Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Consolidated Basic Financial Statements, Required Supplementary Information and Supplemental Consolidating Information
For the Year Ended June 30, 2020

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries
Index
June 30, 2020

Page(s)

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 statement of net position as of June 30, 2020, and the related consolidated basic statements of revenues, expenses and changes in net position and of cash flows for the year 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 audit. We did not audit the basic financial statements of Central Florida Health, Inc., which represent 21 percent, 24 percent, and 20 percent, respectively, of the assets, net position, and operating revenues of the Company as of and for the year ended June 30, 2020. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for Central Florida Health, Inc., is based solely on the report of the other auditors. We conducted our audit 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, based on our audit and the report of other auditors, 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, 2020, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

The accompanying *management's discussion and analysis (unaudited)* on pages 3 through 17, the *schedule of changes in the net pension (asset) liability and related ratios (unaudited)* on page 60, and the *schedule of employer contributions (unaudited)* on page 61 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 and the other auditors 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 audit 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 audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Company's consolidated basic financial statements. The *supplemental consolidating information* on pages 62 through 64 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 by us and the other auditors. In our opinion, the *supplemental consolidating information* based on our audit and the report of the other auditors, is fairly stated, in all material respects, in relation to the consolidated basic financial statements taken as a whole.

PricewaterhouseCoopers L.L.P.

Tampa, Florida
September 25, 2020

Introduction

This section of the Shands Teaching Hospital and Clinics, Inc. ("STHC") and subsidiaries' annual financial report presents the analysis of financial performance as of and for the year ended June 30, 2020 with comparative information as of and for the year ended June 30, 2019. This discussion has been prepared by management and should be read in conjunction with the consolidated basic financial statements and related note disclosures.

Organization

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

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

STHC and its affiliates are referred to as "Shands" throughout management's discussion and analysis of financial performance. The following identifies the significant operating units and affiliates of STHC and their respective primary operations:

UF Health Shands Entities

- **UF Health Shands Hospital** is part of a major academic medical center located in Gainesville, Florida, and is licensed to operate a 1,014-bed acute care hospital. UF Health Shands Hospital is a leading referral center in the State of Florida and provides clinical settings for medical education and training programs at UF.

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

- **UF Health Shands Rehab Hospital** previously operated a 40-bed rehabilitation hospital located in Gainesville. In March 2019, certain assets of UF Health Shands Rehab Hospital were transferred to a newly formed entity (See "Archer Rehab").

- **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. STHC is the sole member of Shands Recovery, LLC.

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

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

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

UF Health Central Florida Entities

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

- **Leesburg Regional Medical Center, Inc. d/b/a UF Health Leesburg Hospital ("UFHL")** is a 332-bed acute care hospital located in Leesburg, Florida. UFHL also operates a 21-bed psychiatric facility, **UF Health Leesburg Senior Behavioral Center**. UFHCF is the sole corporate member of UFHL.

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

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

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

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

- **Alliance Labs, LLC** is a single member LLC operating a diagnostic pathology practice and reference lab. UFHL is the sole member.

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

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

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

Shands' Partially-Owned, Unconsolidated Affiliates

- STHC has a 40% minority interest in **Starke HMA, LLC** and **Live Oak HMA, LLC,** which previously owned rural community hospitals in Starke, Florida ("Shands Starke") and in Live Oak, Florida ("Shands Live Oak"). Community Health Systems, Inc. ("CHS") is the majority partner and previously managed the operations of Shands Starke and Shands Live Oak. On May 1, 2020, a majority of the assets of Shands Starke and Shands Live Oak hospitals were sold to HCA Healthcare, Inc. Management does not anticipate the sale transaction will have a material impact on the consolidated basic financial statements.

- STHC has a 40% minority interest in **Lake Shore HMA, LLC,** which leases a rural community hospital in Lake City, Florida ("Shands Lake Shore") from Lake Shore Hospital Authority of Columbia County, Florida ("Lake Shore Authority"). CHS is the majority partner and manages the operations of Shands Lake Shore. On June 26, 2020, Lake Shore HMA, LLC, STHC, and various subsidiaries of CHS, entered into a settlement, release and termination of lease agreement ("Lease Termination Agreement") with Lake Shore Authority which terminates the hospital lease, releases STHC from obligations under the lease, and transfers possession of hospital assets to the Lake Shore Authority effective September 30, 2020. Management does not anticipate the Lease Termination Agreement will have a material impact on the consolidated basic financial statements.

- As of June 30, 2019, STHC had a 5% minority interest in **Munroe HMA Holdings, LLC ("Munroe"),** which previously owned a regional medical center located in Ocala, Florida. CHS was the majority partner. Effective October 1, 2019, STHC entered into a membership interest purchase agreement with CHS to sell all of its interest in Munroe for $3.4 million. The sale of STHC's interest in Munroe closed on November 4, 2019.

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

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

- Prior to March 5, 2019, STHC owned and operated **UF Health Shands Rehab Hospital** ("**Rehab Hospital**"), a 40-bed rehabilitation hospital located in Gainesville. On March 5, 2019, STHC sold a 51% undivided interest in certain Rehab Hospital assets to Select. Also on March 5, 2019, STHC and Select contributed cash and their respective interests in Rehab Hospital assets to **Archer Rehabilitation, LLC ("Archer Rehab")** in exchange for respective interests in Archer Rehab (51% Select and 49% STHC). Concurrent with the sale of the Rehab Hospital assets and subsequent investment in Archer Rehab, the rehabilitation hospital operations were relocated to a 60-bed facility located approximately one mile from STHC's main hospital campus (see "Archer Rehab").

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

- On December 17, 2019, STHC entered into a Management Services, Governance, and Contribution Agreement (the "Deltona Agreement") with Halifax Hospital Medical Center ("Halifax"), Halifax Management System, Inc. ("HMS") and various affiliated entities including Medical Center of Deltona, Inc., which operates **Halifax Health | UF Health Medical Center of Deltona ("MCD")**, a newly constructed, 43-bed acute care hospital located in Deltona, Florida. MCD opened to the public on February 4, 2020. Under the Deltona Agreement, Halifax and STHC will: (i) provide management services to operate MCD, (ii) provide equal capital funding contributions, and (iii) equally receive MCD profits and distributions. On February 4, 2020, STHC made an initial contribution of $12.0 million to MCD. Additionally, under the Deltona Agreement, STHC, HMS, and certain Halifax affiliates agreed to individually provide joint and several liability guarantees for obligations arising under a Master Securities Loan Agreement entered into on December 18, 2019, by MCD and JP Morgan Chase Bank, N.A. STHC's total aggregate liability under the guaranty shall not exceed 50% of the total amount guaranteed by STHC and the other parties.

- UFHL has a 48.5% minority interest in **Surgery Center of Mount Dora, LLC**, an ambulatory surgery center located in Mount Dora, Florida. A group of independent physicians owns the majority interest.

- UFHL has a 49% minority interest in **Lake Medical Imaging and Breast Center at The Villages, LLC d/b/a Lake Medical Imaging and Vascular Institute**, which operates four full service imaging centers located in The Villages® and Leesburg. Orange Blossom Gardens Radiology II, LLC is the majority partner and manages the operations of the imaging centers.

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

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

Required Financial Statements

The required statements are the consolidated basic 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, deferred outflows, liabilities, and deferred inflows 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.

Financial Analysis of Shands

While STHC's acquisition of UFHCF became effective January 1, 2020, in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, the consolidated basic financial statements include the financial position and changes in financial position and cash flows of UFHCF and the UF Health Central Florida Entities as if the acquisition occurred at the beginning of the earliest period presented. STHC recognized, measured and combined the assets, deferred outflows, liabilities, deferred inflows and net position of UFHCF based upon GASB accounting principles applied at July 1, 2018. Management's discussion and analysis of all comparative data has been provided based on consolidated results including UFHCF. In addition, Shands' net position has been restated at July 1, 2019 and 2018 to reflect the acquisition of UFHCF, and is summarized as follows:

(in thousands of dollars)	2019	2018
Net position at June 30, as previously reported	$ 1,186,398	$ 1,105,097
Acquisition of UFHCF	396,079	382,535
Net position at July 1, as restated	$ 1,582,477	$ 1,487,632

Statements of Net Position

The consolidated basic statements of net position present the financial position of Shands as of June 30, 2020 and 2019 and include all assets, deferred outflows, liabilities and deferred inflows. Net position is one indicator of the current financial condition of Shands. Changes in net position are an indicator of whether the overall financial condition of the organization has improved or worsened over a period of time. They also provide the basis for evaluating the capital structure, as well as assessing the liquidity and financial flexibility of Shands. However, the financial statement user should consider other nonfinancial factors, such as changes in economic conditions, population change, regulations, and government legislation affecting the health care industry, among other factors.

The following table presents Shands' condensed consolidated basic statements of net position as of June 30, 2020 and 2019:

(in thousands of dollars)	2020	2019
Cash and cash equivalents	$ 233,539	$ 90,922
Short-term investments	241,079	14,539
Other current assets	400,386	445,423
Capital assets, net	1,379,065	1,355,416
Other assets	1,118,237	974,329
Total assets	3,372,306	2,880,629
Deferred outflows of resources	119,329	127,871
Current liabilities	567,568	345,874
Long-term liabilities	1,196,405	1,054,446
Total liabilities	1,763,973	1,400,320
Deferred inflows of resources	73,144	25,703
Net position		
Net investment in capital assets	334,125	355,623
Restricted		
Nonexpendable	626	276
Expendable	3,939	6,320
Unrestricted	1,315,828	1,220,258
Total net position	$ 1,654,518	$ 1,582,477

Assets and Deferred Outflows of Resources

Cash and cash equivalents increased by $142.6 million, or 156.9%. Significant sources of cash included $449.0 million in cash provided by operating activities (which includes $229.2 million in Medicare advances – see "COVID-19 Pandemic"), $75.6 million of proceeds from the issuance of long-term debt used to reimburse the cost of certain capital improvements (see "Issuance of New Debt"), $49.2 million of federal and state appropriations received, primarily related to the receipt of $42.2 million of CARES Act Provider Relief Funds (see "COVID-19 Pandemic"), $24.0 million in reimbursement from a trustee-held project fund, $12.4 million of donations and pledge receipts, $7.2 million in capital contributions, $5.7 million of payments received on notes receivable, $5.3 million in proceeds from sale of capital assets, and $4.9 million in distributions from unconsolidated affiliates. Significant cash uses included $188.6 million in purchases (net of sales) of short-term investments, assets whose use is limited, and assets whose use is restricted, $153.9 million in purchases of capital assets, $71.1 million in support of UF and its health science colleges, $60.0 million in principal and interest payments on outstanding debt and capital lease obligations, and a $12.0 million investment in an unconsolidated affiliate. Short-term investments increased by $226.5 million due to the transfer of Medicare advances received and other excess operating cash balances to short-term investments.

Other current assets, including net patient accounts receivable, inventories, and prepaid expenses and other current assets, decreased by $45.0 million, or 10.1%. Patient accounts receivable, net decreased by $11.3 million due to a 9.5% decrease in net patient service revenue earned in the fourth quarter compared to the same time period in the prior year, due to the effects of COVID-19 on patient volume. Inventory balances increased by $7.7 million due to inventory price inflation and increased stock requirements to support expanded supply locations within the facilities. Prepaid expenses and other current assets decreased by $41.4 million primarily due to the receipt of fiscal year 2019 State of Florida graduate medical education ("GME") and low income pool ("LIP") funds of $42.4 million in the current year. As of June 30, 2020, Shands received the majority of fiscal year 2020 GME and LIP funds.

Capital assets, net increased by $23.6 million, or 1.7%, reflecting spending of $153.9 million, largely offset by a decrease of $1.4 million in retainage and construction payables, sale or other disposal of property with a net book value of $16.3 million, and depreciation expense of $112.8 million.

Other assets increased by $143.9 million, or 14.8%, due to an $84.1 million increase in other assets, a $50.1 million increase in assets whose use is restricted, and a $9.7 million increase in assets whose use is limited. The increase in other assets is due to a $94.3 million increase in the pension asset associated with the defined benefit ("DB") pension plan and a $7.7 million net increase in investment in unconsolidated affiliates, partially offset by a $24.9 million decrease in the fair value of interest rate swap agreements in an asset position primarily due to the termination of certain interest rate swap agreements as part of the new debt issue (see "Issuance of New Debt"). The net increase in investment in unconsolidated affiliates is due to a $12.0 million investment in MCD, partially offset by $4.9 million in distributions. The increase in assets whose use is restricted is primarily due to activities related to the issuance of long-term debt and the refunding of certain outstanding debt. These activities include the deposit of $99.4 million of the proceeds from the new debt issue into a trustee-held project fund held for future capital improvements, partially offset by $24.0 million in reimbursement from the project fund, a $20.1 million decrease in collateral held for certain interest rate swaps, primarily due to the termination of a portion of those interest rate swaps in conjunction with the new debt issue, and the release of $9.6 million in funds held in a debt service reserve fund due to the refunding of certain outstanding debt. The increase in assets whose use is limited is primarily due to investment gains in STHC's pooled investment program.

Deferred outflows of resources decreased by $8.5 million, or 6.7%, due to a $25.0 million decrease in deferred outflows on pension and a $9.7 million decrease in the accumulated decrease in fair value of hedging derivatives, partially offset by a $26.1 million increase in deferred loss on debt refunding. The decrease in deferred outflows on pension is due to the impact of changes in actuarial assumptions ($14.6 million), differences in projected and actual actuarial experience ($2.6 million), and the net decrease in plan contribution levels ($7.8 million). The change in the accumulated decrease in fair value of hedging derivatives is due to the termination of certain interest rate swap contracts as part of the new debt issue resulting in a $29.4 million decrease, partially offset by a $19.7 million change in the fair value of certain interest rate swap contracts used as a hedge against changes in interest rates on certain variable rate debt instruments. The increase in deferred loss on debt refunding is primarily due to the deferral of $29.4 million in losses from the termination of certain interest rate swap contracts used as a hedge against changes in interest rates on certain variable rate debt instruments refunded in connection with the new debt issue and debt refunding, partially offset by the difference between the reacquisition price and the carrying amount of the bonds refunded ($2.3 million) and amortization of the deferred loss on debt refunding ($1.0 million).

Liabilities, Deferred Inflows of Resources and Net Position

Current liabilities increased by $221.7 million, or 64.1%, due to a $229.2 million increase in Medicare advances, a $3.1 million increase in accrued salaries and leave payable, and a $4.2 million increase in the current portion of long-term debt and capital lease obligations, partially offset by an $11.7 million decrease in accounts payable and accrued expenses, and a $3.0 million decrease in estimated third-party payor settlements. The increase in Medicare advances is due to $229.2 million in advances received as part of the expanded Accelerated and Advance Payment Program under the CARES Act (See "COVID-19 Pandemic"). The increase in accrued salaries and leave payable is primarily due to the timing of the payroll payment cycle. The increase in the current portion of long-term debt and capital lease obligations is primarily due to changes in principal payment schedules due to the issuance of new debt and refunding of certain outstanding debt. The decrease in accounts payable and accrued expenses is primarily due to an $11.4 million decrease in accounts payable due to the timing of the vendor invoice and payment cycles and a $1.4 million decrease in retainage and construction payables. The decrease in estimated third-party payor settlements is due to settlements in Medicaid cost reports and other third-party settlement activity.

Long-term liabilities increased by $142.0 million, or 13.5%, primarily due to a $147.1 million increase in long-term debt, less current portion, partially offset by a $4.6 million decrease in other liabilities. The increase in long-term debt, less current portion, is due to the issuance of new debt and refunding of certain outstanding debt. The decrease in other liabilities is due to the termination of certain interest rate swap contracts as part of the new debt issue resulting in a $29.4 million decrease in other liabilities, partially offset by a $19.7 million change in the fair value of certain interest rate swaps in a liability position, and an $8.2 million increase in social security taxes payable, deferred until fiscal years 2022 and 2023, as allowed under the CARES Act.

Deferred inflows of resources increased by $47.4 million, or 184.6%, due to an increase in the deferred inflows on pension of $47.6 million due to the net differences in projected and actual earnings on plan investments ($25.8 million), the impact of changes in actuarial assumptions ($20.9 million), and the differences in projected and actual actuarial experience ($0.9 million).

Total net position increased by $72.0 million, or 4.6%, due to an excess of revenues over expenses of $138.0 million and capital contributions of $7.2 million, partially offset by transfers and expenditures in support of UF and its health science colleges of $71.1 million and other changes in net position of $2.1 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, 2020 and 2019:

(in thousands of dollars)	2020	2019
Net patient service revenue	$ 1,918,969	$ 1,954,722
Other operating revenue	47,641	46,514
Total operating revenues	1,966,610	2,001,236
Operating expenses	1,890,852	1,876,133
Operating income	75,758	125,103
Nonoperating revenues, net	62,263	27,356
Excess of revenues over expenses	138,021	152,459
Other changes in net position		
Transfers and expenditures in support of the University of Florida and its health science colleges	(71,055)	(69,580)
Capital contributions	7,150	5,742
Special Item - Gain on sale and transfer of UF Health Shands Rehab Hospital	-	6,751
Other changes in net position	(2,075)	(527)
Increase in net position	72,041	94,845
Net position		
Beginning of year, as previously reported	1,186,398	1,105,097
Acquisition of UFHCF	396,079	382,535
Beginning of year, as restated	1,582,477	1,487,632
End of year	$ 1,654,518	$ 1,582,477

Operating Revenues

Total operating revenues decreased by $34.6 million, or 1.7%, due to a $35.7 million decrease in net patient service revenue, partially offset by a $1.1 million increase in other operating revenue. The decrease in net patient service revenue was primarily due to the negative impact of the COVID-19 pandemic on patient volumes (see "COVID-19 Pandemic") and the sale and transfer of the Rehab Hospital (see "Archer Rehab"). The decrease in net patient service revenue reflects decreases in admissions of 3.7% (excluding Rehab Hospital) and outpatient visits of 4.9% (excluding Rehab Hospital), primarily due to COVID-19. Case mix intensity increased by 3.9% (excluding Rehab Hospital).

Operating Expenses

Operating expenses increased by $14.7 million, or 0.8%. Salaries and benefits decreased by $12.9 million, or 1.4%. Salaries and wages increased by $2.5 million, or 0.4%, due to a 2.4% ($16.1 million) increase in average hourly wages and a 0.3% ($1.7 million) increase in non-contract staffing levels to replace contract labor, partially offset by an $8.1 million decrease in contract labor and a $7.2 million decrease due to the sale and transfer of the Rehab Hospital. Employee benefits decreased by $15.4 million due to a $14.5 million decrease in DB pension plan expense (from $10.4 million pension expense in 2019 to $4.1 million pension income in 2020) and a $1.7 million decrease due to the sale and transfer of the Rehab Hospital, partially offset by a $0.8 million increase in all other employee benefits. Supplies and services increased by $26.1 million, or 3.0%, due to a $22.4 million increase in medical supplies, an $8.3 million increase in purchased services, and a $3.8 million increase in non-medical supplies, partially offset by a $4.6 million decrease in professional fees and a $3.3 million decrease due to the sale and transfer of the Rehab Hospital. The increase in medical supplies is driven by inflationary cost increases and increases in patient acuity, resulting in increased utilization of drugs and other medical supplies, as well as increased costs for personal protective equipment to protect staff and visitors from the spread of COVID-19. The increase in purchased services is primarily due to increased repairs and maintenance and computer software support. The increase in non-medical supplies is primarily due to laboratory and chemical supplies for COVID-19 testing. The decrease in professional fees is primarily due to a decrease in consultant fees. Depreciation and amortization expense increased by $1.6 million, or 1.4%, due to new capital purchases.

Nonoperating Revenues, net

Nonoperating revenues, net increased by $34.9 million due to a $42.2 million increase in federal and state appropriations partially offset by a $6.8 million increase in interest expense. The increase in federal and state appropriations was due to the receipt of $42.2 million in Provider Relief Funds as part of the CARES Act (see "COVID-19 Pandemic"). The increase in interest expense is due to the increase in long-term debt resulting from the new debt issue and includes $2.7 million in bond issuance costs.

Other Changes in Net Position

Transfers and expenditures in support of UF and its health science colleges, capital contributions, and other changes in net position were relatively unchanged from the previous year. Special item – gain on sale and transfer of UF Health Shands Rehab Hospital decreased by $6.8 million due to the gain recognized on sale and transfer of Rehab Hospital assets to Archer Rehab in March 2019 (see "Archer Rehab").

Patient Volumes

The following tables present the associated volumes of each facility on a comparative basis for the years ended June 30, 2020 and 2019:

	2020	2019	Net Change	% Change
Admissions (1)				
UF Health Shands Hospital	50,575	52,165	(1,590)	-3.0%
UF Health Shands Psychiatric Hospital	3,477	3,723	(246)	-6.6%
UF Health Shands Rehab Hospital (2)	-	669	(669)	-100.0%
UF Health Leesburg Hospital	19,279	19,631	(352)	-1.8%
UF Health The Villages® Hospital	16,857	18,103	(1,246)	-6.9%
Total	90,188	94,291	(4,103)	-4.4%
Outpatient Visits (3)				
UF Health Shands Hospital	977,199	1,032,873	(55,674)	-5.4%
UF Health Shands Psychiatric Hospital	653	1,084	(431)	-39.8%
UF Health Shands Rehab Hospital (2)	-	143	(143)	-100.0%
UF Health Florida Recovery Center	24,696	23,475	1,221	5.2%
UF Health Leesburg Hospital	71,301	73,574	(2,273)	-3.1%
UF Health The Villages® Hospital	47,425	48,580	(1,155)	-2.4%
Total	1,121,274	1,179,729	(58,455)	-5.0%

(1) Includes inpatient and observation admissions
(2) On March 5, 2019, UF Health Shands Rehab Hospital was sold and transferred to Archer Rehab
(3) Includes outpatient visits, emergency room and trauma visits

Total admissions decreased by 4.4%, inpatient admissions decreased by 5.1% and observation admissions decreased by 0.7%. Excluding UF Health Shands Rehab Hospital volumes, total admissions decreased by 3.7%. Total outpatient visits decreased by 5.0%, and excluding UF Health Shands Rehab Hospital, decreased by 4.9%. The decreases in patient volumes were largely caused by the onset of the COVID-19 pandemic (see "COVID-19 Pandemic").

Statements of Cash Flows

Cash and cash equivalents increased by $142.6 million, or 156.9%. Significant sources of cash included $449.0 million in cash provided by operating activities (which includes $229.2 million in Medicare advances – see "COVID-19 Pandemic"), $75.6 million of proceeds from the issuance of long-term debt used to reimburse the cost of certain capital improvements (see "Issuance of New Debt"), $49.2 million of federal and state appropriations received, primarily related to the receipt of $42.2 million of CARES Act Provider Relief Funds (see "COVID-19 Pandemic"), $24.0 million in reimbursement from a trustee-held project fund, $12.4 million of donations and pledge receipts, $7.2 million in capital contributions, $5.7 million of payments received on notes receivable, $5.3 million in proceeds from sale of capital assets, and $4.9 million in distributions from unconsolidated affiliates. Significant cash uses included $188.6 million in purchases (net of sales) of short-term investments, assets whose use is limited, and assets whose use is restricted, $153.9 million in purchases of capital assets, $71.1 million in support of UF and its health science colleges, $60.0 million in principal and interest payments on outstanding debt and capital lease obligations, and a $12.0 million investment in an unconsolidated affiliate. STHC also contributed $17.5

million to the DB pension plan, as management continues to proactively work toward improving the pension plan's funded status.

Defined Benefit Pension Plan Funded Status

As of June 30, 2020, the funded status, as measured under the Employee Retirement Income Security Act of 1974 funding rules, was 73.1%, a decrease from 79.6% as of June 30, 2019. The decrease in the funded status is largely due to an increase in projected plan liabilities, primarily due to declining interest rates, partially offset by an increase in plan assets due to positive investment returns for the year.

COVID-19 Pandemic

Shands' operations and financial condition have been significantly impacted by the emergence of a novel coronavirus ("COVID-19") which has evolved into a global pandemic. On March 13, 2020, President Trump declared a national emergency in response to the COVID-19 pandemic. Shortly thereafter, President Trump and the Centers for Medicare and Medicaid Services ("CMS") recommended health care providers limit all "non-essential" elective medical and surgical procedures. On March 20, 2020, Florida Governor DeSantis issued Executive Order 20-72, which prohibited "any medically unnecessary, non-urgent or non-emergency procedure or surgery which, if delayed, does not place a patient's immediate health, safety, or well being at risk…" Shands immediately complied with Executive Order 20-72 by canceling all elective procedures and began preparing for an anticipated surge in COVID-19 patients.

The financial impact of the COVID-19 pandemic has been driven by lost revenue, due to sharp declines in patient volume resulting from Executive Order 20-72, and increased expenses due to an increased need for personal protective equipment for caregivers and visitors, and materials and staffing necessary for COVID-19 testing (i.e. swabs, collection kits, reagents, etc.). Management estimates that net patient service revenue was negatively impacted by over $140 million and operating expenses increased by over $7 million due to the effects of the COVID-19 pandemic.

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

- The Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was enacted on March 27, 2020, and authorized $100 billion in direct funding to hospitals and other healthcare providers. This funding (referred to as "Provider Relief Funds") is intended to compensate healthcare providers for lost revenues and incremental expenses incurred in response to the COVID-19 pandemic and is not required to be repaid, provided recipients attest to and comply with certain terms and conditions. In April 2020, the U.S. Department of Health and Human Services ("HHS") made general distributions totaling $50 billion (in two tranches of $30 billion and $20 billion) to all health care providers in proportion to providers' share of 2018 net patient service revenue. In April 2020, Shands received distributions of $42.2 million as part of the general distribution from Provider Relief Funds, which are recorded as grant revenue within federal and state appropriations in the consolidated basic statement of revenues, expenses and changes in net position. Since the initial general distribution, HHS has made various "targeted" distributions from Provider Relief Funds directing funding to COVID-19 high impact areas, to rural providers, and to reimburse providers for COVID-19-related treatment of uninsured patients. On September 19, 2020, HHS released updated guidance on reporting the appropriate use of Provider Relief Funds received under the CARES Act. Based on this guidance, recipients may use Provider Relief Funds for health care related expenses attributable to COVID-19 that another source has not reimbursed and is not obligated to reimburse, and then for lost operating income related to health care services measured through December 31, 2020, and then if necessary, through June 30, 2021. Management is aware that the Provider Relief Funds received are subject to audit, and certain amounts could be at risk of being paid back in the future. However, based on the estimated financial impact of COVID-19 through June 30, 2020, management does not believe such amounts, if any, would be material to the consolidated basic financial statements.

- The CARES Act also expanded the Medicare Accelerated and Advance Payment Program as a way to increase cash flow to Medicare providers impacted by the COVID-19 pandemic. Acute care hospitals may request accelerated payments of up to 100% of their total Medicare payment amount for a six-month period based on the last six months of 2019. Such accelerated payments are interest free for 12 months, and the program currently requires CMS to recoup the payments beginning 120 days after receipt for most providers, by withholding future Medicare fee-for-service payments for claims until the full accelerated payment has been recouped. For hospitals like UF Health Shands Hospital, that receive Periodic Interim Payments for Medicare Part A services, the recoupment of the accelerated payments will occur when the hospital files its year-end cost report (approximately 180 days after the fiscal year end). In April 2020, Shands received Medicare advances totaling $229.2 million as part of the expanded Accelerated and Advance Payment Program under the CARES Act. These amounts are recorded as liabilities and are included in Medicare advances in the consolidated basic statement of net position.

On April 29, 2020, Governor DeSantis issued Executive Order 20-112, with an effective date of May 4, 2020, lifting the prohibition on elective procedures established by Executive Order 20-72. On May 4, 2020, Shands resumed elective surgeries and procedures at all of its inpatient and outpatient facilities. A number of measures were enhanced to safeguard the health of patients, visitors and caregivers. These measures, including conducting COVID-19 testing for all patients admitted, will continue for the foreseeable future as management works with UF epidemiologists and infectious disease experts, considers the Centers for Disease Control and Prevention and Florida Department of Health guidelines, and makes adjustments as indicated by the burden of the disease and the state of the science.

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

Archer Rehab

On March 5, 2019, STHC sold a 51% undivided interest in certain Rehab Hospital assets to Select for $3.6 million. Also on March 5, 2019, STHC and Select contributed their respective shares of the Rehab Hospital assets to Archer Rehab as initial contributed capital to the newly formed entity. STHC's capital contribution of its remaining 49% share of the Rehab Hospital assets was valued at $3.4 million. STHC's sale and contribution of the Rehab Hospital assets resulted in a $6.8 million gain which was reported as a special item in the consolidated basic statement of revenues, expenses and changes in net position for the year ended June 30, 2019. Subsequent to March 5, 2019, STHC made additional investments in Archer Rehab of $6.4 million to support its share of the estimated working capital needs of the new entity and recorded its share of Archer Rehab's net losses totaling $1.7 million. As of June 30, 2020, an investment of $8.1 million, representing STHC's 49% interest in Archer Rehab, is included in other assets in the accompanying consolidated basic statement of net position.

Issuance of New Debt

On October 22, 2019, the Alachua County Health Facilities Authority ("Authority"), on behalf of STHC, issued Series 2019A Health Facilities Revenue Bonds, par amount of $167.2 million ("Series 2019A Bonds"), Series 2019B-1 Health Facilities Revenue Refunding Bonds, par amount of $113.1 million ("Series 2019B-1 Bonds"), and Series 2019B-2 Health Facilities Revenue Refunding Bonds, par amount of $45.0 million ("Series 2019B-2 Bonds") (collectively referred to as the "Bonds"), plus bond premium of $41.7 million. Proceeds from the Bonds, debt service reserve funds of $9.6 million, and funds from the counterparty for the termination of total return swaps of $25.5 million were used to a) refund certain outstanding bonds issued for the benefit of STHC, b) finance and reimburse the cost of certain capital improvements to STHC's health care facilities, c) pay the cost of terminating certain swap transactions, and d) pay costs of issuance.

Specifically, a portion of the bond proceeds were used to refund outstanding bonds, including $60.0 million of Series 2007A Bonds (refunded at a discounted value of $58.5 million), $35.0 million of Series 2007B Bonds (refunded at a discounted value of $34.2 million), $40.6 million of Series 2010A Bonds, $28.6 million of Series 2012A Bonds, and $31.3 million of Series 2012B Bonds. Bond proceeds of $75.6 million were paid to STHC to reimburse the cost of certain capital improvements and $99.4 million were placed in a trustee-held project fund to be used for future capital improvements.

On the date of issuance, bond proceeds and other fund sources totaling $31.2 million were used for the partial termination of the 2007A fixed rate payer interest rate swap agreement integrated with the Series 2007A Bonds ($19.6 million), the full termination of the 2007B fixed rate payer interest rate swap agreement integrated with the Series 2007B Bonds ($9.8 million), and accrued interest payable on the terminated swaps ($1.8 million). Concurrent with the termination of these fixed rate payer interest rate swap agreements, Shands terminated the 2007A and 2007B total return interest rate swap agreements through a settlement payment of $25.5 million to the bond trustee from the counterparty.

The Series 2019A Bonds are comprised of term bonds, with $40.9 million at a fixed rate of 3.00% maturing in December 2046 and $126.3 million at a fixed rate of 4.00% maturing in December 2049. The Series 2019B-1 Bonds are comprised of serial bonds maturing on dates in December 2020 through December 2037 at fixed rates of 4.00% ($8.1 million) and 5.00% ($105.0 million). The Series 2019B-2 Bonds are comprised of term bonds at a fixed rate of 5.00% maturing in December 2037. The Series 2019B-2 Bonds are subject to mandatory tender and purchase on December 1, 2026. The Bonds are tax-exempt and unenhanced.

Debt Outstanding

As of June 30, 2020, Shands had $1,132.3 million in long-term debt outstanding compared to $980.9 million at June 30, 2019. Long-term debt is comprised of tax-exempt bond issues, taxable notes, and installment debt. Shands utilizes interest rate swaps to synthetically convert interest rates on certain of its variable rate bonds to fixed rates.

Certain of Shands' outstanding debt instruments are secured by various promissory notes and subject to the terms of a master trust indenture entered into by STHC's Obligated Group, of which STHC is the only member. Of Shands' total outstanding debt, $968.7 million is attributable to STHC's Obligated Group obligations compared to $810.9 million at June 30, 2019. Including the effect of the interest rate swaps, all of STHC's Obligated Group's bonds and notes outstanding are subject to fixed rates. The Series 2007A Bonds, Series 2008A Bonds, and Series 2008C Bonds are variable rate bonds with fixed rate payer interest rate swaps, which synthetically convert the interest rates on the bonds to fixed rates. The Series 2014A Bonds, Series 2014B Bonds, Series 2016A Bonds, Series 2019A Bonds, Series 2019B-1

Bonds, and Series 2019B-2 Bonds are unenhanced fixed rate bonds. The Series 2013A Taxable Notes are taxable fixed rate notes.

Certain of Shands' outstanding debt instruments are secured by various promissory notes and subject to the terms of a master trust indenture entered into by UFHCF's Obligated Group. UFHCF, UFHL, and UFHV are the only members of UFHCF's Obligated Group. Of Shands' total outstanding debt, $163.6 million is attributable to UFHCF's Obligated Group obligations compared to $170.0 million at June 30, 2019. UFHCF's Obligated Group also utilizes interest rate swaps to synthetically convert interest rates on its variable rate bonds to fixed rates. Including the effect of the interest rate swaps, 74.4% of UFHCF's Obligated Group's bonds outstanding are subject to fixed rates. The Series 2011 Bonds and Series 2017 Bonds are variable rate bonds with fixed rate payer interest rate swaps, which synthetically convert the interest rates on a portion of the bonds to fixed rates. The Series 2014A Bonds and Series 2014B Bonds are unenhanced fixed rate bonds.

Credit Ratings

In September 2019, Standard & Poor's affirmed their previous underlying credit rating of A and indicated a "Stable" outlook on all of UF Health Shands Obligated Group's rated debt. Also in September 2019, Moody's Investor Services affirmed their previous underlying credit rating of A3 but revised its outlook on all of UF Health Shands Obligated Group's rated debt from "Positive" to "Stable."

In September 2019, Standard & Poor's affirmed their previous underlying credit rating of A- but revised its outlook from "Stable" to "Negative" on all of UF Health Central Florida Obligated Group's rated debt. Also in September 2019, Moody's Investor Services affirmed their previous underlying credit rating of A3 but revised its outlook on all of UF Health Central Florida Obligated Group's rated debt from "Stable" to "Negative."

Liquidity

On July 7, 2020, STHC entered into a revolving line of credit agreement with TD Bank, N.A. in the amount of $125.0 million. No amounts have been drawn under this revolving line of credit through September 25, 2020.

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries
Consolidated Basic Statement of Net Position
June 30, 2020

(in thousands of dollars)

Assets	
Current assets	
Cash and cash equivalents	$ 233,539
Short-term investments	241,079
Patient accounts receivable, net of allowance for uncollectibles of $70,747	275,396
Inventories	56,539
Prepaid expenses and other current assets	68,451
Total current assets	875,004
Assets whose use is limited	788,147
Assets whose use is restricted	105,688
Capital assets, net	1,379,065
Other assets	224,402
Total assets	3,372,306
Deferred outflows of resources	
Accumulated decrease in fair value of hedging derivatives	49,926
Deferred loss on debt refunding	27,175
Deferred outflows on pension	42,228
Total deferred outflows of resources	119,329
Liabilities	
Current liabilities	
Long-term debt, current portion	23,758
Capital lease obligations, current portion	720
Accounts payable and accrued expenses	145,568
Accrued salaries and leave payable	77,357
Estimated third-party payor settlements	90,928
Medicare advances	229,237
Total current liabilities	567,568
Long-term liabilities	
Long-term debt, less current portion	1,108,530
Capital lease obligations, less current portion	5,785
Other liabilities	82,090
Total long-term liabilities	1,196,405
Total liabilities	1,763,973
Deferred inflows of resources	
Deferred gain on debt refunding	2,121
Deferred inflows on pension	71,023
Total deferred inflows of resources	73,144
Net position	
Net investment in capital assets	334,125
Restricted	
Nonexpendable	626
Expendable	3,939
Unrestricted	1,315,828
Total net position	$ 1,654,518

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

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries
Consolidated Basic Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2020

(in thousands of dollars)

Operating revenues	
Net patient service revenue, net of provision for bad debts of $200,297	$ 1,918,969
Other operating revenue	47,641
Total operating revenues	1,966,610
Operating expenses	
Salaries and benefits	886,158
Supplies and services	891,943
Depreciation and amortization	112,751
Total operating expenses	1,890,852
Operating income	75,758
Nonoperating revenues (expenses)	
Federal and state appropriations	49,223
Interest expense	(44,488)
Net investment income, including change in fair value	61,054
Loss on disposal of capital assets, net	(2,940)
Other nonoperating expenses, net	(586)
Total nonoperating revenues, net	62,263
Excess of revenues over expenses before transfers, capital contributions, and other changes in net position	138,021
Transfers and expenditures in support of the University of Florida and its health science colleges	(71,055)
Capital contributions	7,150
Other changes in net position	(2,075)
Increase in net position	72,041
Net position	
Beginning of year, as previously reported	1,186,398
Acquisition of UFHCF	396,079
Beginning of year, as restated	1,582,477
End of year	$ 1,654,518

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

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries
Consolidated Basic Statement of Cash Flows
Year Ended June 30, 2020

(in thousands of dollars)

Cash flows from operating activities	
Cash received from patients and third-party payors	$ 2,198,134
Other receipts from operations	47,810
Payments for salaries and benefits	(902,852)
Payments to suppliers and vendors	(894,052)
Net cash provided by operating activities	449,040
Cash flows from noncapital financing activities	
Federal and state appropriations	49,223
Payments in support of the University of Florida and its health science colleges	(71,055)
Donations and pledge receipts	12,440
Other noncapital financing activities	(12,111)
Net cash used in noncapital financing activities	(21,503)
Cash flows from capital and related financing activities	
Purchase of capital assets	(153,921)
Proceeds from sale of capital assets	5,270
Proceeds from issuance of long-term debt	75,574
Principal payments on long-term debt	(16,115)
Principal payments on capital lease obligations	(622)
Interest payments	(43,264)
Posting of collateral on interest rate swaps, net	(222)
Capital contributions	7,150
Reimbursement from trustee-held project fund	23,994
Net cash used in capital and related financing activities	(102,156)
Cash flows from investing activities	
Investment income received	1,027
Payments received on notes receivable	5,723
Investment in unconsolidated affiliates	(12,000)
Distributions from unconsolidated affiliates	4,867
Purchase of short-term investments, assets whose use is limited, and assets whose use is restricted	(384,234)
Sale of short-term investments, assets whose use is limited, and assets whose use is restricted	195,594
Other investing activities	6,259
Net cash used in investing activities	(182,764)
Net increase in cash and cash equivalents	142,617
Cash and cash equivalents	
Beginning of year, as previously reported	45,276
Acquisition of UFHCF	45,646
Beginning of year, as restated	90,922
End of year	$ 233,539

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

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries
Consolidated Basic Statement of Cash Flows (continued)
Year Ended June 30, 2020

(in thousands of dollars)

Reconciliation of operating income to net cash provided by operating activities	
Operating income	$ 75,758
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	112,751
Provision for bad debts	200,297
Changes in:	
Patient accounts receivable	(188,787)
Inventories	(7,653)
Prepaid expenses and other current assets	39,291
Other assets	(74,417)
Accounts payable and accrued expenses	8,920
Accrued salaries and leave payable	4,705
Estimated third-party payor settlements	(3,043)
Medicare advances	229,237
Other liabilities	51,981
Total adjustments	373,282
Net cash provided by operating activities	$ 449,040
Supplemental noncash investing, capital and financing activities	
Accrued purchases of capital assets	$ 10,918
Sale of capital asset in exchange for note receivable	7,878
Noncash financing activities related to bond issuance and refunding:	
Proceeds from issuance of long-term debt paid by underwriter to bond trustee	367,004
Proceeds from total return swap termination paid by swap counterparty to bond trustee	25,484
Transfer of assets held by trustees under indenture agreements to bond trustee	9,605
Refunding of long-term debt with assets held by bond trustee	193,205
Payment upon termination of interest rate swap agreement by bond trustee to swap counterparty	31,161
Transfer of proceeds from issuance of long-term debt to project fund held by bond trustee	99,425
Debt issuance costs and underwriter discount paid by bond trustee	2,702

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

1. Organization

Shands Teaching Hospital and Clinics, Inc. ("STHC") 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 Chair of STHC's Board of Directors (the "Board") and retains appointment and termination rights over 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. STHC is a component unit of UF.

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

While STHC's acquisition of UFHCF became effective January 1, 2020, in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, the consolidated basic financial statements include the financial position and changes in financial position and cash flows of UFHCF and the UF Health Central Florida Entities as if the acquisition occurred at the beginning of the earliest period presented. STHC recognized, measured and combined the assets, deferred outflows, liabilities, deferred inflows and net position of UFHCF based upon GASB accounting principles. Net position as of July 1, 2019 was restated for the effects of Shands' affiliation with CFH as follows:

(in thousands of dollars)

	June 30, 2019 as previously reported*	UFHCF acquisition	July 1, 2019 as restated
Current assets	$ 440,253	$ 110,631	$ 550,884
Assets whose use is limited	585,119	193,286	778,405
Assets whose use is restricted	40,165	15,441	55,606
Capital assets, net	1,081,668	273,748	1,355,416
Other assets	110,858	29,460	140,318
Total assets	2,258,063	622,566	2,880,629
Deferred outflows of resources	118,306	9,565	127,871
Current liabilities	299,364	46,510	345,874
Long-term liabilities	864,904	189,542	1,054,446
Total liabilities	1,164,268	236,052	1,400,320
Deferred inflows of resources	25,703	-	25,703
Net position	$ 1,186,398	$ 396,079	$ 1,582,477

*Certain balances as of June 30, 2019 have been reclassified to conform with current year presentation.

The accompanying consolidated basic financial statements include the accounts of STHC and its subsidiaries (referred to as "Shands" throughout these notes to the consolidated basic financial statements). The following identifies the significant operating units and affiliates of STHC and their respective primary operations:

UF Health Shands Entities

- **UF Health Shands Hospital** is part of a major academic medical center located in Gainesville, Florida, and is licensed to operate a 1,014-bed acute care hospital. UF Health Shands Hospital is a leading referral center in the State of Florida and provides clinical settings for medical education and training programs at UF.

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

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

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

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

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

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

UF Health Central Florida Entities

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

- **Leesburg Regional Medical Center, Inc. d/b/a UF Health Leesburg Hospital ("UFHL")** is a 332-bed acute care hospital located in Leesburg, Florida. UFHL also operates a 21-bed psychiatric facility, **UF Health Leesburg Senior Behavioral Center**. UFHCF is the sole corporate member of UFHL.

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

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

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

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

- **Alliance Labs, LLC** is a single member LLC operating a diagnostic pathology practice and reference lab. UFHL is the sole member.

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

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

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

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

2. Summary of Significant Accounting Policies

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

Basis of Presentation

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

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

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

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

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

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

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

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

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

Pledges Receivable
Pledges receivable represent donor commitments to provide future funding, primarily in association with various 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 statement of net position. The long-term portion of pledges receivable is reported in other assets in the accompanying consolidated basic statement of net position. For the year ended June 30, 2020, pledge discount rates range from 0.3% to 2.8%.

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. 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 statement of revenues, expenses and changes in net position. Shands' estimated useful lives of depreciable assets are as follows:

	Estimated useful lives (Years)
Land improvements	5-40
Buildings	15-40
Leasehold improvements	3-25
Moveable equipment	3-15

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

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

Accrued Leave
Shands provides paid time off ("PTO") to eligible employees for vacations, holidays, and short-term illness dependent on their years of continuous service and their payroll classification. Shands accrues the estimated expense related to PTO based on pay rates currently in effect. Upon termination of employment, employees will have their eligible PTO paid in varying amounts. Accrued PTO was approximately $47,969,000 as of June 30, 2020 and is included in accrued salaries and leave payable in the accompanying consolidated basic statement of net position.

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

Bond Issuance Costs
Bond issuance costs are expensed at time of issuance. Bond issuance costs of approximately $2,702,000 are included in interest expense in the accompanying consolidated basic statement of revenues, expenses and changes in net position for the year ended June 30, 2020.

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

Deferred Outflows and Deferred 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 statement of net position, but rather, are separately reported.

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

Derivative Financial Instruments
Shands' derivative financial instruments consist of interest rate swaps, which are utilized by Shands to manage net exposure to interest rate changes associated with its variable rate debt and to lower its overall borrowing costs. Shands entered into floating to fixed rate interest rate swap agreements to reduce the market risk associated with changes in interest rates related to certain of Shands' variable rate revenue bonds. These derivative instruments are evaluated to determine if the derivative instrument is effective in reducing the identified financial risk. If the derivative instrument is determined to be an effective hedge, its fair value is recorded in other assets or other liabilities with a corresponding deferred outflow or deferred inflow of resources in the accompanying consolidated basic statement of net position. Deferred outflows or deferred inflows of resources constitute changes in fair value of effectively hedged derivative instruments. If the derivative instrument is determined to be an ineffective hedge or when there is no hedged financial instrument, the derivative instrument is considered to be an investment derivative; its fair value is recorded in other assets or other liabilities within the accompanying consolidated basic statement of net position; and the change in fair value is recognized within net investment income, including change in fair value, in the accompanying consolidated basic statement of revenues, expenses and changes in net position.

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

Net Position
Net position is categorized as "net investment in capital assets," "restricted-nonexpendable," "restricted-expendable," and "unrestricted." Net investment in capital assets is intended to reflect the portion of net position associated with capital assets, less amounts due on outstanding debt used to finance the purchase or construction of those assets. Deferred outflows and deferred inflows of resources attributable to capital assets or related debt are also included as a component of net investment in capital assets. Unspent debt proceeds are excluded from net investment in capital assets and are included in unrestricted net position, unless the unspent amounts are externally restricted. Restricted net position has restrictions placed on the use of assets through external constraints imposed by donors. Restricted–nonexpendable net position consists of assets that have been restricted by donors to be maintained by Shands in perpetuity. Restricted–expendable net position includes assets whose use by Shands has been 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 external restrictions on use.

Revenues and Expenses
Shands' consolidated basic statement 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. Federal and state appropriations, interest expense, net investment income, including change in fair value, and gains and losses on disposal of capital assets are reported as nonoperating revenues (expenses).

Net Patient Service Revenue and Patient Accounts Receivable
Shands has agreements with Medicare, Medicaid, and other third-party payors that provide for payments to Shands at amounts different from its established rates. Payment arrangements vary significantly and include, but are not limited to, prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue and patient accounts receivable are reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered and include estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. For the year ended June 30, 2020, net patient service revenue decreased by approximately $68,000 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 statement 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 43.1% of Shands' net patient service revenue for the year ended June 30, 2020 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, 2020, the Medicare cost reports were final settled by the Medicare fiscal intermediary through June 30, 2008 for STHC and through June 30, 2018 for UFHL and UFHV.

Medicaid
Shands participates in the State of Florida Medicaid program. The Agency for Health Care Administration ("AHCA") is the administrator of the Statewide Medicaid Managed Care Managed Medical Assistance ("MMA") Program. The MMA program is comprised of several types of managed care plans including Health Maintenance Organizations, Provider Service Networks, and Children's Medical Services Network. The majority of Medicaid beneficiaries are required to enroll in the MMA program. Approximately 13.5% of Shands' net patient service revenue for the year ended June 30, 2020 was derived from services to Medicaid beneficiaries. Inpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates per discharge and outpatient services are reimbursed at prospectively determined rates based upon Enhanced Ambulatory Patient Groupings ("EAPGs").

In addition to the prospectively determined rates per discharge and EAPG payments received by Shands for the provision of health care services to Medicaid beneficiaries, the State of Florida provides supplemental Medicaid and disproportionate share payments to reflect the additional costs associated with treating the Medicaid population in Florida. These amounts are reflected in net patient service revenue in the accompanying consolidated basic statement of revenues, expenses and changes in net position. Prior to fiscal year 2018, Shands was paid for certain services provided to Medicaid beneficiaries based on tentative rates derived from filed annual cost reports. These rates are subject to retroactive adjustments based on the results of final audited cost reports. As of June 30, 2020, all cost reports used to determine rates subject to retroactive adjustments have been final audited and any amounts due to AHCA based on the audit results are reported in estimated third-party payor settlements in the accompanying consolidated basic statement of net position.

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

Provision for Bad Debts and Allowance for Uncollectible Accounts
The provision for bad debts is based on management's assessment of historical and expected net collections, considering business and economic conditions, trends in federal and state governmental health care coverage, and other collection indicators. Throughout the year, management assesses the adequacy of the allowance for uncollectible accounts based upon these trends. 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 May 2020, the GASB issued GASB Statement No. 95*, Postponement of the Effective Dates of Certain Authoritative Guidance* ("GASB No. 95"). GASB No. 95 provides temporary relief to governments, in light of a global pandemic brought about by the emergence of a novel coronavirus ("COVID-19"), by extending the effective dates of certain accounting and financial reporting provisions in Statements and Implementation Guides that were effective for reporting periods or fiscal years beginning after June 15, 2018. This includes postponing the effective date of the following: GASB Statement No. 84, *Fiduciary Activities*, GASB Statement No. 87, *Leases*, GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, GASB Statement No. 90, *Majority Equity Interests-an amendment of GASB Statements No. 14 and No. 61*, GASB Statement No. 91, *Conduit Debt Obligations*, certain provisions of GASB Statement No. 92, *Omnibus 2020* and certain provisions of GASB Statement No. 93, *Replacement of Interbank Offered Rates*. GASB No. 95 is effective immediately.

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. The effective date, as amended by GASB No. 95, will be for reporting periods beginning after December 15, 2019. Shands is currently evaluating the impact GASB No. 84 will have on its 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. The effective date, as amended by GASB No. 95, will be for fiscal years beginning after

June 15, 2021, and all reporting periods thereafter. Shands is currently evaluating the impact GASB No. 87 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. Shands adopted GASB No. 89 in the consolidated basic financial statements for the year ended June 30, 2020. The adoption of this statement did not have a material impact on the consolidated basic financial statements.

In August 2018, the GASB issued GASB Statement No. 90, *Majority Equity Interests-an amendment of GASB Statements No. 14 and No. 61* ("GASB No. 90"). The primary objective of GASB No. 90 is to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The effective date, as amended by GASB No. 95, will be for reporting periods beginning after December 15, 2019. Shands is currently evaluating the impact GASB No. 90 will have on its consolidated basic financial statements.

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

In January 2020, the GASB issued GASB Statement No. 92, *Omnibus 2020* ("GASB No. 92"). GASB No. 92 establishes accounting and financial reporting requirements for specific issues related to leases, intra-equity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance related activities of public equity risk pools, fair value measurements, and derivative instruments. The effective date of paragraphs 6 and 7 of GASB No. 92, as amended by GASB No. 95, will be for fiscal years beginning after June 15, 2021. The effective date of paragraphs 8, 9, 10 and 12 of GASB No. 92, as amended by GASB No. 95, will be for reporting periods beginning after June 15, 2021. The effective date of all remaining provisions of GASB No. 92 will be for reporting periods beginning after June 15, 2020. Shands is currently evaluating the impact GASB No. 92 will have on its consolidated basic financial statements.

In March 2020, the GASB issued GASB Statement No. 93, *Replacement of Interbank Offered Rates* ("GASB No. 93"). GASB No. 93 establishes accounting and financial reporting requirements related to the replacement of certain interbank offered rates - most notably the London Interbank Offered Rate ("LIBOR") - in hedging derivative instruments and leases, and identifies appropriate benchmark interest rates for hedging derivative instruments. LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates by either changing the reference rate or adding or changing fallback provisions related to the reference rate. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. The effective date of paragraphs 13 and 14 of GASB No. 93, as amended by GASB No. 95, will be for fiscal years beginning after June 15, 2021, and all reporting periods thereafter. The effective date of all other provisions of GASB No. 93 will be for reporting periods beginning after June 15, 2020. Shands is currently evaluating the impact GASB No. 93 will have on its consolidated basic financial statements.

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

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

In June 2020, the GASB issued GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans* ("GASB No. 97"). The primary objective of GASB No. 97 is to increase the consistency and comparability of reporting fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board would typically perform for certain defined contribution pension plans, defined contribution other postemployment benefit plans, and other employee benefit plans. This Statement also enhances the relevance and comparability of the accounting and financial reporting for Internal Revenue Code Section 457 deferred compensation plans. Paragraphs 4 and 5 of GASB No. 97 are effective immediately and the remainder of GASB No. 97 is effective for reporting periods beginning after June 15, 2021. The adoption of paragraphs 4 and 5 of GASB No. 97 did not have a material impact on the consolidated basic financial statements, and Shands is currently evaluating the impact the remaining provisions of GASB No. 97 will have on its consolidated basic financial statements.

3. Unsponsored Community Benefit

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

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

Shands has policies for providing financial assistance for patients requiring care but who have limited or no means to pay for that care. These policies provide free or discounted health and health-related services to persons who qualify under certain income and asset criteria. Because Shands does not pursue collection of amounts determined to qualify for financial assistance, they are not reported as net patient service revenue. Shands maintains records to identify and monitor the level of financial assistance it provides. Charges foregone for services provided under Shands' financial assistance policy as a percentage of total charges for the year ended June 30, 2020 were approximately 3.9%.

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

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

- Community health services include activities carried out to improve community health. They extend beyond patient care activities and are usually subsidized by the health care organization. Examples include community health education, counseling and support services, and health care screenings.
- Health professions education includes education provided in clinical settings such as internships and programs for physicians, nurses, and allied health professionals. It also includes scholarships for health professional education related to providing community health improvement services and specialty in-service programs to professionals in the community.
- Research includes studies on health care delivery, unreimbursed studies on therapeutic protocols, evaluation of innovative treatments, and research papers prepared for professional journals.
- Donations include funds and in-kind services benefiting the community-at-large.

Shands' valuation of unsponsored community benefits at estimated cost, net of reimbursement, for the year ended June 30, 2020 is as follows:

(in thousands of dollars)

Financial assistance provided	$ 75,043
Government support applied to charity care	(5,031)
Medicaid shortfall	68,433
Net unreimbursed financial assistance and Medicaid shortfall	138,445
Benefits for the broader community	
Community health services	4,523
Health professions education	19,173
Research	17,053
Donations	663
Total quantifiable benefits for the broader community	41,412
Total unsponsored community benefits	$ 179,857

The estimated cost of financial assistance provided was determined by applying Shands' overall cost to charge ratio to total charges foregone. The Medicaid shortfall was estimated by comparing the estimated cost of providing services to patients covered by the State of Florida Medicaid program, determined by applying Shands' overall cost to charge ratio to total Medicaid charges, to total Medicaid net patient service revenue. Any excess of cost over net patient service revenue is reported as a Medicaid shortfall. 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. Shands also maintains an air and ground ambulance network at its trauma center and throughout remote areas in North Florida including the Florida Panhandle. Other specialty services provided at Shands' facilities include a regional burn intensive care unit and transplant centers for adult and pediatric patients in several disciplines including: heart, lung, liver, kidney, and bone marrow. In addition, Shands provides specialized pediatric services including neonatal intensive care, pediatric intensive care, pediatric open heart and cardiac catheterization.

In addition to the community benefits described above, Shands provides benefits to the community through advocacy of community service by employees. Shands' employees serve numerous organizations through board representation, in-kind and direct donations, fund-raising, youth sponsorship, and other related activities.

4. Investments

Investments are reported in the accompanying consolidated basic statement of net position as follows at June 30, 2020**:**

(in thousands of dollars)

Current assets	
Short-term investments	$ 241,079
Long-term assets	
Assets whose use is limited	788,147
Assets whose use is restricted	105,688
	$ 1,134,914

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

Assets whose use is restricted are comprised of the following at June 30, 2020:

(in thousands of dollars)

Held by trustees under indenture agreements	$ 91,822
Held by counterparty under interest rate swap agreements	6,340
Held by trustee to meet workers' compensation and medical malpractice requirements	5,104
Donor funds restricted for specific purposes	2,412
Held by insurance company under escrow agreement	10
	$ 105,688

Pooled Investments
STHC 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.

STHC holds membership units in the following Pooled Investment Funds:

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

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

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

Direct Investments
Shands invests in government securities, fixed income securities, fixed income mutual funds, domestic equity mutual funds, international equity mutual funds, real estate investment trusts, asset-backed securities, equity securities ETF, and money market funds.

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. STHC maintains a direct investment in SPIA.

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

The maturity of investments at June 30, 2020 is as follows:

(in thousands of dollars)

	Fair Value	Less Than 1 Year	1–5 Years	6–10 Years	Over 10 Years	N/A
Pooled Investments:						
Florida Global Fixed Income Fund, LLC	$ 209,199	$ -	$ -	$ -	$ -	$ 209,199
Florida Global Equity Fund, LLC	296,042	-	-	-	-	296,042
Florida Hedged Strategies Fund, LLC	83,014	-	-	-	-	83,014
	588,255	-	-	-	-	588,255
Direct Investments:						
SPIA	293,260	293,260	-	-	-	-
Government securities	3,953	50	639	426	2,337	501
Fixed income securities	4,165	-	470	2,561	1,134	-
Fixed income mutual funds	120,593	-	-	31,564	-	89,029
Domestic equity mutual funds	23,940	-	-	-	-	23,940
International equity mutual funds	31,306	-	-	-	-	31,306
Real estate investment trusts	3,073	-	-	-	-	3,073
Asset-backed securities	2,698	-	589	2,109	-	-
Equity securities ETF	42,550	38	255	318	220	41,719
Money market funds	14,668	228	-	-	-	14,440
Private equity	113	-	-	-	-	113
Cash collateral on deposit with interest rate swap counterparty	6,340	6,340	-	-	-	-
	546,659	299,916	1,953	36,978	3,691	204,121
	$ 1,134,914	$ 299,916	$ 1,953	$ 36,978	$ 3,691	$ 792,376

Investment Risk Factors

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

Credit Risk

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

The credit risk profile of Shands' investments as of June 30, 2020 is as follows:

(in thousands of dollars)

	Fair Value	AAA/AA	AA-f	A	BBB/ BB/B	Not Rated
Pooled Investments:						
Florida Global Fixed Income Fund, LLC	$ 209,199	$ -	$ -	$ -	$ -	$ 209,199
Florida Global Equity Fund, LLC	296,042	-	-	-	-	296,042
Florida Hedged Strategies Fund, LLC	83,014	-	-	-	-	83,014
	588,255	-	-	-	-	588,255
Direct Investments:						
SPIA	293,260	-	293,260	-	-	-
Government securities	3,953	3,452	-	-	-	501
Fixed income securities	4,166	828	-	1,694	1,644	-
Fixed income mutual funds	120,593	-	-	-	-	120,593
Domestic equity mutual fund	23,940	-	-	-	-	23,940
International equity mutual fund	31,306	-	-	-	-	31,306
Real estate investment trusts	3,073	-	-	-	-	3,073
Asset-backed securities	2,698	2,698	-	-	-	-
Equity securities ETF	42,549	347	-	150	307	41,745
Money market funds	14,668	-	-	-	-	14,668
Private equity	113	-	-	-	-	113
Cash collateral on deposit with interest rate swap counterparty	6,340	-	-	-	-	6,340
	546,659	7,325	293,260	1,844	1,951	242,279
	$ 1,134,914	$ 7,325	$ 293,260	$ 1,844	$ 1,951	$ 830,534

Concentration of Credit Risk
Investments in any one issuer that represent 5% or more of Shands' investment portfolio are required to be separately disclosed. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. As of June 30, 2020, Shands did not have any investments that equaled or exceeded this threshold.

Custodial Credit Risk
As of June 30, 2020, 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, 2020.

Foreign Currency Risk
Foreign currency risk is the chance that changes in exchange rates will adversely affect the fair value of investments.

Net investment income, including change in fair value, for the year ended June 30, 2020 is as follows:

(in thousands of dollars)

Pooled investment program income	$	38,086
Dividends, interest and other income		10,584
Net realized gain on investments		5,242
Net realized gain on non-hedging interest rate swaps		25,436
Net increase in fair value of investments		6,652
Net decrease in fair value of non-hedging interest rate swaps		(24,946)
	$	61,054

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

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

Government securities and asset-backed securities are classified in Level 2 of the fair value hierarchy and are valued by external pricing vendors.

STHC's investments in Pooled Investment Funds are measured at the net asset value ("NAV") per share or its equivalent. STHC 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.

STHC's 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 up to $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.

STHC's 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 2 years. The remaining unfunded commitment as of June 30, 2020 is approximately $156,000.

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 interest rate swaps are included in Note 9.

6. Capital Assets

A summary of changes in capital assets during fiscal year 2020 is as follows:

(in thousands of dollars)	Balance at June 30, 2019	Additions	Disposals and Transfers	Balance at June 30, 2020
Land	$ 85,913	$ 8,526	$ (5,104)	$ 89,335
Buildings and leasehold improvements	1,619,852	67,948	(26,316)	1,661,484
Equipment	872,089	49,523	(30,833)	890,779
Totals at historical cost	2,577,854	125,997	(62,253)	2,641,598
Less accumulated depreciation for:				
Buildings and leasehold improvements	(569,062)	(48,983)	13,741	(604,304)
Equipment	(724,527)	(63,768)	30,874	(757,421)
	(1,293,589)	(112,751)	44,615	(1,361,725)
Construction-in-progress	71,151	112,954	(84,913)	99,192
Capital assets, net	$ 1,355,416	$ 126,200	$ (102,551)	$ 1,379,065

Depreciation and amortization expense was approximately $112,751,000 for the year ended June 30, 2020. Amortization expense on equipment under capital leases was approximately $801,000 for the year ended June 30, 2020. For the year ended June 30, 2020, fully depreciated capital assets with an original cost of approximately $31,174,000 were disposed of and are no longer in service. Construction-in-progress at June 30, 2020 consists primarily of costs incurred for the construction of a new on-campus hotel; an outpatient surgery center, imaging center and audiology clinic; and various hospital building renovations and other related projects.

7. Unconsolidated Affiliates

STHC has a 40% minority interest in Starke HMA, LLC and Live Oak HMA, LLC, which previously owned rural community hospitals in Starke, Florida ("Shands Starke") and in Live Oak, Florida ("Shands Live Oak"). Community Health Systems, Inc. ("CHS") is the majority partner and previously managed the operations of Shands Starke and Shands Live Oak. On May 1, 2020, a majority of the assets of Shands Starke and Shands Live Oak hospitals were sold to HCA Healthcare, Inc.

STHC has a 40% minority interest in Lake Shore HMA, LLC, which leases a rural community hospital in Lake City, Florida ("Shands Lake Shore") from Lake Shore Hospital Authority of Columbia County, Florida ("Lake Shore Authority"). CHS is the majority partner and manages the operations of Shands Lake Shore. On June 26, 2020, Lake Shore HMA, LLC, STHC, and various subsidiaries of CHS, entered into a settlement, release and termination of lease agreement ("Lease Termination Agreement") with Lake Shore Authority which terminates the hospital lease, releases STHC from obligations under the lease, and transfers possession of hospital assets to the Lake Shore Authority effective September 30, 2020.

As of June 30, 2019, STHC had a 5% minority interest in Munroe HMA Holdings, LLC (“Munroe”), which previously owned a regional medical center located in Ocala, Florida. CHS was the majority partner. Effective October 1, 2019, STHC entered into a membership interest purchase agreement with CHS to sell all of its interest in Munroe for $3,395,000. The sale of STHC’s interest in Munroe closed on November 4, 2019. Proceeds from the sale are reported as distributions from unconsolidated affiliates in the consolidated basic statement of cash flows.

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

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

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

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

On December 17, 2019, STHC entered into a Management Services, Governance, and Contribution Agreement (the “Deltona Agreement”) with Halifax Hospital Medical Center (“Halifax”), Halifax Management System, Inc. (“HMS”) and various affiliated entities including Medical Center of Deltona, Inc., which operates Halifax Health | UF Health Medical Center of Deltona (“MCD”), a newly constructed, 43-bed acute care hospital located in Deltona, Florida. MCD opened to the public on February 4, 2020. Under the Deltona Agreement, Halifax and STHC will: (i) provide management services to operate MCD, (ii) provide equal capital funding contributions, and (iii) equally receive MCD profits and distributions. On February 4, 2020, STHC made an initial contribution of $12,000,000 to MCD. Additionally, under the Deltona Agreement, STHC, HMS, and certain Halifax affiliates agreed to individually provide joint and several liability guarantees for obligations arising under a Master Securities Loan Agreement entered into on December 18, 2019, by MCD and JP Morgan Chase Bank, N.A. STHC’s total aggregate liability under the guaranty shall not exceed 50% of the total amount guaranteed by STHC and the other parties.

UFHL has a 48.5% minority interest in Surgery Center of Mount Dora, LLC (“SCMD”), an ambulatory surgery center located in Mount Dora, Florida. A group of independent physicians owns the majority interest.

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

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

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

A summary of changes in investments in unconsolidated affiliates during fiscal year 2020 is as follows:

(in thousands of dollars)	**Balance at June 30, 2019**	**Investments**	**Distributions**	**Investment Gain (Loss)**	**Balance at June 30, 2020**
Starke HMA, LLC	$ -	$ -	$ -	$ -	$ -
Live Oak HMA, LLC	-	-	-	-	-
Lake Shore HMA, LLC	-	-	-	-	-
Munroe	3,250	-	(3,395)	145	-
CareSpot	3,048	-	(873)	1,128	3,303
SSH	3,344	-	-	1,196	4,540
Archer Rehab	7,259	-	-	832	8,091
South Central	6,856	-	-	-	6,856
MCD	-	12,000	-	(4,914)	7,086
SCMD	-	-	-	-	-
LMI	21,822	-	(599)	2,044	23,267
CFCCMC	297	-	-	88	385
LeeSar	5,625	-	-	43	5,668
	$ 51,501	$ 12,000	$ (4,867)	$ 562	$ 59,196

8. Long-Term Debt

Long-term debt is comprised of the following at June 30, 2020:

(in thousands of dollars)

Direct Placement Tax-Exempt Bonds:	
Alachua County Health Facilities Authority	
Series 2008C, final maturity October 2028	$ 31,875
Series 2016A, final maturity December 2030	38,795
	70,670
City of Leesburg, Florida	
Series 2011, final maturity July 2036	55,420
Series 2017, final maturity July 2036	28,985
	84,405
	155,075
Other Tax-Exempt Bonds:	
Alachua County Health Facilities Authority	
Series 2007A, final maturity December 2037	40,395
Series 2008A, final maturity December 2037	49,990
Series 2014A, final maturity December 2044	250,000
Series 2014B, final maturity December 2034	50,000
Series 2019A, final maturity December 2049	167,170
Series 2019B-1, final maturity December 2037	113,100
Series 2019B-2, final maturity December 2037	45,020
	715,675
Sumter County Industrial Development Authority	
Series 2014A, final maturity July 2044	45,615
Series 2014B, final maturity July 2032	30,265
	75,880
	791,555
Taxable Notes:	
Series 2013A, final maturity December 2042	125,000
Installment debt, final maturity June 2024	1,796
	1,073,426
Net unamortized bond premium	58,862
Total long-term debt	1,132,288
Less: Current portion	(23,758)
Long-term portion	$ 1,108,530

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

(in thousands of dollars)	Balance at June 30, 2019	Additions	Reductions	Balance at June 30, 2020	Amounts Due Within One Year
Direct Placement Tax-Exempt Bonds:					
Alachua County Health Facilities Authority					
Series 2008C, final maturity October 2028	$ 35,625	$ -	$ (3,750)	$ 31,875	$ 3,750
Series 2010A, final maturity July 2025	42,158	-	(42,158)	-	-
Series 2012A, final maturity December 2037	28,620	-	(28,620)	-	-
Series 2012B, final maturity December 2037	31,275	-	(31,275)	-	-
Series 2016A, final maturity December 2030	42,720	-	(3,925)	38,795	3,970
	180,398	-	(109,728)	70,670	7,720
City of Leesburg, Florida					
Series 2011, final maturity July 2036	57,865	-	(2,445)	55,420	2,565
Series 2017, final maturity July 2036	30,000	-	(1,015)	28,985	1,075
	87,865	-	(3,460)	84,405	3,640
	268,263	-	(113,188)	155,075	11,360
Other Tax-Exempt Bonds:					
Alachua County Health Facilities Authority					
Series 2007A, final maturity December 2037	100,395	-	(60,000)	40,395	-
Series 2007B, final maturity December 2037	35,000	-	(35,000)	-	-
Series 2008A, final maturity December 2037	49,990	-	-	49,990	-
Series 2014A, final maturity December 2044	250,000	-	-	250,000	-
Series 2014B, final maturity December 2034	50,000	-	-	50,000	-
Series 2019A, final maturity December 2049	-	167,170	-	167,170	-
Series 2019B-1, final maturity December 2037	-	113,100	-	113,100	3,500
Series 2019B-2, final maturity December 2037	-	45,020	-	45,020	-
	485,385	325,290	(95,000)	715,675	3,500
Sumter County Industrial Development Authority					
Series 2014A, final maturity July 2044	46,515	-	(900)	45,615	945
Series 2014B, final maturity July 2032	32,085	-	(1,820)	30,265	1,900
	78,600	-	(2,720)	75,880	2,845
	563,985	325,290	(97,720)	791,555	6,345
Taxable Notes:					
Series 2013A, final maturity December 2042	125,000	-	-	125,000	-
Installment debt, final maturity June 2024	2,465	-	(669)	1,796	680
Total long-term debt	$ 959,713	$ 325,290	$ (211,577)	$ 1,073,426	$ 18,385

The current portion of net unamortized bond premium was approximately $5,373,000 as of June 30, 2020.

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)

Year Ending June 30,	Direct Placement Bonds		Other Bonds and Notes		Installment Debt		Total Debt Service	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2021	$ 11,360	$ 3,928	$ 6,345	$ 38,794	$ 680	$ 25	$ 18,385	$ 42,747
2022	11,935	3,613	6,855	38,460	367	14	19,157	42,087
2023	12,210	3,320	7,355	38,106	372	9	19,937	41,435
2024	9,075	3,040	11,385	37,681	377	4	20,837	40,725
2025	8,885	2,810	12,970	37,111	-	-	21,855	39,921
2026-2030	61,340	9,790	96,945	168,257	-	-	158,285	178,047
2031-2035	28,695	4,218	160,500	153,266	-	-	189,195	157,484
2036-2040	11,575	2,944	130,245	120,558	-	-	141,820	123,502
2041-2045	-	-	316,785	74,267	-	-	316,785	74,267
2046-2050	-	-	167,170	16,925	-	-	167,170	16,925
	$ 155,075	$ 33,663	$ 916,555	$ 723,425	$ 1,796	$ 52	$ 1,073,426	$ 757,140

Cash paid for interest was approximately $43,265,000 for the year ended June 30, 2020.

STHC entered into a Master Trust Indenture dated March 1, 1996, as amended and supplemented (“STHC MTI”) with U.S. Bank, National Association, as successor trustee, which established an obligated group (“STHC Obligated Group”) of affiliated entities that are jointly and severally liable for all obligations issued under the STHC MTI. STHC is currently the only member of the STHC Obligated Group. STHC has pledged a security interest in its gross revenues to secure payment of all obligations issued under the STHC MTI. All of STHC’s long-term debt is subject to obligations issued under the STHC MTI with the exception of installment debt. The STHC MTI provides for specific financial covenants, including a minimum debt service coverage requirement. The STHC Obligated Group was in compliance with all such financial covenants as of June 30, 2020. The direct placement bonds require certain minimum bond ratings and compliance with certain financial ratio covenants in order to avoid an event of default. If STHC fails to pay any principal amounts when due, or if an event of default occurs, the lender can accelerate payment of the entire amount of principal due immediately.

UFHL and UFHV entered into a Master Trust Indenture dated December 1, 2008, as amended and supplemented (“UFHCF MTI”) with Bank of New York Mellon Trust Company, National Association, as successor trustee, which established an obligated group (“UFHCF Obligated Group”) of affiliated entities that are jointly and severally liable for all obligations issued under the UFHCF MTI. UFHCF, UFHL and UFHV are currently the only members of the UFHCF Obligated Group. Each member of the UFHCF Obligated Group has pledged a security interest in its net income (as defined in the UFHCF MTI) and certain mortgaged property including land and improvements, buildings and improvements, and equipment, to secure payment of all obligations issued under the UFHCF MTI. All of the UFHCF Obligated Group members’ long-term debt is subject to obligations issued under the UFHCF MTI. The UFHCF MTI provides for specific financial covenants, including a minimum debt service coverage requirement. The UFHCF Obligated Group was in compliance with all such financial covenants as of June 30, 2020. The direct placement bonds require certain minimum bond ratings and compliance with certain financial ratio covenants in order to avoid an event of default. If any member of the UFHCF Obligated Group fails to pay any principal amounts when due, or if an event of default occurs, the lender can accelerate payment of the entire amount of principal due immediately.

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

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

The Series 2008C Bonds are variable rate bonds based upon 65% of one-month LIBOR plus 1.30%. The interest rate on the Series 2008C Bonds was 1.41% at June 30, 2020.

Series 2010A Health Facilities Revenue Bonds
In June 2010, the ACHFA 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 to pay related costs of issuance.

In October 2019, the Series 2010A Bonds were refunded with the proceeds from the issuance of the Series 2019B-1 and the Series 2019B-2 Health Facilities Revenue Refunding Bonds.

Series 2012A and Series 2012B Health Facilities Revenue Bonds
In December 2012, the ACHFA 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 STHC. 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 Health Facilities Revenue Bonds.

In October 2019, the Series 2012A and Series 2012B Bonds were refunded with the proceeds from the issuance of the Series 2019B-1 and the Series 2019B-2 Health Facilities Revenue Refunding Bonds.

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

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

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

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

The Series 2011 Bonds are variable rate bonds based upon 79% of one-month LIBOR plus 0.73%. The interest rate on the Series 2011 Bonds was 0.87% at June 30, 2020.

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

The Series 2017 Bonds are variable rate bonds based upon 83% of one-month LIBOR plus 0.72%. The interest rate on the Series 2017 Bonds was 0.86% at June 30, 2020.

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

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

The Series 2007A Bonds are variable rate bonds based upon 67% of three-month LIBOR plus 0.87%. The interest rate on the bonds is reset quarterly and the interest rate was 1.10% at June 30, 2020. The Series 2007A Bonds maturing on or after June 1, 2017 are redeemable at STHC's option at par value.

In October 2019, a portion of the Series 2007A Bonds and all of the Series 2007B Bonds were refunded with the proceeds from the issuance of the Series 2019B-1 and the Series 2019B-2 Health Facilities Revenue Refunding Bonds.

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

The Series 2008A Bonds are variable rate bonds issued in the Unit Pricing Mode. Interest periods range from 1 to 270 days. The weighted average interest rate on the Series 2008A Bonds was 0.21% at June 30, 2020. The Series 2008A Bonds are backed by a bank letter of credit ("LOC") for approximately $53,893,000 that expires in January 2024. The annual LOC fee is equal to 0.55% of the bank LOC amount of approximately $53,893,000. There were no amounts outstanding under this LOC at June 30, 2020. In the event of a draw on the LOC, beginning on the date that is 367 days after the draw, STHC shall begin to repay the principal component of the draw in six equal installments, due every six months thereafter. The Series 2008A Bonds are redeemable at the option of STHC at par value plus accrued interest at any interest payment date.

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

The Series 2014A Bonds and Series 2014B Bonds are unenhanced fixed rate bonds. Interest rates on the Series 2014A Bonds range from 4.00% to 5.00% and the interest rate on the Series 2014B Bonds is 5.00%. Interest on the Series 2014A Bonds and Series 2014B Bonds is payable semiannually. The

Series 2014A Bonds and Series 2014B Bonds maturing on or after December 1, 2024 are redeemable at STHC's option at par value.

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

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

Series 2019B-1 and Series 2019B-2 Health Facilities Revenue Refunding Bonds
In October 2019, the ACHFA issued the Series 2019B-1 Health Facilities Revenue Refunding Bonds ("Series 2019B-1 Bonds") and the Series 2019B-2 Health Facilities Revenue Refunding Bonds ("Series 2019B-2 Bonds") on behalf of STHC. The proceeds of the Series 2019B-1 Bonds and the Series 2019B-2 Bonds were used to refund $60,000,000 of the Series 2007A Bonds and all of the Series 2007B Bonds, the Series 2010A Bonds, the Series 2012A Bonds and the Series 2012B Bonds, and to pay related costs of issuance. The current refunding resulted in the recognition of a deferred loss on debt refunding of approximately $27,171,000, which will be amortized over the life of the Series 2019B-2 Bonds.

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

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

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

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

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

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

Taxable Notes

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

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

9. Interest Rate Swaps

At June 30, 2020, Shands had the following derivative instruments outstanding:

(in thousands of dollars)

Item	Type	Objective	Notional Amount	Effective Date	Maturity or Termination Date	Terms	Fair Value
2007A	Fixed rate payer interest rate swap	Hedge of changes in cash flows on the Series 2007A Bonds	$ 40,395	3/30/2007	12/1/2037	Pay fixed rate of 4.349%. Receive 67% of three month LIBOR plus 87 basis points.	$ (16,396)
2008A	Fixed rate payer interest rate swap	Hedge of changes in cash flows on the Series 2008A Bonds	$ 49,990	11/7/2007	12/1/2037	Pay fixed rate of 3.538%. Receive 67% of one month LIBOR.	(21,773)
2008C	Fixed rate payer interest rate swap	Hedge of changes in cash flows on the Series 2008C Bonds	$ 31,875	11/5/2008	10/2/2028	Pay fixed rate of 4.18%. Receive 65% of one month LIBOR plus 130 basis points.	(3,573)
2011	Fixed rate payer interest rate swap	Hedge of changes in cash flows on a portion of the Series 2011 Bonds	$ 14,450	8/14/2008	7/1/2031	Pay fixed rate of 3.352%. Receive 67% of one month LIBOR.	(2,509)
2017	Fixed rate payer interest rate swap	Hedge of changes in cash flows on the Series 2017 Bonds	$ 29,000	3/1/2011	7/1/2036	Pay fixed rate of 3.6375%. Receive 67% of one month LIBOR.	(8,471)
							$ (52,722)

At June 30, 2020, approximately $52,722,000 related to the fair value of interest rate swaps are recorded in other liabilities in the accompanying consolidated basic statement of net position. Changes in fair value of approximately $19,767,000 were reported as accumulated decrease in fair value of hedging derivatives in the accompanying consolidated basic statement of net position. Changes in fair value of approximately $490,000 were reported in net investment income, including change in fair value in the accompanying consolidated basic statement of revenues, expenses, and changes in net position.

Credit Risk

Shands has sought to limit its counterparty risk. As of June 30, 2020, the Moody's and Standard & Poor's credit ratings for the counterparty were as follows:

Item	Moody's	Standard & Poor's
2007A	A2	A-
2008A	A2	A-
2008C	Baa2	BBB+
2011	A2	AA-
2017	A3	A-

Interest Rate Risk

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

Basis Risk

Shands is exposed to basis risk on certain fixed rate payer swap agreements because the variable-rate payments received by Shands on the hedging derivative instrument are based on a rate or index other than the interest rates that Shands pays on its hedged variable rate debt. As of June 30, 2020, the weighted variable interest rate on Shands' hedged variable rate debt and swap index are as follows:

Item	Type	Objective	Debt Interest Rate	Swap Index Rate
2008A	Fixed rate payer interest rate swap	Hedge of changes in cash flows on the Series 2008A Bonds	0.21%	67% of one month LIBOR or 0.12%
2011	Fixed rate payer interest rate swap	Hedge of changes in cash flows on a portion of the Series 2011 Bonds	0.87%	67% of one month LIBOR or 0.12%
2017	Fixed rate payer interest rate swap	Hedge of changes in cash flows on the Series 2017 Bonds	0.86%	67% of one month LIBOR or 0.12%

Termination Risk

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

Commitments

The 2007A interest rate swap agreement requires collateral to be posted if the fair value of the interest rate swap is negative and 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 $6,340,000 was required to be posted by Shands with the counterparty as of June 30, 2020.

10. Retirement Benefit Plans

Defined Contribution Plans

STHC sponsors two defined contribution plans that cover eligible employees - the Shands HealthCare Matched Savings Account 403(b) ("403(b) Plan") and the Shands HealthCare Matched Savings Account 401(a) ("401(a) Plan"). Under the provisions of the 403(b) Plan, employees may elect to defer up to 75%

of annual compensation (as defined) subject to Internal Revenue Code limitations. Under the 401(a) Plan, STHC makes a nonelective discretionary contribution on behalf of employees (a percentage of compensation based upon years of service) and a matching contribution equal to 75% of the first 4% of compensation that an employee contributes to the 403(b) Plan. STHC's contributions to the 401(a) Plan were approximately $37,739,000 for the year ended June 30, 2020.

UFHCF sponsors a defined contribution plan that covers eligible employees - the CFH 401(k) ("401(k) Plan"). Under the 401(k) Plan, UFHCF makes a matching contribution equal to 100% of the first 4% of compensation that an employee contributes to the 401(k) Plan. Additional contributions to the 401(k) Plan are at the discretion of management up to an additional 1.25% of employee compensation. UFHCF contributions to the 401(k) Plan were approximately $3,751,000 for the year ended June 30, 2020.

Defined Benefit Pension Plan

Plan Description
The Shands HealthCare Pension Plan II (the "Plan") is a single employer defined benefit pension plan covering eligible employees (as defined by the Plan) of STHC ("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 average of the employee's 5 highest annual compensation amounts multiplied by the employee's years of credited service) through July 1, 2011 when the Plan was amended to cease traditional pension benefits. For participants hired as of July 1, 1997 and subsequent new hires through June 30, 2010, and as of July 1, 2011 for participants who were previously accruing benefits under the traditional pension formula, the Plan provided cash balance benefits, with a hypothetical account maintained for each participant in which contributions were credited for the benefit of the individual based on a participant's years of credited vesting service. Participants continued to accrue cash balance benefits through June 30, 2013, when the Plan was amended to cease accrual of cash balance benefits. Employees hired on or after July 1, 2010 receive 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 ended the preceding June 30. The increase is limited to 3% per year.

Employees Covered by Benefit Terms
At June 30, 2019, the measurement date for the pension liability, the following employees were covered by the benefit terms:

Participant data as of July 1, 2018	
Active	3,581
Terminated vested	1,740
Retired	2,701
	8,022

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 $17,529,000 for the year ended June 30, 2020 exceeds the minimum funding requirements of ERISA.

Net Pension Asset
STHC's net pension asset as of June 30, 2020 was based on a measurement date of June 30, 2019. The total pension liability used to calculate the net pension asset as of June 30, 2019 was determined based on the results of an actuarial valuation as of July 1, 2018 projected forward to June 30, 2019 using standard actuarial techniques.

The total pension liability in the July 1, 2018 actuarial valuation was determined based on census data as of July 1, 2018, and the following actuarial assumptions:

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

Salary increases: Not applicable

Inflation: 2.87% for the period July 1, 2018 through June 30, 2019, and 0.31% for the period July 1, 2019 through June 30, 2020, and 2.00% per year thereafter.

Retirement Growth Account Interest Crediting Rate: 4.24% for the period July 1, 2018 through June 30, 2019, and 4.75% for the period July 1, 2019 through June 30, 2020, and 4.10% per year thereafter. The 4.24% and 4.75% rates represent the actual interest rate credited in each respective period.

Mortality rates were based upon the RP-2014 no collar base mortality rates published in 2014 by the Society of Actuaries, adjusted to remove post-2006 improvement projections with future improvements in mortality from 2006 using the Mercer Modified Scale MMP-2018 applied on a generational basis.

The actuarial assumptions used in the July 1, 2018 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.

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

Asset Class	Target Allocation	Real Rate of Return
Global Equity	52.8%	5.65%
Long Credit Fixed Income	37.2%	3.45%
High Yield Fixed Income	8.0%	4.20%
Private Equity	2.0%	8.35%
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 are summarized in the following table:

(in thousands of dollars)	**Increase (Decrease)**		
	Total Pension Liability (a)	**Plan Fiduciary Net Position (b)**	**Net Pension (Asset) Liability (a)-(b)**
Balances at June 30, 2019	$ 833,465	$ 856,575	$ (23,110)
Changes for the year:			
Interest	50,665	-	50,665
Difference between expected and actual experience	(2,210)	-	(2,210)
Employer contributions	-	25,346	(25,346)
Net investment income	-	79,419	(79,419)
Benefit payments	(45,640)	(45,640)	-
Administrative expense	-	(7,582)	7,582
Changes in assumptions	(45,531)	-	(45,531)
Net changes	(42,716)	51,543	(94,259)
Balances at June 30, 2020	$ 790,749	$ 908,118	$ (117,369)

A description of significant changes in assumptions is as follows:

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

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

The recurring fair value measurement of the Plan fiduciary net position at June 30, 2020 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)
Investments by fair value level				
Interest bearing cash	$ 857	$ 857	$ -	$ -
U.S. government securities	12,333	12,333	-	-
Corporate debt instruments-preferred	1,593	1,593	-	-
Corporate debt instruments	3,062	3,062	-	-
Other fixed income investments	1,274	-	1,274	-
Fixed income funds	408,427	-	408,427	-
Equity funds	328,490	-	328,490	-
Common stock	140,097	140,097	-	-
Total Investments by fair value level	896,133	$ 157,942	$ 738,191	$ -
Investments measured at the NAV				
Private equity funds	20,428			
Total Investments measured at the NAV	20,428			
Total Investments measured at fair value	916,561			
Other				
Other plan assets (liabilities), net	(8,443)			
	$ 908,118			

Interest bearing cash, U.S. government securities, corporate debt instruments-preferred, corporate debt instruments, and common stock are classified in Level 1 of the fair value hierarchy and are valued at quoted market prices for identical assets in active markets. Other fixed income investments, fixed income funds and equity funds are classified in Level 2 of the fair value hierarchy and are valued at market prices for similar assets in active markets. Private equity funds are measured at the NAV per share or its equivalent.

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

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

(in thousands of dollars)	1% Decrease 5.75%	Current Discount Rate 6.75%	1% Increase 7.75%
Net pension asset	$ 28,411	$ 117,369	$ 191,776

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

Shands recognized pension income of approximately $4,133,000 for the year ended June 30, 2020. At June 30, 2020, Shands reported deferred outflows of resources and deferred inflows of resources related to defined benefit pension from the following sources:

(in thousands of dollars)	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 2,987	$ 1,555
Changes in assumptions	21,712	34,451
Net differences between projected and actual earnings on pension plan investments	-	35,017
Contributions made during the year ended June 30, 2020 not yet recognized in fiduciary net position	17,529	-
Total	$ 42,228	$ 71,023

Amounts reported as deferred outflows of resources on pension and deferred inflows of resources on pension will be recognized as an increase in pension income as follows:

(in thousands of dollars)	
Year Ending June 30	
2021	$ 6,989
2022	23,044
2023	10,967
2024	5,324
Thereafter	-

Payable to the Defined Benefit Pension Plan

As of June 30, 2020, there are no payables to the Plan.

11. Commitments and Contingencies

Lease Agreements

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

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

In connection with its minority interest in Lake Shore HMA, LLC, STHC 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 $46,000 at June 30, 2020 and are subject to annual increases based upon the change in the Consumer Price Index. As noted in Note 7, the Lease Termination Agreement terminates the lease effective September 30, 2020 and releases STHC from the lease payment guarantee.

STHC is the guarantor of the Oaks Mall property lease between the landlord and FCPA (lessee). STHC provides a full guaranty on the monthly lease payments of approximately $279,000, which are subject to increases after the initial ten years. The lease expires on October 31, 2039.

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, 2020:

(in thousands of dollars)

Year Ending	**Capital Leases**	**Operating Leases**
2021	$ 981	$ 4,521
2022	1,025	3,898
2023	1,037	3,214
2024	992	1,831
2025	924	1,455
2026-2030	2,694	7,369
2031-2035	-	1,601
2036-2040	-	1,032
Total minimum lease payments	7,653	$ 24,921
Less: Amount representing interest	(1,148)	
Present value of net minimum lease payments	$ 6,505	

Operating lease expense for the rental of property and equipment for the year ended June 30, 2020 was approximately $9,125,000. At June 30, 2020, gross assets under capital leases included in capital assets were approximately $8,287,000. Accumulated amortization on capital leases as of June 30, 2020 was approximately $1,988,000.

Commitments
Shands has contracts for the construction and renovation of facilities and equipment purchases. As of June 30, 2020, the remaining commitments relating to these contracts were approximately $54,415,000.

Shands has contracts for the maintenance of its computer application software and communications network. As of June 30, 2020, the remaining commitments relating to these contracts were approximately $5,076,000.

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 year ended June 30, 2020.

Shands was granted sovereign immunity under the provision of Chapter 2011-114, Laws of Florida, and further codified in Section 768.28, Florida Statutes. As such, 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. Upon acquisition by STHC on January 1, 2020, UFHCF has been granted the same sovereign immunity protection.

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

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

Prior to January 1, 2020, UFHCF purchased commercial malpractice insurance policies to cover medical malpractice claims. Such policies had deductible provisions, in varying amounts, for which UFHCF was self-insured. UFHCF purchased tail coverage for claims that occurred prior to January 1, 2020. Losses that are subject to the deductible provisions, including an estimate of claims incurred but not reported as of June 30, 2020, total approximately $11,116,000 and is included in accounts payable and accrued expenses in the accompanying consolidated basic statement of net position. UFHCF may be liable for ultimate losses in excess of amounts accrued. Management believes that any adjustments to Shands’ recorded liability will not materially affect Shands’ financial position, results of operations or cash flows.

The following is a summary of changes in UFHCF’s self-insurance liability for professional and general liability costs for the years ended June 30, 2020 and 2019:

(in thousands of dollars)

	2020	2019
Balance at beginning of year	$ 14,584	$ 15,905
Provision for claims reported and claims incurred but not reported	(453)	1,162
Claims paid	(3,015)	(2,483)
Balance at end of year	$ 11,116	$ 14,584

Self-Insured Health Plans

Shands (excluding UFCHF) participates with other related party employers controlled by UF including Shands Jacksonville Medical Center (“SJMC”), 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, Inc., a Florida not-for-profit 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. UFHCF has a separate employee health benefit plan covering eligible employees and dependents.

Expenses, net of employee contributions, related to the health and pharmaceutical plans for the year ended June 30, 2020 were approximately $98,900,000.

Workers' Compensation Insurance
STHC and UFHCF are self-insured for workers' compensation up to $600,000 and $500,000, respectively, per occurrence for the year ended June 30, 2020. Shands has purchased excess coverage from a commercial carrier up to the amount allowed by Florida Statutes. Total workers' compensation expense for the year ended June 30, 2020 was approximately $3,023,000.

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

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

12. 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 $204,546,000 for the year ended June 30, 2020, of which approximately $71,055,000 are transfers and expenditures in support of UF and its health science colleges included in the accompanying consolidated basic statement of revenues, expenses and changes in net position. At June 30, 2020, approximately $8,002,000 was owed to UF under these agreements and is included in accounts payable and accrued expenses in the accompanying consolidated basic statement of net position.

Shands provides contracted services at cost to UF in support of its health science colleges, including nonphysician medical professional services, telephone communication, and various other services. The amount credited against expenses for these contracted services was approximately $131,393,000 for the year ended June 30, 2020. At June 30, 2020, approximately $14,752,000 was owed to Shands under these agreements and is included in prepaid expenses and other current assets in the accompanying consolidated basic statement of net position.

Shands has an agreement whereby UF provides billing services for emergency room physician fees. UF remits the collections to Shands on a monthly basis, less an administrative fee. The amount collected by UF on Shands' behalf, less the administrative fee, for the year ended June 30, 2020 was approximately $15,968,000. At June 30, 2020, approximately $1,601,000 was owed to Shands under this agreement and is included in prepaid expenses and other current assets in the accompanying consolidated basic statement of net position.

UFSIP provides medical malpractice and general liability occurrence-based coverage to Shands with excess coverage provided by UFHEIC. Expenses related to these coverages were approximately $4,815,000 for the year ended June 30, 2020.

STHC has an investment management agreement with UFICO to manage a portion of its investments. UFICO was created by the UF Board for the purpose of managing assets held by UF and its related corporations. As of June 30, 2020, the fair value of investments managed by UFICO on Shands' behalf was approximately $588,255,000. Investment management fees of approximately $1,305,000 were incurred for the year ended June 30, 2020. At June 30, 2020, approximately $339,000 of deferred fees was owed to UFICO and the short-term portion of approximately $126,000 is included in accounts payable and accrued expenses, and the long-term portion of approximately $213,000 is included in other liabilities 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 $5,236,000 for the year ended June 30, 2020. At June 30, 2020, approximately $1,521,000 was owed to Shands under these agreements and is included in prepaid expenses and other current assets in the accompanying consolidated basic statement of net position.

SJMC provides organ procurement services for Shands. Expenses related to these services were approximately $408,000 for the year ended June 30, 2020.

At June 30, 2020, Shands had a note receivable of approximately $13,407,000 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 $1,023,000 at June 30, 2020 is included in prepaid expenses and other current assets in the accompanying consolidated basic statement of net position. The long-term portion of the note receivable of approximately $12,384,000 at June 30, 2020 is included in other assets in the accompanying consolidated basic statement of net position.

GCHMC collects funds from Shands to pay health and pharmacy claims and expenses for eligible employees. GCHMC pays the health and pharmacy claims on behalf of Shands. Funds provided by Shands to GCHMC for the year ended June 30, 2020 were approximately $91,856,000. At June 30, 2020, approximately $15,081,000 was due from GCHMC and is included in other assets in the accompanying consolidated basic statement of net position.

Shands provides administrative services to GCHMC. The amount credited against expenses for these contracted services for the year ended June 30, 2020 was approximately $1,425,000. At June 30, 2020, approximately $439,000 was owed to Shands and is included in prepaid expenses and other current assets in the accompanying consolidated basic statement of net position.

Prior to December 11, 2018, Shands and the University of Florida Development Corporation (“UFDC”) were members in Innovation Square, LLC (“Innovation Square”), a planned mixed-use research neighborhood that advances the national and global profile of UF with Shands and the local biotech industry. Shands’ interest in Innovation Square resulted from assets transferred to Innovation Square, net of amounts received from UFDC. On December 11, 2018, Shands sold its interest in Innovation Square to UFDC for an amount equal to its membership value, to be paid over time based on an agreed upon formula. At June 30, 2020, a receivable of approximately $4,663,000 was recorded in other assets in the accompanying consolidated basic statement of net position.

Shands leases medical and administrative space from Innovation Square. Expenses associated with the leased space were approximately $161,000 for the year ended June 30, 2020.

On July 1, 2019, Shands sold a building constructed for UF’s neurological program (“Fixel Building”) to UF, to be paid over time based on periodic payments and philanthropic donations received by UF. At June 30, 2020, a receivable of approximately $3,842,000 was recorded in other assets in the accompanying consolidated basic statement of net position.

13. Concentrations of Credit Risk

Shands grants credit without collateral to its patients, many of whom are local residents and are insured under third-party payor agreements. The composition of receivables from third-party payors at June 30, 2020 is as follows:

Medicare (includes HMOs)	33.6%
Medicaid (includes HMOs)	11.8%
Blue Cross	18.2%
Commercial	6.1%
Managed Care	22.9%
Other third-party payors	7.4%
	100.0%

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

Shands places its cash and cash equivalents with high-quality financial institutions, which limits its credit exposure. Shands had actual cash balances in bank accounts in excess of Federal Deposit Insurance Corporation limits in the amount of approximately $238,773,000 as of June 30, 2020. Management does not anticipate nonperformance risk by the financial institutions.

14. COVID-19 Pandemic

Shands’ operations and financial condition have been significantly impacted by the emergence of a novel coronavirus (“COVID-19”), which has evolved into a global pandemic. On March 20, 2020, Florida Governor DeSantis issued an Executive Order prohibiting medically unnecessary, non-urgent or non-emergency procedures or surgeries which, if delayed, would not place a patient’s immediate health, safety, or well being at risk. The Executive Order was subsequently lifted effective May 4, 2020, however, while the Executive Order was in effect, patient volumes and related revenues for most of Shands’ services were significantly and adversely impacted.

In response to COVID-19 and its effects on the U.S. economy and the health care delivery system, Congress passed various stimulus bills which have provided certain financial benefits to Shands. Principal among these was the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), enacted on March 27, 2020. The CARES Act authorized $100 billion in direct funding to hospitals and other healthcare providers from Provider Relief Funds, and provided other financial benefits including the expansion of the Medicare Accelerated and Advance Payment Program. Under the CARES Act, Shands received approximately $42,173,000 as part of general distributions from the Provider Relief Funds, which are recorded as grant revenue within federal and state appropriations in the accompanying consolidated basic statement of revenues, expenses and changes in net position. Shands also received approximately $229,237,000 as part of the expanded Accelerated and Advance Payment Program under the CARES Act. Any advances received through this program will be repaid to the Medicare program within twelve months through either offsets to future payments from the Medicare program or through direct repayment. As such, these amounts are included in Medicare advances in the accompanying consolidated basic statement of net position.

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

15. Subsequent Events

Shands has assessed the impact of subsequent events through September 25, 2020, the date the audited consolidated basic financial statements were issued, and has concluded that there were no such events, other than the events described below, that require adjustment to the consolidated basic financial statements or disclosure in the notes to the consolidated basic financial statements.

On July 7, 2020, STHC entered into a revolving line of credit agreement with TD Bank, N.A. in the amount of $125,000,000. No amounts have been drawn under this revolving line of credit through September 25, 2020.

On September 19, 2020, the U.S. Department of Health and Human Services released updated guidance on reporting the appropriate use of Provider Relief Funds received under the CARES Act. Based on this guidance, recipients may use Provider Relief Funds for health care related expenses attributable to COVID-19 that another source has not reimbursed and is not obligated to reimburse, and then for lost operating income related to health care services measured through December 31, 2020, and then if necessary, through June 30, 2021. Management is aware that the Provider Relief Funds received are subject to audit, and certain amounts could be at risk of being paid back in the future. However, based on the estimated financial impact of COVID-19 through June 30, 2020, management does not believe such amounts, if any, would be material 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, 2014 Through June 30, 2020

(in thousands of dollars)	2020	2019	2018	2017	2016	2015	2014
Total pension liability							
Service cost	$ -	$ -	$ -	$ -	$ -	$ -	$ 10,341
Interest	50,665	52,592	52,705	55,175	55,119	53,701	49,646
Changes of benefit terms	-	-	-	-	-	-	(4,041)
Difference between expected and actual experience	(2,210)	5,217	3,939	(2,690)	402	149	13,022
Benefit payments	(45,640)	(78,884)	(42,399)	(91,115)	(42,722)	(35,351)	(32,058)
Changes in assumptions	(45,531)	50,875	(12,589)	(33,065)	79,285	2,689	22,714
Net change in total pension liability	(42,716)	29,800	1,656	(71,695)	92,084	21,188	59,624
Total pension liability – beginning	833,465	803,665	802,009	873,704	781,620	760,432	700,808
Total pension liability – ending (a)	790,749	833,465	803,665	802,009	873,704	781,620	760,432
Plan fiduciary net position							
Employer contributions	25,346	29,279	29,036	21,863	23,736	35,757	38,115
Net investment income	79,419	58,835	106,241	5,857	27,578	124,555	83,888
Benefit payments	(45,640)	(78,884)	(42,399)	(91,115)	(42,722)	(35,351)	(32,058)
Administrative expense	(7,582)	(3,825)	(8,019)	(7,985)	(6,770)	(5,789)	(4,749)
Net change in plan fiduciary net position	51,543	5,405	84,859	(71,380)	1,822	119,172	85,196
Plan fiduciary net position – beginning	856,575	851,170	766,311	837,691	835,869	716,697	631,501
Plan fiduciary net position – ending (b)	908,118	856,575	851,170	766,311	837,691	835,869	716,697
Net pension (asset) liability – ending (a)-(b)	$ (117,369)	$ (23,110)	$ (47,505)	$ 35,698	$ 36,013	$ (54,249)	$ 43,735
Plan fiduciary net position as a percentage of total pension liability	114.84%	102.77%	105.91%	95.55%	95.88%	106.94%	94.25%

Notes to Schedule

Shands adopted GASB No. 68, *Accounting and Financial Reporting for Pensions, an Amendment of GASB No. 27,* as of June 30, 2014, the first period the required supplementary information was available.

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

Changes in assumptions 2020:
The investment return assumption was increased from 6.25% to 6.75% to reflect the updated capital market outlook.
The mortality projection scale assumption was updated from Mercer Modified Projection-2016 to Mercer Modified Projection-2018.

Changes in assumptions 2019:
The investment return assumption was reduced from 6.75% to 6.25% to reflect the updated capital market outlook.

Changes in assumptions 2018:
The mortality projection scale assumption was updated from Mercer Modified Projection-2007 to Mercer Modified Projection-2016.

Changes in assumptions 2017:
The investment return assumption was increased from 6.50% to 6.75% to reflect the updated capital market outlook.

Changes in assumptions 2016:
The investment return assumption was decreased from 7.25% to 6.50% to reflect the updated capital market outlook.
The cost of living assumption ultimate rate was decreased from 2.5% to 2.0%.
The mortality assumption was updated to the RP-2014 mortality tables adjusted to remove post-2007 improvement projections with future mortality improvement that follows the Mercer Modified Projection-2016 mortality improvement tables.
Retirement rates and withdrawal rates were updated based on the results of an experience study performed in 2015.

Changes in assumptions 2015:
The interest credit ultimate rate was changed from 3.83% to 4.10%.

Changes in assumptions 2014:
The cost of living assumption ultimate rate was increased from 2.0% to 2.5%.
The interest credit ultimate rate was changed from 4.75% to 3.83%.

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries
Schedule of Employer Contributions (Unaudited)
July 1, 2013 Through June 30, 2020

(in thousands of dollars)	2020	2019	2018	2017	2016	2015	2014
Actuarially determined contribution	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Contributions in relation to the actuarially determined contribution	17,529	25,346	29,279	29,036	21,863	23,736	35,757
Contribution excess	$ (17,529)	$ (25,346)	$ (29,279)	$ (29,036)	$ (21,863)	$ (23,736)	$ (35,757)

Notes to Schedule

Shands adopted GASB No. 68, *Accounting and Financial Reporting for Pensions, an Amendment of GASB No. 27*, for the year ended June 30, 2014, the first period the required supplementary information was available.

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

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

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

	2020	2019	2018	2017	2016	2015
Valuation date	July 1, 2019	July 1, 2018	July 1, 2017	July 1, 2016	July 1, 2015	July 1, 2014
Actuarial cost method	Unit Credit	Unit Credit	Unit Credit	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Asset valuation method	2-year smoothed value of assets adjusted to be no greater than 110% and no less than 90% of the fair market value, as defined in IRC Section 430	2-year smoothed value of assets adjusted to be no greater than 110% and no less than 90% of the fair market value, as defined in IRC Section 430	2-year smoothed value of assets adjusted to be no greater than 110% and no less than 90% of the fair market value, as defined in IRC Section 430	Market value including receivables	Market value including receivables	Market value including receivables
Inflation	2.00%	2.00%	2.00%	2.00%	2.00%	2.50%
Discount rates	PPA segmented yield curve rates of 3.74% for the first 5 years, 5.35% for the next 15 years, and 6.11% thereafter	PPA segmented yield curve rates of 3.92% for the first 5 years, 5.52% for the next 15 years, and 6.29% thereafter	PPA segmented yield curve rates of 4.16% for the first 5 years, 5.72% for the next 15 years, and 6.48% thereafter	6.50%	6.50%	7.25%
Salary increase	N/A	N/A	N/A	N/A	N/A	N/A
Retirement age	Traditional plan and retirement growth account retirement rates vary by age	Traditional plan and retirement growth account retirement rates vary by age	Traditional plan and retirement growth account retirement rates vary by age	Traditional plan and retirement growth account retirement rates vary by age	Traditional plan and retirement growth account retirement rates vary by age	Traditional plan and retirement growth account retirement rates vary by age
Mortality	IRC Section 430(h)(3) prescribed static annuitant and non-annuitant mortality tables. These tables are based on the RP-2014 mortality tables, with improvements beyond 2006 removed with static mortality improvements based on the Internal Revenue Service methodology and projection scale MP-2017.	IRC Section 430(h)(3) prescribed static annuitant and non-annuitant mortality tables. These tables are based on the RP-2014 mortality tables, with improvements beyond 2006 removed with static mortality improvements based on the Internal Revenue Service methodology and projection scale MP-2016.	IRC Section 430(h)(3) prescribed static annuitant and non-annuitant mortality tables. These tables are based on the RP-2000 mortality tables and projected with improvement to the valuation year plus 7, and 15 years based on Scale AA.	RP-2014 mortality tables adjusted to remove post-2007 improvement projections with future mortality improvement that follows the Mercer Modified MP-2016 mortality improvement tables.	RP-2014 mortality tables with future mortality improvement that follows the Mercer Modified MP-2014 mortality improvement scale.	RP-2000 Healthy Annuitant Mortality Tables projected with mortality improvement to the valuation year plus 7 and 15 years based on Scale AA.

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries
Consolidating Basic Statement of Net Position
June 30, 2020

(in thousands of dollars)

	UF Health Shands Hospital Division	UF Health Shands HomeCare Division	STHC Obligated Group	UF Health Shands Other	UF Health Shands Eliminations	Total UF Health Shands	UF Health Central Florida	Consolidated Total
Assets								
Current assets								
Cash and cash equivalents	$ 104,265	$ -	$ 104,265	$ 14,532	$ -	$ 118,797	$ 114,742	$ 233,539
Short-term investments	241,025	-	241,025	54	-	241,079	-	241,079
Patient accounts receivable, net	232,438	2,188	234,626	1,094	-	235,720	39,676	275,396
Inventories	43,038	-	43,038	-	-	43,038	13,501	56,539
Prepaid expenses and other current assets	59,341	22	59,363	1,888	-	61,251	7,200	68,451
Total current assets	680,107	2,210	682,317	17,568		699,885	175,119	875,004
Assets whose use is limited	588,201	-	588,201	-	-	588,201	199,946	788,147
Assets whose use is restricted	90,262	-	90,262	-	-	90,262	15,426	105,688
Capital assets, net	1,107,787	1,035	1,108,822	8	-	1,108,830	270,235	1,379,065
Due from affiliates, net	7,779	-	7,779	-	(7,779)	-	-	-
Other assets	190,097	-	190,097	2	-	190,099	34,303	224,402
Total assets	2,664,233	3,245	2,667,478	17,578	(7,779)	2,677,277	695,029	3,372,306
Deferred outflows of resources								
Accumulated decrease in fair value of hedging derivatives	38,946	-	38,946	-	-	38,946	10,980	49,926
Deferred loss on debt refunding	26,425	-	26,425	-	-	26,425	750	27,175
Deferred outflows on pension	42,228	-	42,228	-	-	42,228	-	42,228
Total deferred outflows of resources	107,599	-	107,599	-	-	107,599	11,730	119,329
Liabilities								
Current liabilities								
Long-term debt, current portion	17,016	-	17,016	-	-	17,016	6,742	23,758
Capital lease obligations, current portion	597	123	720	-	-	720	-	720
Accounts payable and accrued expenses	110,290	64	110,354	4,651	-	115,005	30,563	145,568
Accrued salaries and leave payable	66,907	-	66,907	57	-	66,964	10,393	77,357
Estimated third-party payor settlements	83,397	-	83,397	-	-	83,397	7,531	90,928
Medicare advances	161,556	-	161,556	-	-	161,556	67,681	229,237
Total current liabilities	439,763	187	439,950	4,708	-	444,658	122,910	567,568
Long-term liabilities								
Long-term debt, less current portion	951,675	-	951,675	-	-	951,675	156,855	1,108,530
Capital lease obligations, less current portion	4,904	881	5,785	-	-	5,785	-	5,785
Due to affiliates, net	-	-	-	7,779	(7,779)	-	-	-
Other liabilities	55,724	-	55,724	3	-	55,727	26,363	82,090
Total long-term liabilities	1,012,303	881	1,013,184	7,782	(7,779)	1,013,187	183,218	1,196,405
Total liabilities	1,452,066	1,068	1,453,134	12,490	(7,779)	1,457,845	306,128	1,763,973
Deferred inflows of resources								
Deferred gain on debt refunding	2,121	-	2,121	-	-	2,121	-	2,121
Deferred inflows on pension	71,023	-	71,023	-	-	71,023	-	71,023
Total deferred inflows of resources	73,144	-	73,144	-	-	73,144	-	73,144
Net position								
Net investment in capital assets	226,698	32	226,730	8	-	226,738	107,387	334,125
Restricted								
Nonexpendable	626	-	626	-	-	626	-	626
Expendable	1,547	-	1,547	263	-	1,810	2,129	3,939
Unrestricted	1,017,751	2,145	1,019,896	4,817	-	1,024,713	291,115	1,315,828
Total net position	$ 1,246,622	$ 2,177	$ 1,248,799	$ 5,088	$ -	$ 1,253,887	$ 400,631	$ 1,654,518

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

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries
Consolidating Basic Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2020

(in thousands of dollars)

	UF Health Shands Hospital Division	UF Health Shands HomeCare Division	STHC Obligated Group	UF Health Shands Other	UF Health Shands Eliminations	Total UF Health Shands	UF Health Central Florida	Consolidated Total
Operating revenues								
Net patient service revenue, net of provision for bad debts	$ 1,530,321	$ 8,559	$ 1,538,880	$ 8,515	$ -	$ 1,547,395	$ 371,574	$ 1,918,969
Other operating revenue	26,803	1,212	28,015	4,990	(575)	32,430	15,211	47,641
Total operating revenues	1,557,124	9,771	1,566,895	13,505	(575)	1,579,825	386,785	1,966,610
Operating expenses								
Salaries and benefits	679,480	7,545	687,025	4,526	-	691,551	194,607	886,158
Supplies and services	710,729	1,465	712,194	4,878	(575)	716,497	175,446	891,943
Depreciation and amortization	84,565	161	84,726	2	-	84,728	28,023	112,751
Total operating expenses	1,474,774	9,171	1,483,945	9,406	(575)	1,492,776	398,076	1,890,852
Operating income (loss)	82,350	600	82,950	4,099	-	87,049	(11,291)	75,758
Nonoperating revenues (expenses)								
Federal and state appropriations	38,345	-	38,345	-	-	38,345	10,878	49,223
Interest expense	(37,980)	(45)	(38,025)	-	-	(38,025)	(6,463)	(44,488)
Net investment income, including change in fair value	53,305	-	53,305	111	-	53,416	7,638	61,054
Gain (loss) on disposal of capital assets, net	(4,489)	-	(4,489)	-	-	(4,489)	1,549	(2,940)
Other nonoperating revenues (expenses), net	(2,811)	-	(2,811)	-	-	(2,811)	2,225	(586)
Total nonoperating revenues (expenses), net	46,370	(45)	46,325	111	-	46,436	15,827	62,263
Excess of revenues over expenses before transfers, capital contributions, and other changes in net position	128,720	555	129,275	4,210	-	133,485	4,536	138,021
Transfers and expenditures in support of the University of Florida and its health science colleges	(68,944)	-	(68,944)	(2,111)	-	(71,055)	-	(71,055)
Other transfers of net assets	1,771	(318)	1,453	(1,453)		-	-	-
Capital contributions	7,150	-	7,150	-	-	7,150	-	7,150
Other changes in net position	(2,103)	1	(2,102)	11	-	(2,091)	16	(2,075)
Increase in net position	66,594	238	66,832	657	-	67,489	4,552	72,041
Net position								
Beginning of year, as previously reported	1,180,028	1,939	1,181,967	4,431	-	1,186,398	-	1,186,398
Acquisition of UFHCF	-	-	-	-	-	-	396,079	396,079
Beginning of year, as restated	1,180,028	1,939	1,181,967	4,431	-	1,186,398	396,079	1,582,477
End of year	$ 1,246,622	$ 2,177	$ 1,248,799	$ 5,088	$ -	$ 1,253,887	$ 400,631	$ 1,654,518

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

Purpose of Consolidating Information

The accompanying consolidating information presents the financial position and the changes in financial position of each of the significant operating units and affiliates of Shands as of June 30, 2020 and for the year 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 the changes in financial position of the individual companies and is not a required part of the consolidated basic financial statements.