$ 118,659</u>

The estimated cost of financial assistance provided was determined by applying Shands' overall cost to charge ratio to total charges foregone. Cost of benefits for the broader community represents actual expenses incurred.

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 in Gainesville, Florida. Shands also maintains air ambulance services at its trauma center, as well as a regional burn intensive care unit to help meet the emergency needs of citizens. Other specialty services provided at Shands' facilities include a transplant center of excellence 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, fund-raising, youth sponsorship, and other related activities.

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**4. Investments**

Investments are reported in the accompanying consolidated basic statements of net position as follows at June 30, 2018 and 2017:

<i>(in thousands of dollars)</i>	<u>2018</u>	<u>2017</u>
Current assets		
Short-term investments	\$ 122,200	\$ 154,768
Assets whose use is limited, current portion	<u>32,469</u>	<u>38,023</u>
	154,669	192,791
Long-term assets		
Assets whose use is limited, less current portion	515,538	517,902
Assets whose use is restricted	<u>28,180</u>	<u>39,910</u>
	<u>\$ 698,387</u>	<u>\$ 750,603</u>

Assets whose use is limited include investments internally designated by the Board and are comprised of the following at June 30, 2018 and 2017:

<i>(in thousands of dollars)</i>	<u>2018</u>	<u>2017</u>
Internally designated by the Board for:		
Capital improvements and debt service	\$ 548,007	\$ 548,918
Other health programs	<u>-</u>	<u>7,007</u>
	548,007	555,925
Less: Current portion	<u>(32,469)</u>	<u>(38,023)</u>
Long-term portion	<u>\$ 515,538</u>	<u>\$ 517,902</u>

Assets whose use is restricted are comprised of the following at June 30, 2018 and 2017:

<i>(in thousands of dollars)</i>	<u>2018</u>	<u>2017</u>
Held by trustees under indenture agreements	\$ 13,086	\$ 12,937
Held by counterparty under interest rate swap agreements	15,044	26,923
Held by insurance company under escrow agreement	<u>50</u>	<u>50</u>
	<u>\$ 28,180</u>	<u>\$ 39,910</u>

**Pooled Investments**

Shands, along with certain related organizations, 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.

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Shands holds membership units in the following Pooled Investment Funds:

- **Florida Global Equity Fund, LLC**, which invests in domestic and international equity and securities and equity funds;
- **Florida Global Fixed Income Fund, LLC**, which invests in domestic and international fixed income securities including intermediate government and corporate bonds;
- **Florida Hedged Strategies Fund, LLC**, which invests in domestic and international hedge funds and exchange traded funds; and
- **Florida Short-Term Fund, LP**, which invests in short-term corporate bonds, U.S. treasuries, other government securities, and cash and cash equivalents.

#### Direct Investments

Shands invests in various fixed income mutual funds and a fixed income high yield fund.

The Florida State Treasury operates a special investment program for public entities and is called the Special Purpose Investment Account ("SPIA"). The SPIA funds are combined with State Funds and are invested as part of the Florida Treasury Investment Pool. Shands maintains a direct investment in SPIA.

In addition, Shands 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, 2018 is as follows:

(in thousands of dollars)

	Fair Value	Investment Maturities			N/A
		Less Than 1 Year	1-5 Years	6-10 Years	
Pooled Investments:					
Florida Global Fixed Income Fund, LLC	\$ 197,544	\$ -	\$ -	\$ -	\$ 197,544
Florida Global Equity Fund, LLC	268,671	-	-	-	268,671
Florida Hedged Strategies Fund, LLC	81,839	-	-	-	81,839
	<u>548,054</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>548,054</u>
Direct Investments:					
Fixed income mutual funds	31,394	-	8,655	22,739	-
SPIA	103,542	-	103,542	-	-
Pantheon USA Fund V, L.P.	303	-	-	-	303
Money market funds	50	50	-	-	-
Cash collateral on deposit with interest rate swap counterparty	15,044	15,044	-	-	-
	<u>150,333</u>	<u>15,094</u>	<u>112,197</u>	<u>22,739</u>	<u>303</u>
	<u>\$ 698,387</u>	<u>\$ 15,094</u>	<u>\$ 112,197</u>	<u>\$ 22,739</u>	<u>\$ 548,357</u>

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The maturity of investments at June 30, 2017 is as follows:

(in thousands of dollars)

	Fair Value	Investment Maturities			N/A
		Less Than 1 Year	1-5 Years	6-10 Years	
Pooled Investments:					
Florida Short-Term Fund, LP	\$ 82,895	\$ -	\$ -	\$ -	\$ 82,895
Florida Global Fixed Income Fund, LLC	217,715	-	-	-	217,715
Florida Global Equity Fund, LLC	175,182	-	-	-	175,182
Florida Hedged Strategies Fund, LLC	33,856	-	-	-	33,856
	<u>509,648</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>509,648</u>
Direct Investments:					
Fixed income mutual funds	46,173	8,473	-	37,700	-
Fixed income high yield fund	46,321	-	-	-	46,321
SPIA	120,926	-	120,926	-	-
Pantheon USA Fund V, L.P.	562	-	-	-	562
Money market funds	50	50	-	-	-
Cash collateral on deposit with interest rate swap counterparty	26,923	26,923	-	-	-
	<u>240,955</u>	<u>35,446</u>	<u>120,926</u>	<u>37,700</u>	<u>46,883</u>
	<u>\$ 750,603</u>	<u>\$ 35,446</u>	<u>\$ 120,926</u>	<u>\$ 37,700</u>	<u>\$ 556,531</u>

**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.



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The credit risk profile of Shands' investments as of June 30, 2018 is as follows:

*(in thousands of dollars)*

	Fair Value	Ratings	
		Af	N/A
Pooled Investments:			
Florida Global Fixed Income Fund, LLC	\$ 197,544	\$ -	\$ 197,544
Florida Global Equity Fund, LLC	268,671	-	268,671
Florida Hedged Strategies Fund, LLC	81,839	-	81,839
	<u>548,054</u>	<u>-</u>	<u>548,054</u>
Direct Investments:			
Fixed income mutual funds	31,394	-	31,394
SPIA	103,542	103,542	-
Pantheon USA Fund V, L.P.	303	-	303
Money market funds	50	-	50
Cash collateral on deposit with interest rate swap counterparty	15,044	-	15,044
	<u>150,333</u>	<u>103,542</u>	<u>46,791</u>
	<u>\$ 698,387</u>	<u>\$ 103,542</u>	<u>\$ 594,845</u>

The credit risk profile of Shands' investments as of June 30, 2017 is as follows:

*(in thousands of dollars)*

	Fair Value	Ratings	
		Af	N/A
Pooled Investments:			
Florida Short-Term Fund, LP	\$ 82,895	\$ -	\$ 82,895
Florida Global Fixed Income Fund, LLC	217,715	-	217,715
Florida Global Equity Fund, LLC	175,182	-	175,182
Florida Hedged Strategies Fund, LLC	33,856	-	33,856
	<u>509,648</u>	<u>-</u>	<u>509,648</u>
Direct Investments:			
Fixed income mutual funds	46,173	-	46,173
Fixed income high yield fund	46,321	-	46,321
SPIA	120,926	120,926	-
Pantheon USA Fund V, L.P.	562	-	562
Money market funds	50	-	50
Cash collateral on deposit with interest rate swap counterparty	26,923	-	26,923
	<u>240,955</u>	<u>120,926</u>	<u>120,029</u>
	<u>\$ 750,603</u>	<u>\$ 120,926</u>	<u>\$ 629,677</u>

**Shands Teaching Hospital and Clinics, Inc. and Subsidiaries**  
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**Concentration of Credit Risk**

Investments in any one issuer that represent 5% or more of Shands' investment portfolio are required to be 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, 2018 and 2017, Shands did not have any investments that equaled or exceeded this threshold.

**Custodial Credit Risk**

As of June 30, 2018 and 2017, 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, 2018 and 2017.

Net investment income, including change in fair value, for the years ended June 30, 2018 and 2017 is as follows:

*(in thousands of dollars)*

	<u>2018</u>	<u>2017</u>
Pooled investment program income	\$ 23,405	\$ 32,563
Dividends, interest and other income	3,641	3,870
Net realized gains on investments	6,202	572
Net realized gains on interest rate swaps termination	-	204
Net decrease in fair value of investments	(6,298)	(80)
Net increase (decrease) in fair value of non-hedging interest rate swaps	4,089	(371)
	<u>\$ 31,039</u>	<u>\$ 36,758</u>

**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 classified in Level 1 of the fair value hierarchy are valued at quoted market prices for identical securities in active markets. The fixed income high yield fund classified in Level 2 of the fair value hierarchy is valued at market prices for similar securities in active markets.

# Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

## Notes to Consolidated Basic Financial Statements

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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, and under certain conditions, including liquidity needs, can redeem all of its investments with three business days notice.

Shands' investment in SPIA is measured at the NAV per share or its equivalent. SPIA invests in a combination of short-term liquid instruments and intermediate fixed income securities. A maximum of 40% can be redeemed with 5 days notice including \$20,000,000 with same day notice. The remaining 60% can be redeemed with 6 months notice. The 6 months notice can be waived by SPIA 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 1 to 3 years. The remaining unfunded commitment as of June 30, 2018 is approximately \$198,000.

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 the 2007A and 2007B total return swaps are estimated by multiplying each total return swap's notional amount by the difference between the base price and the current fair value of the underlying bonds. As the Series 2007A Bonds and Series 2007B Bonds are not actively trading, to replicate the fair value of these bonds, the prices were implied by applying a credit spread adjustment based on bonds with similar terms and similar issuers that are trading in active markets. Fair value of the interest rate swaps are included in Note 8.

Shands' long-term debt is classified in Level 2 of the fair value hierarchy. The fair value of fixed rate debt is estimated based on dealer quotes for hospital taxable and tax-exempt debt with similar terms and maturities and using discounted cash flow analyses based on current interest rates for similar types of borrowing arrangements. The fair value of variable rate debt approximates its carrying value. The carrying value of Shands' long-term debt was approximately \$825,222,000 and \$842,422,000 at June 30, 2018 and 2017, respectively. The fair value was approximately \$823,826,000 and \$835,001,000 at June 30, 2018 and 2017, respectively.

**Shands Teaching Hospital and Clinics, Inc. and Subsidiaries**  
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**6. Capital Assets**

A summary of changes in capital assets during fiscal years 2018 and 2017 is as follows:

<i>(in thousands of dollars)</i>	<b>Balance at June 30, 2017</b>	<b>Additions</b>	<b>Disposals and Transfers</b>	<b>Balance at June 30, 2018</b>
Land	\$ 49,701	\$ -	\$ -	\$ 49,701
Buildings and leasehold improvements	883,669	319,126	(345)	1,202,450
Equipment	470,734	120,911	(5,226)	586,419
Totals at historical cost	<u>1,404,104</u>	<u>440,037</u>	<u>(5,571)</u>	<u>1,838,570</u>
Less accumulated depreciation for:				
Buildings and leasehold improvements	(357,356)	(32,296)	322	(389,330)
Equipment	(374,934)	(39,242)	5,118	(409,058)
	<u>(732,290)</u>	<u>(71,538)</u>	<u>5,440</u>	<u>(798,388)</u>
Construction-in-progress	<u>309,347</u>	<u>122,101</u>	<u>(405,933)</u>	<u>25,515</u>
Capital assets, net	<u>\$ 981,161</u>	<u>\$ 490,600</u>	<u>\$ (406,064)</u>	<u>\$ 1,065,697</u>

<i>(in thousands of dollars)</i>	<b>Balance at June 30, 2016</b>	<b>Additions</b>	<b>Disposals and Transfers</b>	<b>Balance at June 30, 2017</b>
Land	\$ 49,593	\$ 108	\$ -	\$ 49,701
Buildings and leasehold improvements	854,483	35,839	(6,653)	883,669
Equipment	448,621	39,087	(16,974)	470,734
Totals at historical cost	<u>1,352,697</u>	<u>75,034</u>	<u>(23,627)</u>	<u>1,404,104</u>
Less accumulated depreciation for:				
Buildings and leasehold improvements	(337,173)	(26,836)	6,653	(357,356)
Equipment	(363,311)	(28,959)	17,336	(374,934)
	<u>(700,484)</u>	<u>(55,795)</u>	<u>23,989</u>	<u>(732,290)</u>
Construction-in-progress	<u>195,893</u>	<u>125,468</u>	<u>(12,014)</u>	<u>309,347</u>
Capital assets, net	<u>\$ 848,106</u>	<u>\$ 144,707</u>	<u>\$ (11,652)</u>	<u>\$ 981,161</u>

Depreciation and amortization expense (excluding amortization of goodwill) was approximately \$71,538,000 and \$55,795,000 for the years ended June 30, 2018 and 2017, respectively. Amortization expense on equipment under capital leases was approximately \$286,000 and \$316,000 for the years ended June 30, 2018 and 2017, respectively. Interest costs capitalized were approximately \$5,659,000 and \$9,939,000 for the years ended June 30, 2018 and 2017, respectively. For the years ended June 30, 2018 and 2017, fully depreciated capital assets with an original cost of approximately \$4,786,000 and \$22,433,000, respectively, were disposed of and are no longer in service.

Construction-in-progress at June 30, 2018 consists primarily of costs incurred for hospital building renovations. Retainage and construction payables were approximately \$16,387,000 and \$19,310,000 at June 30, 2018 and 2017, respectively.

**Shands Teaching Hospital and Clinics, Inc. and Subsidiaries**  
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**7. Long-Term Debt**

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

*(in thousands of dollars)*

	<u>2018</u>	<u>2017</u>
Health Facilities Tax Exempt Revenue Bonds		
Series 2007A, final maturity December 2037	\$ 100,395	\$ 100,395
Series 2007B, final maturity December 2037	35,000	35,000
Series 2008A, final maturity December 2037	49,990	49,990
Series 2008C, final maturity October 2028	39,375	43,125
Series 2010A, final maturity July 2025	45,340	48,523
Series 2012A, final maturity December 2037	28,965	32,365
Series 2012B, final maturity December 2037	31,650	35,360
Series 2014A, final maturity December 2044	250,000	250,000
Series 2014B, final maturity December 2034	50,000	50,000
Series 2016A, final maturity December 2030	46,600	46,600
	<u>677,315</u>	<u>691,358</u>
Taxable Notes		
Series 2013A, final maturity December 2042	125,000	125,000
Bank Note Payable, final maturity March 2019	1,140	2,640
	<u>126,140</u>	<u>127,640</u>
Installment debt, final maturity June 2024	3,123	3,769
	<u>806,578</u>	<u>822,767</u>
Net unamortized bond premium	18,644	19,655
Total long-term debt	825,222	842,422
Less: Current portion	(14,341)	(17,200)
Long-term portion	<u>\$ 810,881</u>	<u>\$ 825,222</u>

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Changes in Shands' long-term debt, excluding unamortized discounts or premiums were as follows:

*(in thousands of dollars)*

	<b>Balance at June 30, 2017</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance at June 30, 2018</b>	<b>Amounts Due Within One Year</b>
Health Facilities Tax Exempt Revenue Bonds					
Series 2007A, final maturity December 2037	\$ 100,395	\$ -	\$ -	\$ 100,395	\$ -
Series 2007B, final maturity December 2037	35,000	-	-	35,000	-
Series 2008A, final maturity December 2037	49,990	-	-	49,990	-
Series 2008C, final maturity October 2028	43,125	-	(3,750)	39,375	3,750
Series 2010A, final maturity July 2025	48,523	-	(3,183)	45,340	3,182
Series 2012A, final maturity December 2037	32,365	-	(3,400)	28,965	345
Series 2012B, final maturity December 2037	35,360	-	(3,710)	31,650	375
Series 2014A, final maturity December 2044	250,000	-	-	250,000	-
Series 2014B, final maturity December 2034	50,000	-	-	50,000	-
Series 2016A, final maturity December 2030	46,600	-	-	46,600	3,880
Taxable Notes					
Series 2013A, final maturity December 2042	125,000	-	-	125,000	-
Bank Note Payable, final maturity March 2019	2,640	-	(1,500)	1,140	1,140
Installment debt, final maturity June 2024	3,769	-	(646)	3,123	658
Total long-term debt	<u>\$ 822,767</u>	<u>\$ -</u>	<u>\$ (16,189)</u>	<u>\$ 806,578</u>	<u>\$ 13,330</u>

*(in thousands of dollars)*

	<b>Balance at June 30, 2016</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance at June 30, 2017</b>	<b>Amounts Due Within One Year</b>
Health Facilities Tax Exempt Revenue Bonds					
Series 1996A, final maturity December 2016	\$ 2,855	\$ -	\$ (2,855)	\$ -	\$ -
Series 2007A, final maturity December 2037	100,395	-	-	100,395	-
Series 2007B, final maturity December 2037	35,000	-	-	35,000	-
Series 2008A, final maturity December 2037	49,990	-	-	49,990	-
Series 2008C, final maturity October 2028	46,875	-	(3,750)	43,125	3,750
Series 2010A, final maturity July 2025	51,705	-	(3,182)	48,523	3,183
Series 2012A, final maturity December 2037	34,320	-	(1,955)	32,365	3,400
Series 2012B, final maturity December 2037	37,500	-	(2,140)	35,360	3,710
Series 2014A, final maturity December 2044	250,000	-	-	250,000	-
Series 2014B, final maturity December 2034	50,000	-	-	50,000	-
Series 2016A, final maturity December 2030	46,600	-	-	46,600	-
Taxable Notes					
Series 2013A, final maturity December 2042	125,000	-	-	125,000	-
Bank Note Payable, final maturity March 2019	4,100	-	(1,460)	2,640	1,500
Installment debt, final maturity June 2024	681	4,062	(974)	3,769	646
Total long-term debt	<u>\$ 835,021</u>	<u>\$ 4,062</u>	<u>\$ (16,316)</u>	<u>\$ 822,767</u>	<u>\$ 16,189</u>

The current portion of net unamortized bond premium was approximately \$1,011,000 as of June 30, 2018 and 2017.

**Shands Teaching Hospital and Clinics, Inc. and Subsidiaries**  
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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)*

<b>Year Ending June 30,</b>	<b>Debt Service Principal</b>	<b>Debt Service Interest</b>
2019	\$ 13,330	\$ 28,845
2020	12,276	28,541
2021	12,367	28,229
2022	12,464	27,918
2023	12,608	27,607
2024-2028	93,653	131,304
2029-2033	102,790	118,311
2034-2038	197,475	95,146
2039-2043	260,660	64,393
2044-2048	88,955	4,301
	<b>\$ 806,578</b>	<b>\$ 554,595</b>

Cash paid for interest, net of amounts capitalized, was approximately \$27,241,000 and \$22,892,000 for the years ended June 30, 2018 and 2017, respectively.

Shands entered into a Master Trust Indenture (“MTI”) with U.S. Bank, National Association (“U.S. Bank”) which serves as the primary financing document for Shands excluding Elder Care, Foundation, and joint ventures. All of Shands’ long-term debt is covered by the MTI with the exception of installment debt. Under the terms of the MTI, Shands has pledged a security interest in its gross revenues. The MTI provides for specific restrictive covenants, including a debt service coverage requirement. Shands was in compliance with all such restrictive covenants as of June 30, 2018 and 2017.

**Series 2007A and Series 2007B Health Facilities Revenue Bonds**

In March 2007, the Authority issued the Series 2007A Health Facilities Revenue Bonds (“Series 2007A Bonds”) and the Series 2007B Health Facilities Revenue Bonds (“Series 2007B Bonds”) on behalf of Shands. The proceeds of the Series 2007A Bonds were used to finance capital improvement projects and pay related costs of issuance. The proceeds of the Series 2007B Bonds were used to partially refund outstanding principal of the Series 1996A Health Facilities Revenue Bonds and pay related costs of issuance.

The Series 2007A Bonds and Series 2007B Bonds are variable rate bonds based upon 67% of three month London Interbank Offered Rate (“LIBOR”) plus 0.87%. The interest rate on the bonds is reset quarterly and the interest rate was 2.41% and 1.68% at June 30, 2018 and 2017, respectively. The Series 2007A Bonds and Series 2007B Bonds maturing on or after June 1, 2017 are redeemable at Shands’ option at par value.

# Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

## Notes to Consolidated Basic Financial Statements

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#### **Series 2008A Health Facilities Revenue Bonds**

In June 2008, the Authority issued the Series 2008A Health Facilities Revenue Bonds ("Series 2008A Bonds") on behalf of Shands. 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 1.23% and 0.89% at June 30, 2018 and 2017, respectively. The Series 2008A Bonds are backed by a bank letter of credit for approximately \$50,709,000 that expires in December 2020. There were no amounts outstanding under this letter of credit at June 30, 2018 and 2017. The Series 2008A Bonds are redeemable at the option of Shands at par value plus accrued interest at any interest payment date.

#### **Series 2008C Health Facilities Revenue Bonds**

In November 2008, the Authority issued the Series 2008C Health Facilities Revenue Bonds ("Series 2008C Bonds") on behalf of Shands. The proceeds of the Series 2008C Bonds were used to refund the Series 1996B Health Facilities Revenue Bonds and 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 2.59% and 1.98% at June 30, 2018 and 2017, respectively.

#### **Series 2010A Health Facilities Revenue Bonds**

In June 2010, the Authority issued the Series 2010A Health Facilities Revenue Bonds ("Series 2010A Bonds") on behalf of Shands. The proceeds of the Series 2010A Bonds were used to finance capital improvement projects and pay related costs of issuance.

The Series 2010A Bonds are variable rate bonds based upon 65% of one month LIBOR plus 1.105% with a minimum rate floor of 1.29%. The interest rate on the Series 2010A Bonds was 2.39% and 1.79% at June 30, 2018 and 2017, respectively.

#### **Series 2012A and Series 2012B Health Facilities Revenue Bonds**

In December 2012, the Authority issued the Series 2012A Health Facilities Revenue Bonds ("Series 2012A Bonds") and the Series 2012B Health Facilities Revenue Bonds ("Series 2012B Bonds") on behalf of Shands. The proceeds of the Series 2012A Bonds and Series 2012B Bonds were used to refund outstanding principal of the Series 2008B Health Facilities Revenue Bonds and partially refund outstanding principal of the Series 2008A Bonds.

The Series 2012A Bonds and Series 2012B Bonds are variable rate bonds based upon 67% of one month LIBOR plus 0.85% and 67% of one month LIBOR plus 0.93%, respectively. The interest rate on the Series 2012A Bonds and Series 2012B Bonds was 2.18% and 2.26%, respectively, at June 30, 2018 and 1.55% and 1.63%, respectively, at June 30, 2017.

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

In October 2014, the Authority 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 Shands. The proceeds of the Series 2014A Bonds and Series 2014B Bonds were used to finance capital improvement projects and pay related costs of issuance.



# Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

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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 Shands' option at par value.

#### **Series 2016A Health Facilities Revenue Refunding Bonds**

In May 2016, the Authority issued the Series 2016A Health Facilities Revenue Refunding Bonds ("Series 2016A Bonds") on behalf of Shands. The proceeds of the Series 2016A Bonds were used to advance refund the Series 2008D1 Health Facilities Revenue Bonds ("Series 2008D1 Bonds") and Series 2008D2 Health Facilities Revenue Bonds ("Series 2008D2 Bonds") and pay related costs of issuance. As of June 30, 2018 and 2017, the amount of the Series 2008D1 Bonds and Series 2008D2 Bonds that were advance refunded and still outstanding were \$21,715,000 and \$22,625,000, respectively.

The interest rate on the Series 2016A Bonds was fixed at 2.15% through January 31, 2018 and is fixed at 2.50% effective February 1, 2018 and is payable quarterly.

#### **Series 2013A Taxable Notes**

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

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

#### **Bank Note**

In 2012, PNC Bank issued a seven year taxable loan to Shands to finance a property purchase, renovations, and equipment. The interest rate on the loan is fixed at 2.08%. Principal and interest payments are payable monthly through final maturity in March 2019.

# Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

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#### 8. Interest Rate Swaps

On June 30, 2018 and 2017, Shands had the following derivative instruments outstanding:

(in thousands of dollars)

Item	Type	Objective	Shands Notional Amount	Counterparty Notional Amount	Effective Date	Maturity or Termination Date	Terms	2018 Fair Value	2017 Fair Value
2007A	Fixed rate payer interest rate swap	Hedge of changes in cash flows on the Series 2007A Bonds	\$ 100,395	\$ 100,395	3/30/2007	12/01/2037	Pay fixed rate of 4.349%. Receive 67% of three month LIBOR plus 87 basis points.	\$ (19,377)	\$ (26,112)
2007B	Fixed rate payer interest rate swap	Hedge of changes in cash flows on the Series 2007B Bonds	\$ 35,000	\$ 35,000	3/30/2007	12/01/2037	Pay fixed rate of 4.349%. Receive 67% of three month LIBOR plus 87 basis points.	\$ (5,919)	\$ (8,133)
2007A	Total return interest rate swap	Hedge of changes in cash flows on the Series 2007A Bonds	\$ 27,950	\$ 40,000	1/27/2011	01/01/2023	Pay SIFMA Municipal Swap Index rate plus 100 basis points. Receive 67% of three month LIBOR plus 87 basis points.	\$ 9,235	\$ 7,456
2007A	Total return interest rate swap	Hedge of changes in cash flows on the Series 2007A Bonds	\$ 14,900	\$ 20,000	1/10/2014	01/01/2023	Pay SIFMA Municipal Swap Index rate plus 100 basis points. Receive 67% of three month LIBOR plus 87 basis points.	\$ 3,339	\$ 2,419
2007B	Total return interest rate swap	Hedge of changes in cash flows on the Series 2007B Bonds	\$ 24,456	\$ 35,000	1/27/2011	01/01/2023	Pay SIFMA Municipal Swap Index rate plus 100 basis points. Receive 67% of three month LIBOR plus 87 basis points.	\$ 8,344	\$ 6,954
2008A	Fixed rate payer interest rate swap	Hedge of changes in cash flows on the Series 2008A Bonds	\$ 49,990	\$ 49,990	11/07/2007	12/01/2037	Pay fixed rate of 3.538%. Receive 67% of one month LIBOR.	\$ (10,534)	\$ (13,942)
2008C	Fixed rate payer interest rate swap	Hedge of changes in cash flows on the Series 2008C Bonds	\$ 39,375	\$ 39,375	11/05/2008	10/02/2028	Pay fixed rate of 4.18%. Receive 65% of one month LIBOR plus 130 basis points.	\$ (2,039)	\$ (3,622)
								<u>\$ (16,951)</u>	<u>\$ (34,980)</u>

At June 30, 2018, approximately \$20,918,000 and \$37,869,000 and at June 30, 2017, approximately \$16,829,000 and \$51,809,000 related to the fair value of interest rate swaps are recorded in other assets and other liabilities, respectively, in the accompanying consolidated basic statements of net position.

#### Credit Risk

Shands has sought to limit its counterparty risk. As of June 30, 2018 and 2017, the Moody's and Standard & Poor's credit ratings for the counterparty for the swap agreements, with the exception of the 2007A total return swap agreement effective January 10, 2014 and the 2008C interest rate swap agreement, were Baa2/NR. The Moody's and Standard & Poor's credit ratings for the counterparty of the 2007A total return swap agreement effective January 10, 2014 were Aa3/A+ and A1/A+, respectively, and the Moody's and Standard & Poor's credit ratings for the counterparty of the 2008C interest rate swap agreement were Baa2/BBB+. The counterparty for all of the interest rate swap agreements, with the exception of the 2008A and 2008C interest rate swap agreements, may be required to post collateral if the fair value of the interest rate swap is positive and meets certain thresholds. Collateral in the amount of approximately \$16,275,000 and \$12,290,000 was required to be posted by the counterparty with Shands as of June 30, 2018 and 2017, respectively.

# Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

## Notes to Consolidated Basic Financial Statements

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#### **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. The 2007A and 2007B total return swaps are structured in a receive variable, pay variable rate mode and hedge the cash flows associated with the Series 2007A Bonds and Series 2007B Bonds.

#### **Basis Risk**

Shands is exposed to basis risk on its 2008A fixed rate payer swap agreement 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, which is remarketed in varying amounts and at various dates. As of June 30, 2018 and 2017, the weighted variable interest rate on Shands' hedged variable rate debt is 1.23% and 0.89%, respectively, while the swap index is 67% of one month LIBOR, or 1.41% and 0.82%, respectively.

Shands is exposed to basis risk on its 2007A and 2007B total return swap agreements because the variable-rate payments received by Shands are based on a rate or index other than the rate paid by Shands on the respective notional amounts. As of June 30, 2018 and 2017, the swap index rate received by Shands is 67% of three month LIBOR plus 87 basis points, or 2.41% and 1.68%, respectively, while the swap index rate paid by Shands is SIFMA Municipal Swap Index rate plus 100 basis points, or 2.51% or 1.91%, respectively.

#### **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**

Several of Shands' interest rate swap agreements require collateral to be posted if the fair value of the interest rate swap is negative and meets certain thresholds. The threshold amount depends on Shands' unenhanced credit rating as determined by Moody's and Standard & Poor's. Collateral in the amount of approximately \$15,044,000 and \$26,923,000 was required to be posted by Shands with the counterparty as of June 30, 2018 and 2017, respectively.

## **9. Retirement Benefit Plans**

#### **Defined Contribution Plans**

Shands sponsors two defined contribution plans that cover eligible employees, the Shands HealthCare Matched Savings Account 403(b) Plan ("403(b) Plan") and the Shands HealthCare Matched Savings Account 401(a) Plan ("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, Shands makes a non-elective 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. Shands' contributions to the 401(a) Plan were approximately \$34,528,000 and \$31,666,000 for the years ended June 30, 2018 and 2017, respectively.

**Shands Teaching Hospital and Clinics, Inc. and Subsidiaries**  
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**Defined Benefit Pension Plan**

**Plan Description**

On June 1, 2018, the Shands HealthCare Pension Plan (the “Predecessor Plan”) was terminated and the Shands HealthCare Pension Plan II (the “Successor Plan”) was established. Terminating the Predecessor Plan facilitated the payment of lump-sum distributions to certain participants and reduced plan administration expenses. All of the Predecessor Plan assets and liabilities as of June 1, 2018 were transferred to the Successor Plan. The provisions in the Successor Plan are essentially identical to the provisions in the Predecessor Plan. The Predecessor Plan and the Successor Plan are hereinafter referred to as the “Plan”.

The Plan is a single employer defined benefit pension plan covering eligible employees (as defined by the Plan) of Shands Teaching Hospital and Clinics, Inc. (“Plan Sponsor”) who were hired as of June 30, 2010. The Plan was subsequently 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.

**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 employee’s 5 highest years average annual compensation times 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 receiving 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 benefits through the 401(a) Plan.

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 ending the preceding June 30. The increase is limited to 3% per year.

**Employees Covered by Benefit Terms**

At June 30, 2017, the measurement date for the pension liability, the following employees were covered by the benefit terms:

Participant data as of July 1, 2016

Active	4,662
Terminated vested	2,756
Retired	2,509
	<hr/>
	9,927
	<hr/>

# Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

## Notes to Consolidated Basic Financial Statements

### June 30, 2018 and 2017

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#### **Contributions**

The Plan Sponsor's funding policy is 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, the Plan Sponsor may contribute an amount above the required contribution. The Plan Sponsor's contributions of approximately \$29,279,000 and \$29,036,000 for the years ended June 30, 2018 and 2017, respectively, exceeds the minimum funding requirements of ERISA.

#### **Net Pension Asset/Liability**

The Shands' net pension asset as of June 30, 2018 was based on a measurement date of June 30, 2017. The total pension liability used to calculate the net pension liability as of June 30, 2017 was determined based on the results of an actuarial valuation as of July 1, 2016 projected forward to June 30, 2017 using standard actuarial techniques.

The total pension liability in the July 1, 2016 actuarial valuation was determined based on census data as of July 1, 2016, and the following actuarial assumptions:

Investment Rate of Return: 6.75%, net of pension plan investment expense, including inflation.

Salary increases: Not applicable

Inflation: 1.01% for the period July 1, 2016 through June 30, 2017, 1.10% for the period July 1, 2017 through June 30, 2018, and 2.0% per year thereafter.

Retirement Growth Account Interest Crediting Rate: 3.42% for the period July 1, 2016 through June 30, 2017, 3.17% for the period July 1, 2017 through June 30, 2018, and 4.10% per year thereafter. The 3.42% and 3.17% rates represent actual interest rate credited in each respective period.

Mortality rates were based upon the RP-2014 base mortality rates published in 2014 by the Society of Actuaries, adjusted to remove post-2006 improvement projections with future improvements in mortality from 2016 using the Mercer Modified Scale MMP-2016 applied on a generational basis.

The actuarial assumptions used in the July 1, 2016 valuation related to retirement and termination rates were based on the results of an actual experience study conducted in 2015 which assessed actual experience for the period July 1, 2010 through March 31, 2015.

**Shands Teaching Hospital and Clinics, Inc. and Subsidiaries**  
**Notes to Consolidated Basic Financial Statements**  
**June 30, 2018 and 2017**

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:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Real Rate of Return</b>
Domestic Equity	26.0%	4.55%
International Equity	26.0%	4.75%
Core Fixed Income	12.5%	1.70%
Long Duration Fixed Income	10.0%	2.15%
Long Credit Fixed Income	10.0%	2.80%
High Yield Fixed Income	8.0%	3.40%
Private Equity	7.5%	7.45%
Total	100.0%	

The discount rate used to measure the total pension liability was 6.75%. 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.

Changes in the net pension (asset) liability are summarized in the following table:

*(in thousands of dollars)*

	<b>Increase (Decrease)</b>		
	<b>Total Pension Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net Pension (Asset) Liability (a)-(b)</b>
Balances at June 30, 2017	\$ 802,009	\$ 766,311	\$ 35,698
Changes for the year:			
Interest	52,705	-	52,705
Difference between expected and actual experience	3,939	-	3,939
Employer contributions	-	29,036	(29,036)
Net investment income	-	106,241	(106,241)
Benefit payments	(42,399)	(42,399)	-
Administrative expense	-	(8,019)	8,019
Changes of assumptions	(12,589)	-	(12,589)
Net changes	1,656	84,859	(83,203)
Balances at June 30, 2018	\$ 803,665	\$ 851,170	\$ (47,505)

**Shands Teaching Hospital and Clinics, Inc. and Subsidiaries**  
**Notes to Consolidated Basic Financial Statements**  
**June 30, 2018 and 2017**

The recurring fair value measurement of the Plan fiduciary net position at June 30, 2018 is as follows:

(in thousands of dollars)

	Fair Value	Quoted Prices in Active Markets for Identical Securities (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments by fair value level</b>				
Fixed income funds	\$ 333,002	\$ 154,568	\$ 178,434	\$ -
Equity funds	270,656	-	270,656	-
Common stock	215,646	215,646	-	-
<b>Total Investments by fair value level</b>	<b>819,304</b>	<b>\$ 370,214</b>	<b>\$ 449,090</b>	<b>\$ -</b>
<b>Investments measured at the NAV</b>				
Private equity funds	28,920			
<b>Total Investments measured at the NAV</b>	<b>28,920</b>			
<b>Total Investments measured at fair value</b>	<b>848,224</b>			
<b>Other</b>				
Other plan assets, net	2,946			
	<b>\$ 851,170</b>			

The recurring fair value measurement of the Plan fiduciary net position at June 30, 2017 is as follows:

(in thousands of dollars)

	Fair Value	Quoted Prices in Active Markets for Identical Securities (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments by fair value level</b>				
Fixed income funds	\$ 329,844	\$ 153,734	\$ 176,110	\$ -
Equity funds	223,843	-	223,843	-
Common stock	176,354	176,354	-	-
<b>Total Investments by fair value level</b>	<b>730,041</b>	<b>\$ 330,088</b>	<b>\$ 399,953</b>	<b>\$ -</b>
<b>Investments measured at the NAV</b>				
Private equity funds	32,820			
<b>Total Investments measured at the NAV</b>	<b>32,820</b>			
<b>Total Investments measured at fair value</b>	<b>762,861</b>			
<b>Other</b>				
Other plan assets, net	3,450			
	<b>\$ 766,311</b>			

Fixed income mutual funds and common stock classified in Level 1 of the fair value hierarchy are valued at quoted market prices for identical assets in active markets. The core fixed income fund, fixed income high yield fund and equity funds classified in Level 2 of the fair value hierarchy are valued at market prices for similar assets in active markets. Private equity funds are measured at the NAV per share or its equivalent.

**Shands Teaching Hospital and Clinics, Inc. and Subsidiaries**  
**Notes to Consolidated Basic Financial Statements**  
**June 30, 2018 and 2017**

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

The following presents Shands' net pension (asset) liability calculated using the discount rate of 6.75%, as well as the net pension (asset) liability using a discount rate that is 1% lower (5.75%) or 1% higher (7.75%):

*(in thousands of dollars)*

	<u>1% Decrease (5.75%)</u>	<u>Current Discount Rate (6.75%)</u>	<u>1% Increase (7.75%)</u>
Net pension (asset) liability	\$ 48,974	\$ (47,505)	\$ (127,495)

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

Shands recognized pension expense of approximately \$3,247,000 and \$23,058,000 for the years ended June 30, 2018 and 2017, respectively. At June 30, 2018, Shands reported deferred outflows of resources and deferred inflows of resources related to defined benefit pension from the following sources:

*(in thousands of dollars)*

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 2,960	\$ 1,317
Changes of assumptions	15,823	25,394
Net differences between projected and actual earnings on pension plan investments	-	16,820
Contributions made during the year ended June 30, 2018 not yet recognized in fiduciary net position	29,279	-
Total	<u>\$ 48,062</u>	<u>\$ 43,531</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to defined benefit pension will be recognized as a net (reduction) in pension expense as follows:

*(in thousands of dollars)*

**Year ending June 30**

2019	\$ (4,792)
2020	(5,768)
2021	(3,174)
2022	(11,014)
Thereafter	-

**Payable to the Defined Benefit Pension Plan**

As of June 30, 2018 and 2017, there are no payables to the Plan.



**Shands Teaching Hospital and Clinics, Inc. and Subsidiaries**  
**Notes to Consolidated Basic Financial Statements**  
**June 30, 2018 and 2017**

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**10. Commitments and Contingencies**

**Lease Agreements**

Shands 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. The contractual agreement also provided for the transfer to Shands of all other assets and liabilities arising from the operation of the Shands facilities prior to July 1, 1980. At termination of the contractual agreement, the net assets of Shands revert to the State Board of Education. Legal title to all buildings and improvements transferred to Shands remains with the State of Florida 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 Shands. In addition, the contractual agreement limits the right of the State Board of Education to terminate the contractual agreement solely to the circumstance when Shands 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 Shands' debts.

Under the terms of the contractual agreement, Shands 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.

In connection with its minority interest in Lake Shore HMA, LLC, Shands provides a 40% guaranty and CHS provides a 60% guaranty on lease payments to the Lake Shore Hospital Authority. The monthly lease payments are approximately \$45,000 at June 30, 2018 and are subject to annual increases based upon the change in the Consumer Price Index. The lease expires June 30, 2040.

The following is a schedule, by year, of future minimum lease payments under capital and noncancelable operating leases together with the present value of net minimum capital lease payments as of June 30, 2018:

*(in thousands of dollars)*

<b>Year Ending</b>	<b>Capital Leases</b>	<b>Operating Leases</b>
2019	\$ 283	\$ 3,036
2020	294	2,623
2021	297	2,117
2022	308	1,822
2023	313	1,187
Thereafter	691	2,795
Total minimum lease payments	2,186	\$ 13,580
Less: Amount representing interest	(341)	
Present value of net minimum lease payments	<u>\$ 1,845</u>	

# Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

## Notes to Consolidated Basic Financial Statements

### June 30, 2018 and 2017

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Operating lease expense for the rental of property and equipment for the years ended June 30, 2018 and 2017 was approximately \$6,221,000 and \$5,661,000, respectively. At June 30, 2018 and 2017, gross assets under capital leases included in capital assets were approximately \$2,361,000 and \$3,030,000, respectively. Accumulated amortization on capital leases as of June 30, 2018 and 2017 was approximately \$534,000 and \$917,000, respectively.

#### **Commitments**

Shands has contracts for the construction and renovation of facilities and equipment purchases. As of June 30, 2018, the remaining commitments relating to these contracts were approximately \$28,361,000.

Shands has contracts for the maintenance of computer application software for its core operating systems. As of June 30, 2018, the remaining commitments relating to these contracts were approximately \$4,462,000.

#### **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; 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 years ended June 30, 2018 and 2017.

Shands was granted sovereign immunity under the provision of Chapter 2011-114, Laws of Florida, and further codified in 768.28(2), Florida Statutes. As such, recovery in tort actions are limited to \$200,000 for any one person for one incident and all recovery related to one incident are limited to a total of \$300,000.

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.

#### **Health Insurance**

Shands participates with other related party employers controlled by UF including Shands Jacksonville Medical Center ("SJMC"), University of Florida Foundation, Inc. ("UF Foundation"), UFICO, and other eligible employees of UF in "GatorCare", a self-insured health plan, to provide health and pharmaceutical coverage to its employees. GatorCare Health Management Corporation ("GCHMC") 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.

# Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

## Notes to Consolidated Basic Financial Statements

### June 30, 2018 and 2017

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Expenses, net of employee contributions, related to the health and pharmaceutical plan for the years ended June 30, 2018 and 2017 were approximately \$77,872,000 and \$69,118,000, respectively.

In addition, Shands provided certain other postemployment benefits ("OPEB") for eligible active and retired employees through the Shands Retiree Medical Plan up until the date of plan termination. The Retiree Medical Plan was terminated effective December 31, 2016. OPEB income was approximately \$3,260,000 for the year ended June 30, 2017. As a result of the termination of the OPEB plan, there was no liability as of June 30, 2018 and 2017.

#### **Workers' Compensation Insurance**

Shands is self-insured for workers' compensation up to \$600,000 per occurrence for the years ended June 30, 2018 and 2017. Shands has purchased excess coverage from a commercial carrier up to the amount allowed by Florida Statutes. Total workers' compensation expense for the years ended June 30, 2018 and 2017 was approximately \$1,736,000 and \$702,000, respectively.

#### **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 nonprofit 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 Shands' consolidated basic financial statements.

#### **11. 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 \$187,311,000 and \$181,257,000 for the years ended June 30, 2018 and 2017, respectively, of which approximately \$68,062,000 and \$66,328,000 for the years ended June 30, 2018 and 2017, respectively, are transfers and expenditures in support of UF and its health science colleges included in the accompanying consolidated basic statements of revenues, expenses and changes in net position. At June 30, 2018 and 2017, approximately \$13,338,000 and \$9,850,000, respectively, was owed to UF under these agreements and is included in accounts payable and accrued expenses in the accompanying consolidated basic statements of net position.

Shands provides contracted services at cost to UF in support of its health science colleges, including non-physician medical professional services, telephone communication, and various other services. The amount credited against expenses for these contracted services was approximately \$107,138,000 and \$97,880,000 for the years ended June 30, 2018 and 2017,

# Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

## Notes to Consolidated Basic Financial Statements

### June 30, 2018 and 2017

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respectively. At June 30, 2018 and 2017, approximately \$7,476,000 and \$7,419,000, respectively, was owed to Shands under these agreements and is included in prepaid expenses and other current assets in the accompanying consolidated basic statements 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 years ended June 30, 2018 and 2017 was approximately \$15,273,000 and \$16,005,000, respectively. At June 30, 2018 and 2017, approximately \$2,316,000 and \$2,156,000, respectively, was owed to Shands and is included in prepaid expenses and other current assets in the accompanying consolidated basic statements 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 \$2,358,000 and \$2,550,000 for the years ended June 30, 2018 and 2017, respectively. At June 30, 2017, approximately \$10,000 was owed to UFSIP and is included in accounts payable and accrued expenses in the accompanying consolidated basic statement of net position.

Shands has an investment management agreement with UFICO to manage a portion of its investments. UFICO was created by the UF Trustees for the purpose of managing assets held by UF and its related corporations. As of June 30, 2018 and 2017, the fair value of investments managed by UFICO on Shands' behalf was approximately \$548,054,000 and \$509,648,000, respectively. Investment management fees of approximately \$675,000 and \$492,000 were incurred for the years ended June 30, 2018 and 2017, respectively. At June 30, 2018, approximately \$63,000 was owed to UFICO and is included in accounts payable and accrued expenses in the accompanying consolidated basic statement of net position. At June 30, 2017, a rebate of approximately \$40,000 was owed to Shands and is included in prepaid expenses and other current assets in the accompanying consolidated basic statement of net position.

Shands provides contracted services at cost to SJMC for administrative and information technology support services. The amount credited against expenses for these contracted services was approximately \$7,372,000 and \$6,896,000 for the years ended June 30, 2018 and 2017, respectively. At June 30, 2018 and 2017, approximately \$1,080,000 and \$594,000, respectively, was owed to Shands under these agreements and is included in prepaid expenses and other current assets in the accompanying consolidated basic statements of net position.

SJMC provides organ procurement services for Shands. Expenses related to these services were approximately \$251,000 and \$357,000 for the years ended June 30, 2018 and 2017, respectively.

At June 30, 2018 and 2017, Shands had a note receivable of approximately \$15,321,000 and \$16,215,000, respectively, due from SJMC. Shands receives quarterly payments of approximately \$402,000 including interest of 4.5% and the note matures on October 1, 2030. The current portion of the note receivable of approximately \$936,000 and \$894,000 is included in prepaid expenses and other current assets and the long-term portion of the note receivable of approximately \$14,385,000 and \$15,321,000 at June 30, 2018 and 2017, respectively, is included in other assets in the accompanying consolidated basic statements of net position.

**Shands Teaching Hospital and Clinics, Inc. and Subsidiaries**  
**Notes to Consolidated Basic Financial Statements**  
**June 30, 2018 and 2017**

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GCHMC collects funds from Shands for health and pharmacy insurance coverage for eligible employees. GCHMC pays the health and pharmacy claims on behalf of Shands. Funds provided by Shands to GCHMC for the years ended June 30, 2018 and 2017 were approximately \$87,664,000 and \$78,324,000, respectively. At June 30, 2018 and 2017, approximately \$10,391,000 and \$16,677,000, respectively, was due from GCHMC and is included in other assets in the accompanying consolidated basic statements of net position.

Shands provides administrative services to GCHMC. The amount credited against expenses for these contracted services for the years ended June 30, 2018 and 2017 was approximately \$1,021,000 and \$831,000, respectively. At June 30, 2018 and 2017, approximately \$311,000 and \$214,000, respectively, was owed to Shands and is included in prepaid expenses and other current assets in the accompanying consolidated basic statements of net position.

Shands provides pharmacy discounts to GCHMC through March 31, 2018. The discounts for the years ended June 30, 2018 and 2017 were approximately \$203,000 and \$300,000, respectively. At June 30, 2018 and 2017, approximately \$17,000 and \$158,000, respectively, was owed to GCHMC and is included in accounts payable and accrued expenses in the accompanying consolidated basic statements of net position.

Shands leases medical and administrative space from Innovation Square. Expense associated with the leased space was approximately \$381,000 and \$357,000 for the years ended June 30, 2018 and 2017, respectively. At June 30, 2017, approximately \$4,000 was owed to Innovation Square and is included in accounts payable and accrued expenses in the accompanying consolidated basic statement of net position.

**12. 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. Shands does not charge interest on accounts receivable. The composition of receivables from third-party payors is as follows:

	<u>2018</u>	<u>2017</u>
Medicare (includes HMOs)	27.3%	31.2%
Medicaid (includes HMOs)	15.7%	18.1%
Blue Cross	21.2%	17.8%
Commercial	3.8%	5.4%
Managed Care	23.3%	19.8%
Other third-party payors	<u>8.7%</u>	<u>7.7%</u>
	<u>100.0%</u>	<u>100.0%</u>

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 what management believes to be high-quality financial institutions and thus limits its credit exposure. Shands has deposits in excess of the federal insured amount of \$250,000. Management does not anticipate nonperformance risk by the financial institutions.

**Shands Teaching Hospital and Clinics, Inc. and Subsidiaries**  
**Notes to Consolidated Basic Financial Statements**  
**June 30, 2018 and 2017**

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**13. Subsequent Events**

Shands has assessed the impact of subsequent events through September 26, 2018, the date the audited consolidated basic financial statements were issued, and has concluded that there were no such events that require adjustment to the consolidated basic financial statements or disclosure in the notes to the consolidated basic financial statements.

**Shands Teaching Hospital and Clinics, Inc. and Subsidiaries**  
**Schedule of Changes in the Net Pension (Asset) Liability and Related Ratios**  
**(Unaudited)**  
**June 30, 2018 and 2017**

<i>(in thousands of dollars)</i>	<u>2018</u>	<u>2017</u>
Total pension liability		
Service cost	\$ -	\$ -
Interest	52,705	55,175
Changes of benefit terms	-	-
Differences between expected and actual experience	3,939	(2,690)
Benefit payments	(42,399)	(91,115)
Changes of assumptions	<u>(12,589)</u>	<u>(33,065)</u>
Net change in total pension liability	1,656	(71,695)
Total pension liability – beginning	<u>802,009</u>	<u>873,704</u>
Total pension liability – ending (a)	<u>\$ 803,665</u>	<u>\$ 802,009</u>
Plan fiduciary net position		
Employer contributions	\$ 29,036	\$ 21,863
Net investment income	106,241	5,857
Benefit payments	(42,399)	(91,115)
Administrative expense	<u>(8,019)</u>	<u>(7,985)</u>
Net change in plan fiduciary net position	84,859	(71,380)
Plan fiduciary net position – beginning	<u>766,311</u>	<u>837,691</u>
Plan fiduciary net position – ending (b)	<u>\$ 851,170</u>	<u>\$ 766,311</u>
Net pension (asset) liability – ending (a)-(b)	<u>\$ (47,505)</u>	<u>\$ 35,698</u>
Plan fiduciary net position as a percentage of total pension liability	105.91%	95.55%

**Notes to Schedule**

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 of assumptions 2018:*

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

*Changes of assumptions 2017:*

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

**Shands Teaching Hospital and Clinics, Inc. and Subsidiaries**  
**Schedule of Employer Contributions (Unaudited)**  
**July 1, 2007 Through June 30, 2018**

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*(in thousands of dollars)*

	<u>2018</u>	<u>2017</u>
Actuarially determined contribution	\$ -	\$ -
Contributions in relation to the actuarially determined contribution	<u>29,279</u>	<u>29,036</u>
Contribution excess	<u>\$ (29,279)</u>	<u>\$ (29,036)</u>

**Notes to Schedule**

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.

Assumptions and methods used to determine those contributions vary by year, but for the most recent year are:

Valuation date	July 1, 2017
Actuarial cost method	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.
Inflation	2.00%
Discount rates	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
Retirement 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-2000 mortality tables and projected with improvement to the valuation year plus 7, and 15 years based on Scale AA.



**Shands Teaching Hospital and Clinics, Inc. and Subsidiaries**  
**Consolidating Basic Statements of Net Position**  
**June 30, 2018**

(In thousands of dollars)

	UF Health Shands Hospital	UF Health Shands Psychiatric Hospital	UF Health Shands Rehab Hospital	Eliminations	Total Alachua County Hospital Group	UF Health Shands Home Care	Property Management	Eliminations	Total Obligated Group	Other	Eliminations	Consolidated Total
<b>Assets</b>												
Current assets												
Cash and cash equivalents	\$ 24,788	\$ 1	\$ -	\$ -	\$ 24,789	\$ -	\$ -	\$ -	\$ 24,789	\$ 12,533	\$ -	\$ 37,322
Short-term investments	122,152	-	-	-	122,152	-	-	-	122,152	48	-	122,200
Patient accounts receivable, net	215,879	3,472	2,903	-	222,254	1,998	-	-	224,252	1,106	-	225,358
Inventories	22,577	-	-	-	22,577	-	-	-	22,577	-	-	22,577
Prepaid expenses and other current assets	57,156	640	1,057	(1,009)	57,844	42	-	-	57,886	1,191	-	59,077
Assets whose use is limited, current portion	32,469	-	-	-	32,469	-	-	-	32,469	-	-	32,469
Total current assets	475,021	4,113	3,960	(1,009)	482,085	2,040	-	-	484,125	14,878	-	499,003
Assets whose use is limited, less current portion	515,538	-	-	-	515,538	-	-	-	515,538	-	-	515,538
Assets whose use is restricted	28,180	-	-	-	28,180	-	-	-	28,180	-	-	28,180
Capital assets, net	1,048,621	8,571	1,270	-	1,058,462	1,358	4,343	-	1,064,163	1,534	-	1,065,697
Due from affiliates, net	5,677	2	-	-	5,679	24	214	-	5,917	-	(5,917)	-
Other assets	106,883	6	-	-	106,889	-	-	-	106,889	19,186	-	126,075
Total assets	2,179,920	12,692	5,230	(1,009)	2,196,833	3,422	4,557	-	2,204,812	35,598	(5,917)	2,234,493
<b>Deferred outflows of resources</b>												
Accumulated decrease in fair value of hedging derivatives	35,073	-	-	-	35,073	-	-	-	35,073	-	-	35,073
Deferred loss on debt refunding	336	-	-	-	336	-	-	-	336	-	-	336
Deferred outflows on pension	48,062	-	-	-	48,062	-	-	-	48,062	-	-	48,062
Total deferred outflows of resources	83,471	-	-	-	83,471	-	-	-	83,471	-	-	83,471
<b>Liabilities</b>												
Current liabilities												
Long-term debt, current portion	14,341	-	-	-	14,341	-	-	-	14,341	-	-	14,341
Capital lease obligations, current portion	80	-	-	-	80	123	-	-	203	-	-	203
Accounts payable and accrued expenses	125,502	394	192	-	126,088	45	77	-	126,210	6,392	-	132,602
Accrued salaries and leave payable	57,659	42	39	-	57,740	18	-	-	57,758	46	-	57,804
Estimated third-party payor settlements	109,405	-	-	(1,009)	108,396	-	-	-	108,396	335	-	108,731
Total current liabilities	306,987	436	231	(1,009)	306,645	186	77	-	306,908	6,773	-	313,681
Long-term liabilities												
Long-term debt, less current portion	810,881	-	-	-	810,881	-	-	-	810,881	-	-	810,881
Capital lease obligations, less current portion	499	-	-	-	499	1,143	-	-	1,642	-	-	1,642
Due to affiliates, net	-	-	-	-	-	-	-	-	-	5,917	(5,917)	-
Other liabilities	40,604	-	-	-	40,604	-	-	-	40,604	-	-	40,604
Total long-term liabilities	851,984	-	-	-	851,984	1,143	-	-	853,127	5,917	(5,917)	853,127
Total liabilities	1,158,971	436	231	(1,009)	1,158,629	1,329	77	-	1,160,035	12,690	(5,917)	1,166,808
<b>Deferred inflows of resources</b>												
Deferred gain on debt refunding	2,528	-	-	-	2,528	-	-	-	2,528	-	-	2,528
Deferred inflows on pension	43,531	-	-	-	43,531	-	-	-	43,531	-	-	43,531
Total deferred inflows of resources	46,059	-	-	-	46,059	-	-	-	46,059	-	-	46,059
<b>Net position</b>												
Net investment in capital assets	223,076	8,571	1,270	-	232,917	1,358	4,343	-	238,618	13	-	238,631
Restricted												
Nonexpendable	243	-	-	-	243	-	-	-	243	-	-	243
Expendable	4,391	-	-	-	4,391	-	-	-	4,391	229	-	4,620
Unrestricted	830,651	3,685	3,729	-	838,065	735	137	-	838,937	22,666	-	861,603
Total net position	\$ 1,058,361	\$ 12,256	\$ 4,999	\$ -	\$ 1,075,616	\$ 2,093	\$ 4,480	\$ -	\$ 1,082,189	\$ 22,908	\$ -	\$ 1,105,097

**Shands Teaching Hospital and Clinics, Inc. and Subsidiaries**  
**Consolidating Basic Statements of Net Position**  
**June 30, 2017**

(In thousands of dollars)

	UF Health Shands Hospital	UF Health Shands Psychiatric Hospital	UF Health Shands Rehab Hospital	Eliminations	Total Alachua County Hospital Group	UF Health Shands Home Care	Property Management	Eliminations	Total Obligated Group	Other	Eliminations	Consolidated Total
<b>Assets</b>												
Current assets												
Cash and cash equivalents	\$ 16,485	\$ 1	\$ -	\$ -	\$ 16,486	\$ -	\$ -	\$ -	\$ 16,486	\$ 11,563	\$ -	\$ 28,049
Short-term investments	154,723	-	-	-	154,723	-	-	-	154,723	45	-	154,768
Patient accounts receivable, net	232,303	3,938	3,471	-	239,712	2,101	-	-	241,813	921	-	242,734
Inventories	17,511	-	-	-	17,511	-	-	-	17,511	-	-	17,511
Prepaid expenses and other current assets	45,704	565	751	(663)	46,357	285	9	-	46,651	1,099	-	47,750
Assets whose use is limited, current portion	38,023	-	-	-	38,023	-	-	-	38,023	-	-	38,023
Total current assets	504,749	4,504	4,222	(663)	512,812	2,386	9	-	515,207	13,628	-	528,835
Assets whose use is limited, less current portion	517,902	-	-	-	517,902	-	-	-	517,902	-	-	517,902
Assets whose use is restricted	39,910	-	-	-	39,910	-	-	-	39,910	-	-	39,910
Capital assets, net	963,233	8,944	1,438	-	973,615	1,520	4,504	-	979,639	1,522	-	981,161
Due from affiliates, net	5,711	-	-	-	5,711	-	-	(23)	5,688	-	(5,688)	-
Other assets	62,874	959	1,255	-	65,088	-	-	-	65,088	28,586	-	93,674
Total assets	2,094,379	14,407	6,915	(663)	2,115,038	3,906	4,513	(23)	2,123,434	43,736	(5,688)	2,161,482
<b>Deferred outflows of resources</b>												
Accumulated decrease in fair value of hedging derivatives	49,013	-	-	-	49,013	-	-	-	49,013	-	-	49,013
Deferred loss on debt refunding	376	-	-	-	376	-	-	-	376	-	-	376
Deferred outflows on pension	88,333	-	-	-	88,333	-	-	-	88,333	-	-	88,333
Total deferred outflows of resources	137,722	-	-	-	137,722	-	-	-	137,722	-	-	137,722
<b>Liabilities</b>												
Current liabilities												
Long-term debt, current portion	17,200	-	-	-	17,200	-	-	-	17,200	-	-	17,200
Capital lease obligations, current portion	163	-	-	-	163	108	-	-	271	-	-	271
Accounts payable and accrued expenses	103,207	501	309	-	104,017	340	33	-	104,390	5,787	-	110,177
Accrued salaries and leave payable	61,628	319	38	-	61,985	18	-	-	62,003	47	-	62,050
Estimated third-party payor settlements	109,963	128	-	(663)	109,428	-	-	-	109,428	335	-	109,763
Total current liabilities	292,161	948	347	(663)	292,793	466	33	-	293,292	6,169	-	299,461
Long-term liabilities												
Long-term debt, less current portion	825,222	-	-	-	825,222	-	-	-	825,222	-	-	825,222
Capital lease obligations, less current portion	586	-	-	-	586	1,266	-	-	1,852	-	-	1,852
Due to affiliates, net	-	-	-	-	-	-	23	(23)	-	5,688	(5,688)	-
Other liabilities	91,069	-	-	-	91,069	-	-	-	91,069	81	-	91,150
Total long-term liabilities	916,877	-	-	-	916,877	1,266	23	(23)	918,143	5,769	(5,688)	918,224
Total liabilities	1,209,038	948	347	(663)	1,209,670	1,732	56	(23)	1,211,435	11,938	(5,688)	1,217,685
<b>Deferred inflows of resources</b>												
Deferred gain on debt refunding	2,732	-	-	-	2,732	-	-	-	2,732	-	-	2,732
Deferred inflows on pension	26,632	-	-	-	26,632	-	-	-	26,632	-	-	26,632
Total deferred inflows of resources	29,364	-	-	-	29,364	-	-	-	29,364	-	-	29,364
<b>Net position</b>												
Net investment in capital assets	120,210	8,944	1,438	-	130,592	1,520	4,504	-	136,616	-	-	136,616
Restricted												
Nonexpendable	253	-	-	-	253	-	-	-	253	-	-	253
Expendable	8,812	-	-	-	8,812	-	-	-	8,812	226	-	9,038
Unrestricted												
Unrestricted	864,424	4,515	5,130	-	874,069	654	(47)	-	874,676	31,572	-	906,248
Total net position	\$ 993,699	\$ 13,459	\$ 6,568	\$ -	\$ 1,013,726	\$ 2,174	\$ 4,457	\$ -	\$ 1,020,357	\$ 31,798	\$ -	\$ 1,052,155

**Shands Teaching Hospital and Clinics, Inc. and Subsidiaries**  
**Consolidating Basic Statements of Revenues, Expenses and Changes in Net Position**  
**Year Ended June 30, 2018**

(In thousands of dollars)

	UF Health Shands Hospital	UF Health Shands Psychiatric Hospital	UF Health Shands Rehab Hospital	Eliminations	Total Alachua County Hospital Group	UF Health Shands Home Care	Property Management	Total Obligated Group	Other	Eliminations	Consolidated Total
<b>Operating revenues</b>											
Net patient service revenue, net of provision for bad debts	\$ 1,411,187	\$ 19,867	\$ 21,674	\$ (320)	\$ 1,452,408	\$ 8,139	\$ -	\$ 1,460,547	\$ 6,541	\$ -	\$ 1,467,088
Other operating revenue	17,658	435	3	-	18,096	50	579	18,725	4,189	(255)	22,659
Total operating revenues	<u>1,428,845</u>	<u>20,302</u>	<u>21,677</u>	<u>(320)</u>	<u>1,470,504</u>	<u>8,189</u>	<u>579</u>	<u>1,479,272</u>	<u>10,730</u>	<u>(255)</u>	<u>1,489,747</u>
<b>Operating expenses</b>											
Salaries and benefits	609,259	14,002	12,970	1,703	637,934	6,159	-	644,093	4,128	-	648,221
Supplies and services	650,708	4,816	4,564	(2,023)	658,065	1,324	371	659,760	4,050	(532)	663,278
Depreciation and amortization	71,110	1,667	1,422	-	74,199	161	160	74,520	-	-	74,520
Total operating expenses	<u>1,331,077</u>	<u>20,485</u>	<u>18,956</u>	<u>(320)</u>	<u>1,370,198</u>	<u>7,644</u>	<u>531</u>	<u>1,378,373</u>	<u>8,178</u>	<u>(532)</u>	<u>1,386,019</u>
Operating income (loss)	<u>97,768</u>	<u>(183)</u>	<u>2,721</u>	<u>-</u>	<u>100,306</u>	<u>545</u>	<u>48</u>	<u>100,899</u>	<u>2,552</u>	<u>277</u>	<u>103,728</u>
<b>Nonoperating revenues (expenses)</b>											
State appropriations	7,050	-	-	-	7,050	-	-	7,050	-	-	7,050
Interest expense	(26,025)	-	-	-	(26,025)	(55)	-	(26,080)	-	-	(26,080)
Net investment income, including change in fair value	30,986	-	-	-	30,986	-	-	30,986	53	-	31,039
Gain on disposal of capital assets, net	196	-	1	-	197	-	(13)	184	-	-	184
Other nonoperating revenues (expenses), net	3,912	1	-	-	3,913	-	-	3,913	(4,749)	(277)	(1,113)
Total nonoperating revenues (expenses), net	<u>16,119</u>	<u>1</u>	<u>1</u>	<u>-</u>	<u>16,121</u>	<u>(55)</u>	<u>(13)</u>	<u>16,053</u>	<u>(4,696)</u>	<u>(277)</u>	<u>11,080</u>
Excess (deficit) of revenues over expenses before transfers, capital contributions, and other changes in net position	113,887	(182)	2,722	-	116,427	490	35	116,952	(2,144)	-	114,808
Transfers and expenditures in support of the University of Florida and its health science colleges	(64,953)	(998)	-	-	(65,951)	-	-	(65,951)	(2,111)	-	(68,062)
Transfer of net assets in association with consolidation and support of other operations and divisions of Shands	9,615	(23)	(4,291)	-	5,301	(571)	(12)	4,718	(4,718)	-	-
Capital contributions	10,544	-	-	-	10,544	-	-	10,544	-	-	10,544
Other changes in net position	(4,431)	-	-	-	(4,431)	-	-	(4,431)	83	-	(4,348)
Increase (decrease) in net position	<u>64,662</u>	<u>(1,203)</u>	<u>(1,569)</u>	<u>-</u>	<u>61,890</u>	<u>(81)</u>	<u>23</u>	<u>61,832</u>	<u>(8,890)</u>	<u>-</u>	<u>52,942</u>
<b>Net position</b>											
Beginning of year	993,699	13,459	6,568	-	1,013,726	2,174	4,457	1,020,357	31,798	-	1,052,155
End of year	<u>\$ 1,058,361</u>	<u>\$ 12,256</u>	<u>\$ 4,999</u>	<u>\$ -</u>	<u>\$ 1,075,616</u>	<u>\$ 2,093</u>	<u>\$ 4,480</u>	<u>\$ 1,082,189</u>	<u>\$ 22,908</u>	<u>\$ -</u>	<u>\$ 1,105,097</u>

**Shands Teaching Hospital and Clinics, Inc. and Subsidiaries**  
**Consolidating Basic Statements of Revenues, Expenses and Changes in Net Position**  
**Year Ended June 30, 2017**

(In thousands of dollars)

	UF Health Shands Hospital	UF Health Shands Psychiatric Hospital	UF Health Shands Rehab Hospital	Eliminations	Total Alachua County Hospital Group	UF Health Shands Home Care	Property Management	Total Obligated Group	Other	Eliminations	Consolidated Total
<b>Operating revenues</b>											
Net patient service revenue, net of provision for bad debts	\$ 1,347,430	\$ 21,131	\$ 21,542	\$ (405)	\$ 1,389,698	\$ 8,356	\$ -	\$ 1,398,054	\$ 6,835	\$ -	\$ 1,404,889
Other operating revenue	15,189	35	-	-	15,224	22	722	15,968	3,989	(255)	19,702
Total operating revenues	1,362,619	21,166	21,542	(405)	1,404,922	8,378	722	1,414,022	10,824	(255)	1,424,591
<b>Operating expenses</b>											
Salaries and benefits	574,622	14,020	13,177	1,478	603,297	6,363	-	609,660	4,341	-	614,001
Supplies and services	587,310	4,576	4,163	(1,883)	594,166	1,429	404	595,999	4,091	(550)	599,540
Depreciation and amortization	54,557	756	176	-	55,489	147	159	55,795	-	-	55,795
Total operating expenses	1,216,489	19,352	17,516	(405)	1,252,952	7,939	563	1,261,454	8,432	(550)	1,269,336
Operating income	146,130	1,814	4,026	-	151,970	439	159	152,568	2,392	295	155,255
<b>Nonoperating revenues (expenses)</b>											
State appropriations	7,050	-	-	-	7,050	-	-	7,050	-	-	7,050
Interest expense	(21,683)	-	-	-	(21,683)	(45)	-	(21,728)	-	-	(21,728)
Net investment income, including change in fair value	36,702	-	-	-	36,702	-	-	36,702	56	-	36,758
Gain on disposal of capital assets, net	363	-	-	-	363	-	-	363	-	-	363
Other nonoperating revenues (expenses), net	1,774	296	-	-	2,070	-	-	2,070	(863)	(295)	912
Total nonoperating revenues (expenses), net	24,206	296	-	-	24,502	(45)	-	24,457	(807)	(295)	23,355
Excess of revenues over expenses before transfers, capital contributions, and other changes in net position	170,336	2,110	4,026	-	176,472	394	159	177,025	1,585	-	178,610
Transfers and expenditures in support of the University of Florida and its health science colleges	(63,219)	(998)	-	-	(64,217)	-	-	(64,217)	(2,111)	-	(66,328)
Transfer of net assets in association with consolidation and support of other operations and divisions of Shands	579	(378)	(2,231)	-	(2,030)	200	(290)	(2,120)	2,120	-	-
Capital contributions	6,200	-	-	-	6,200	-	-	6,200	-	-	6,200
Other changes in net position	(749)	-	-	-	(749)	-	-	(749)	(16)	-	(765)
Increase (decrease) in net position	113,147	734	1,795	-	115,676	594	(131)	116,139	1,578	-	117,717
<b>Net position</b>											
Beginning of year	880,552	12,725	4,773	-	898,050	1,580	4,588	904,218	30,220	-	934,438
End of year	\$ 993,699	\$ 13,459	\$ 6,568	\$ -	\$ 1,013,726	\$ 2,174	\$ 4,457	\$ 1,020,357	\$ 31,798	\$ -	\$ 1,052,155

**Note to Supplemental Consolidating Information**

The accompanying consolidating information presents the financial position and results of operations of each of the significant component operating units and affiliates of Shands as of June 30, 2018 and 2017 and for the years then ended, in conformity with accounting principles generally accepted in the United States of America, including applicable statements of the GASB, on the accrual basis of accounting. The accompanying consolidating information presents adjustments necessary to eliminate significant intercompany accounts and transactions. 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 results of operations of the individual companies and is not a required part of the consolidated basic financial statements.